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MASSACHUSETTS ENFORCEMENT ACTION AGAINST ROBINHOOD ENDS WITH HUGE WIN FOR INVESTORS AND THE STATE'S INVESTOR PROTECTION RULE

WASHINGTON, D.C.—Stephen Hall, Legal Director and Securities Specialist, issued the following statement on the [settlement](#) announced today between the Massachusetts Secretary of the Commonwealth and Robinhood Financial:

“This settlement is a major victory on multiple levels. It holds Robinhood accountable for its aggressive and manipulative brokerage platform that has lured countless inexperienced investors into harmful trading activity. At least as important, it also will require Robinhood to overhaul its platform to address the allegations of abuse advance by Massachusetts in its enforcement action, protecting investors going forward. And it vindicates the extraordinary power of the State’s rule that imposed a genuine fiduciary duty on brokers, which is the obligation to act always in the best interest of investors, without regard to the financial gain that firms can extract from their clients.

“The State’s enforcement action painted a vivid picture of the harm inflicted by Robinhood’s digital engagement practices, including the use of game-like features, prompts, enticements, prizes, and other gimmicks designed to blindly lure investors without regard to whether trading on the platform was really in their best interest. Robinhood fought tooth and nail to avoid responsibility in the face of the State’s enforcement action, launching a court challenge to its fiduciary duty rule. Massachusetts adopted that rule largely in response to the SEC’s weaker version known as “Regulation Best Interest,” which stopped short of a genuine obligation to act in clients’ best interest. The rule challenge ended up in the State’s highest court, which in August resoundingly rejected Robinhood’s arguments, as we argued in our [amicus brief](#).

“This is a good day for investors as well as the authority of the states to fill gaps in federal law and protect their citizens from predatory banks and other financial firms, which Congress has reaffirmed again and again in the Dodd-Frank Act and elsewhere. We hope it will inspire other states to pursue similarly powerful rules that curb broker conflicts of interest and require those recommending securities investments always to do what’s best for their clients.”

For more of Better Markets advocacy on gamification and related issues, see these links:

In a San Francisco Chronicle [Op Ed](#), Better Markets’ President and CEO Dennis Kelleher detailed financial firm Robinhood’s predatory practices and the need for a “Real Robin Hood” on Wall Street that actually “provides Main Street investors genuine opportunities to affordably trade, invest and build wealth.” The full Op Ed can be found

Better Markets published article in the Western New England Law Review titled “Democratizing Equity Markets With And Without Exploitation: Robinhood, Gamestop, Hedge Funds, Gamification, High-Frequency Trading, And More,” arguing that Wall Street and finance more generally can and should be democratized, but that the Robinhood model based on maximizing frequent high-risk trading, prompted by predatory gamified apps to generate as much PFOF as possible, is not the way. These are exploitive practices that enrich Wall Street at the expense of Main Street and, often, those [least able to afford the losses](#).

Most recently, Better Markets filed a [comment letter](#) with the SEC in support of its proposed rule on predictive data analytics, which would broadly require firms to identify and limit conflicts of interests posed by the use of technologies in investor interactions.

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Better Markets is a non-profit, non-partisan, and independent organization founded to promote the public interest in the financial markets, support the financial reform of Wall Street and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements and more. To learn more, visit www.bettermarkets.org.

2000 Pennsylvania Ave NW, Suite 4008
Washington DC 20006
202-618-6464

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