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Texas Joins Multiple States In \$10 Million Settlement With Robinhood for Failing Investors

Apr 6
2023

The Texas State Securities Board announced today that it has joined a multi-state settlement with Robinhood Financial LLC, which will pay up to \$10.2 million in penalties for operational and technical failures that harmed main street

investors.

The **settlement** (https://www.ssb.texas.gov/sites/default/files/2023-04/ENF_23_CDO_1870.pdf) stems from an investigation spearheaded by state securities regulators in Alabama, Colorado, California, Delaware, New Jersey, South Dakota and Texas coordinated through the North American Securities Administrators Association (NASAA) regarding Robinhood's operational failures with respect to the retail market.

The investigation was sparked by Robinhood platform outages in March 2020, a time when hundreds of thousands of investors were relying on the Robinhood app to make trades. In addition, prior to March 2021, there were deficiencies at Robinhood in its review and approval process for options and margin accounts, weaknesses in the firm's monitoring and reporting tools, and insufficient customer service and escalation protocols that in some cases left Robinhood users unable to process trades even as the value of certain stocks was dropping.

The order sets out the following violations:

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Negligent dissemination of inaccurate information to customers, including regarding margin and risk associated with multi-leg option spreads.

Failure to have a reasonably designed customer identification program.

Failure to supervise technology critical to providing customers with core broker-dealer services.

Failure to have a reasonably designed system for dealing with customer inquiries.

Failure to exercise due diligence before approving certain option accounts.

Failure to report all customer complaints to FINRA and state securities regulators, as may be required.

Robinhood neither admits nor denies the findings as set out in the States' orders.

Robinhood will provide access to a FINRA-ordered compliance implementation report to settling states. Robinhood retained an independent compliance consultant who made recommendations for remediation, which Robinhood has generally implemented.

One year after the settlement date, Robinhood will attest to the lead state, Alabama, that it is in full compliance with the FINRA-ordered independent compliance consultant's recommendations or has otherwise instituted measures that are more effective at addressing the recommendations.

"We are pleased with the good work of the states and with Robinhood for implementing meaningful changes to its operations that will benefit retail investors. Texas also extends its appreciation to Director Joe Borg, Alabama Securities Commission, for his relentless, quality efforts in effectuating the states' most recent result for our investors," said Commissioner Travis J. Iles.

Texas found no evidence of willful or fraudulent conduct by Robinhood, and that Robinhood fully cooperated with the investigation.

If you have questions or concerns about your investments or financial professional, please contact Joe Rotunda, Director of Enforcement – [jrotunda@ssb.texas.gov \(mailto:jrotunda@ssb.texas.gov\)](mailto:jrotunda@ssb.texas.gov) / 512-305-8392.

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