



**BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE
FOR THE STATE OF TENNESSEE**

TENNESSEE SECURITIES DIVISION,)
)
Petitioner,)
)
v.)
)
ROBINHOOD FINANCIAL LLC)
)
Respondent.)

MATTER No. 20-02131

CONSENT ORDER

The Securities Division of the Tennessee Department of Commerce and Insurance (“Division”) and Robinhood Financial, LLC (“Robinhood” or “the Respondent”) hereby stipulate and agree to the entry and execution of this Consent Order, subject to the approval of the Commissioner of the Tennessee Department of Commerce and Insurance (“Commissioner”) as follows:

I. GENERAL STIPULATIONS

1. It is expressly understood that this Consent Order is subject to and requires the Commissioner’s acceptance and has no force and effect until such acceptance is evidenced by the Commissioner’s signature and execution of this Consent Order. Entry and execution of this Consent Order by the Commissioner shall occur once the Commissioner signs and dates this Consent Order.

2. This Consent Order is entered into by the Respondent for the purpose of avoiding further administrative action with respect to this cause. Should this Consent Order not be accepted

by the Commissioner, it is agreed that presentation to and consideration of this Consent Order by the Commissioner shall not unfairly or illegally prejudice the Commissioner from further participation or resolution of these proceedings.

3. The Respondent fully understands that this Consent Order will in no way preclude additional proceedings by the Commissioner against the Respondent for acts and/or omissions not specifically addressed in this Consent Order nor for facts and/or omissions that do not arise from the facts or transactions addressed herein.

4. The Respondent expressly waives all further procedural steps and all rights to seek a hearing, judicial review, or to otherwise challenge or contest the validity of this Consent Order, the stipulations and imposition of discipline contained herein, and the consideration and entry and execution of this Consent Order by the Commissioner.

5. The Respondent fully understands that this Consent Order, when entered, will constitute a public document for purposes of any applicable statutes governing public access to government records.

II. AUTHORITY AND JURISDICTION

6. The Commissioner has jurisdiction over securities matters pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) §§ 48-1-101 to 48-1-201 *et seq.* of the Tennessee Securities Act of 1980, as amended (“Act”). The administration of the Act is vested in the Commissioner pursuant to Tenn. Code Ann. § 48-1-115.

III. PARTIES

7. The Division is the lawful agent through which the Commissioner discharges the administration of the Act pursuant to Tenn. Code Ann. § 48-1-115, and it is authorized to bring this action for the protection of investors.

8. The Respondent, Robinhood Financial LLC, CRD# 165998, is a registered broker-dealer with a principal place of business at 500 Colonial Center Parkway, Suite 100, Lake Mary, FL 32746. The Respondent solicits and conducts business with Tennessee residents in the State of Tennessee.

IV. STATEMENTS OF FACT

9. The Respondent admits the jurisdiction of the Division, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Commissioner.

10. The Respondent acquired approximately eighty-eight thousand, two-hundred and eighty-two (88,282) new Tennessee customers from October 1, 2019, to March 31, 2020, for a total count of approximately two-hundred sixty thousand, one hundred seventy-seven (260,177) Tennessee customers as of March 31, 2020.

11. From October 1, 2019, to March 31, 2020, The Respondent approved approximately ten-thousand, seven-hundred, seven-two (10,772) Tennessee customers for option trading and approximately one-thousand, three-hundred, thirty-four (1,334) Tennessee customers for margin trading.

PLATFORM OUTAGES

12. In December 2014, The Respondent launched commission-free, self-directed trading through its mobile application to retail customers with no account minimums. The Respondent's dramatic growth in customers strained the firm's platform infrastructure and its ability to properly address customer needs. In March 2020, The Respondent's mobile and website platform experienced multiple outages that had a negative impact on the customer's ability to

submit orders and communicate effectively with customer support. During the outages, customers were generally not able to enter buy or sale orders and did not have the ability to take advantage of fluctuations in security prices. Thousands of customers nationwide contacted The Respondent in the three months following the March 2020 outages concerning inability to execute transactions.

13. Since March 2020, The Respondent has implemented changes to customer support and functionality of the mobile platform, some pursuant to an investigation by the Financial Industry Regulatory Authority (“FINRA”) and agreed upon in the resulting Letter of Acceptance, Waiver, and Consent (“AWC”) dated June 22, 2021 (the “FINRA AWC”).

OPTIONS and MARGIN APPROVAL

14. The Respondent provides two types of option accounts to its customers, “Level 2” and “Level 3.” The Level 2 account provides customers the ability to trade basic option contracts, which include cash secured put and covered call contracts. The Level 3 account provides customers with the ability to participate in more advanced strategies, such as option spreads.

15. The Respondent provides customers the ability to maintain a margin account to borrow funds from Robinhood to execute transactions by utilizing the cash and securities in the customer’s account as collateral.

16. Robinhood customers applied for option trading and margin trading through an automated process that reviews information provided by the applicant such as account equity, employment status, liquid net worth, income, risk tolerance, investment experience, and investment objective. The Respondent relied upon an algorithm that nearly instantaneously approves or denies the customers’ option or margin trading application. The Respondent did not

have any designated registered principals or other staff that manually assisted in the review process for option and margin trading to verify each applicant's self-reported information.

17. The Respondent's automated account approval process allowed for customers that were denied option and margin trading to re-submit and be approved by utilizing different responses to the eligibility questions.

18. In April 2020, The Respondent began a monthly review of all option trading customers to identify and address inconsistencies with the information that was provided during the application process.

19. In May 2021, The Respondent began conducting a weekly inspection of its option customers to verify proper approval for those accounts was achieved. The inspection process included a process that identified accounts that did not fit the eligibility parameters and those accounts were downgraded accordingly.

OPERATIONAL COMPLIANCE

20. The FINRA AWC cited numerous operational failures and failure to maintain proper compliance systems resulting in violations of FINRA rules, including the following that violate the rules and laws within the Act:

a. **Failure to have a reasonably designed customer identification program –**
“From June 2016 to November 2018, Robinhood failed to establish or maintain a customer identification program that was appropriate for the firm's size and business. The firm approved more than 5.5 million new customer accounts during that period, relying on a customer identification system that was largely automated and suffered from flaws. For example, even

though Robinhood received alerts flagging certain applications as potentially fraudulent-including applications where the customer’s purported Social Security number belonged to a person who was deceased-Robinhood’s customer identification system “overrode” those alerts and approved the applications without any review. In all, Robinhood approved more than 90,000 accounts from June 2016 to November 2018 that had been flagged for potential fraud without further manual review.”

b. Failure to supervise technology critical to providing customers with core broker- dealer services – *“From January 2018 to February 2021, Robinhood failed to reasonably supervise the operation and maintenance of its technology, which, as a FinTech firm, Robinhood relies upon to deliver core functions, including accepting and executing customer orders. Instead, Robinhood outsourced the operation and maintenance of its technology to its parent company, Robinhood Markets, Inc. (RHM)- which is not a FINRA member firm-without broker-dealer oversight. Robinhood experienced a series of outages and critical system failures between 2018 and late 2020, which, in turn, prevented Robinhood from providing its customers with basic broker-dealer services, such as order entry and execution.”*

c. Failure to exercise due diligence before approving options accounts – *“Since Robinhood began offering option trading to customers in December 2017, the firm has failed to exercise due diligence before approving customers to trade options. Although the firm’s written supervisory procedures assign registered options principals the responsibility of approving accounts for options trading, the firm, in practice, has relied on computer algorithms-known at Robinhood as “option account approval bots”-with only limited oversight by firm principals.”*

d. Failure to report all customer complaints to FINRA – *“Between January 2018 and December 2020, Robinhood failed to report to FINRA tens of thousands of customer*

complaints that it was required to report under FINRA Rule 4530, including complaints that Robinhood provided customers with false or misleading information and that customers suffered losses as a result of the firm's outages and systems failures."

e. Robinhood negligently misrepresented the risks associated with Options spread transactions and the actions the firm would take with those positions on its customers' behalf – “From January 2018 to March 2021, Robinhood made misrepresentations and omissions of material fact about options spread transactions. First, Robinhood misstated the risk of loss associated with options spread transactions, and second, the firm provided customers with false information about the actions the firm would take as those spreads on the expiration date. As a result of these negligent misrepresentations and omissions, at least 630 customers incurred losses totaling over \$5.73 million.”

CUSTOMER SUPPORT

21. From July 1, 2018, through June 30, 2020, Robinhood did not establish, maintain, or enforce a reasonable supervisory system to provide customer support.

22. During the period of June 1, 2018, through June 30, 2020, Robinhood was experiencing substantial customer and revenue growth, and towards the end of the period, struggled to adequately support the volume of incoming customer inquiries. This was particularly relevant following a number of firmwide platform outages.

23. Robinhood's initial acknowledgements were, during the period, provided through automated email responses. Subsequent responses, provided primarily through email and chat, were sometimes delayed and not issue responsive. Robinhood sometimes utilized multiple

customer support agents to respond to an ongoing ticket and the responses did not always fully address the customer's concerns. Robinhood's reliance on automated and bulk emails to resolve certain customer support inquiries did not always meet customers' individual needs and expectations. Robinhood should have been aware through its monitoring that some customers were not receiving adequate customer support.

24. In December 2020, Robinhood rolled out an option for phone support but continued to utilize email responses for a significant number of inquiries. Further, Robinhood failed to accurately project customer service representative headcount to adequately handle customer needs in 2020.

25. Robinhood did not provide customers clear and accurate disclosures concerning certain options and margin issues. Robinhood did not notify customers of long running errors involving certain account display information. Additionally, Robinhood did not provide customers realistic expectations around its customer support capabilities, telling customers that Robinhood would respond to email requests within 1-3 days but this did not always occur.

26. To date, Robinhood has paid over \$87 million to compensate customers through settlements, including by paying restitution as part of the FINRA AWC, by contributing to a Fair Fund related to a settlement with the U.S. Securities and Exchange Commission, and by settling a class action and other direct lawsuits.

V. CONCLUSIONS OF LAW

27. Tenn. Code Ann. § 48-1-112 states, in pertinent part:

- (a) The commissioner may by order deny, suspend, or revoke any registration under this part if the commissioner finds that:

- (1) The order is in the public interest and necessary for the protection of investors; and
- (2) The applicant or registrant or, in the case of a broker-dealer or investment adviser, any affiliate, partner, officer, director, or any person occupying a similar status or performing similar functions:

...

- (J) Has failed reasonably to supervise such person's agents if the person is a broker-dealer, or such person's investment adviser representatives if the person is an investment adviser; or
- (d) In any case in which the commissioner is authorized to deny, revoke, or suspend the registration of a broker-dealer, agent, investment adviser, investment adviser representative, or applicant for broker-dealer, agent, investment adviser, or investment adviser representative registration, the commissioner may, in lieu of or in addition to such disciplinary action, impose a civil penalty in an amount not to exceed five thousand dollars (\$5,000) for all violations for any single transaction, or in an amount not to exceed ten thousand dollars (\$10,000) per violation if an individual who is a designated adult is a victim.

28. Tenn. Code Ann. § 48-1-116 states, in pertinent part:

- (a) The commissioner may from time to time make, promulgate, amend, and rescind such rules, forms, and orders as are necessary to carry out this part, including rules, forms, and orders governing registration statements, applications, reports, and filing fees, and defining any terms, whether or not used in this part, insofar as the definitions are not inconsistent with this part. For the purpose of rules and forms, the commissioner may classify securities, persons, and matters within the commissioner's jurisdiction, and prescribe different requirements for different classes.

29. Tenn. Comp. R. & Regs. 0780-04-03-.02(7)(b) states:

Every broker-dealer shall establish and keep current a set of written supervisory procedures and a system for applying such procedures, which may be reasonably expected to prevent and detect any violations of the Act, these Rules, and orders thereunder. The procedures shall include the designation by name or title of a number of supervisory employees reasonable in relation to the number of its registered agents, offices, and transactions in this state. A complete set of the procedures and systems for applying them shall be kept and maintained at every branch office.

30. By failing to maintain adequate oversight of its trading technology resulting in significant platform outages during times of historic market volatility, as well as significant periodic outages, Robinhood harmed its Tennessee customers. Robinhood's failure to implement and maintain adequate supervisory systems for its technology violated Tenn. Comp. R. & Regs. 0780-04-03-.02-(7)(b).

31. While experiencing platform outages, Robinhood failed to maintain an adequate customer response system. Therefore, Robinhood violated Tenn. Comp. R. & Regs. 0780-04-03-.02(7)(b).

32. Robinhood failed to maintain and implement adequate supervisory systems for its technology and failed to exercise due diligence in ascertaining essential facts about Tennessee customers, qualifications for options, and margin trading. Robinhood also negligently misrepresented risks associated with multi-leg spread options. Therefore, Robinhood violated Tenn. Comp. R. & Regs. 0780-04-03-.02(7)(b).

33. By failing to report "tens of thousands" of complaints to FINRA, Robinhood violated Tenn. Comp. R. & Regs. 0780-04-03-.02(7)(b), that requires every dealer to establish, maintain, and enforce written procedures to set forth the prompt review and written approval of the handling of customer complaints.

34. By failing to provide reasonable customer support, Robinhood failed to maintain and implement adequate supervisory systems over its customer support. Therefore, Robinhood violated Tenn. Comp. R. & Regs. 0780-04-03-.02(7)(b) and Tenn. Code Ann. § 48-1-112(a)(2)(J).

35. The Respondent hereby acknowledges the Commissioner's authority to administer the statutes cited herein, concedes that the interpretation of the statutes cited herein is reasonable and enforceable, and agrees to the Commissioner's entry and execution of this Consent Order, including each of the following sanctions ordered below.

VI. ORDER

NOW, THEREFORE, based on the foregoing, including the Respondent's waiver of the right to a hearing and appeal under the Act and the Tennessee Uniform Administrative Procedures Act, Tenn. Code Ann. §§ 4-5-101 *et seq.*, and the Respondent's admission to the jurisdiction of the Commissioner, the Commissioner finds that the Respondent agrees to the entry and execution of this Consent Order to settle this matter as evidenced by the Respondent's signature.

IT IS ORDERED, pursuant to Tenn. Code Ann. §§ 48-1-112(d) and 48-1-116 that:

A. SETTLEMENT

36. Robinhood shall pay to the State of Tennessee two-hundred thousand dollars (\$200,000), which shall be designated to the Securities Enforcement and Legal Training Fund. The payment shall be made by ACH transfer or other electronic funds transfer, or by check payable to the **Tennessee Department of Commerce and Insurance**.

37. Payment shall be remitted within thirty (30) days after the entry and execution of this Consent Order, as evidenced by the Commissioner's signature.

38. In consideration of the settlement, the Tennessee Securities Division will conclude the investigation and any civil or administrative actions that could be commenced pursuant to state securities law for the specific violations resolved herein, solely as it relates to Robinhood. Nothing in this Order shall be construed to create, waive, release, or limit any private right of action, including any claims retail customers have or may have on an individual or class basis under state or federal laws against any person or entity. The Tennessee Securities Division will not seek additional monetary penalties or remedies from Robinhood, relating to the specific failures and deficiencies identified by the jurisdictions in the course of this investigation and limited exclusively to the specific violations identified in this Order.

39. Nothing herein shall be construed as limiting any Jurisdiction's ability to investigate Robinhood for violations not resolved herein or to respond to and address any consumer complaints made with respect to Robinhood.

40. Nothing herein shall be construed as having relieved, modified, or in any manner affected Robinhood's ongoing obligation to comply with all federal, state, or local statutes, rules, and regulations applicable to Robinhood. If, after this Order is executed, Robinhood fails to comply with any of the terms set forth herein or any representation by Robinhood herein is discovered to be incorrect or misleading in any manner, a Jurisdiction may enforce this Order and may reinstitute the actions and investigations referenced in the Order. Any violations of the Order, as issued, may constitute grounds for further sanctions against Robinhood for such violations.

B. REMEDIATION AND FURTHER UNDERTAKINGS

41. As part of the FINRA AWC, Robinhood engaged a third-party consultant to complete a comprehensive review of Robinhood's compliance with areas identified as deficient in the FINRA AWC, including Robinhood's procedures for option trading account approval, and recommended modifications or supplements to Robinhood's processes, controls, policies, systems, procedures, and training. Robinhood shall provide access to any non-privileged report, exhibits, documents, or subsequent reports generated from the third-party consultant's review. The Division will treat the report as an investigatory record for purposes of applicable Public Record Law provisions. Robinhood shall provide the Division with a written attestation that the firm fully complied with the independent third-party consultant's recommendations or has otherwise maintained measures as or more effective at addressing the purpose of the recommendations within one-year of the settlement date.

42. Robinhood represents that it has done substantial work to enhance its customer service program since March 2020. Robinhood has substantially increased available customer service resources, including by hiring additional staff and expanding the avenues for customer support. The Customer Experience team includes customer support agents, operational leaders who oversee and manage customer support on a day-to-day basis, quality control reviewers, and account security specialists.

43. In June 2021, Robinhood reorganized the customer support structure by support categories to optimize its customer support function. Support categories include Advanced Brokerage (options and margin); Core Brokerage (equities and ACATS); Customer Safety and Privacy (account information, login issues, and security operations); Accounts (onboarding, documents, taxes, data and charts, deactivation, referrals and usability); and Funding

(withdrawals, deposits, and bank linking). Only Robinhood licensed representatives staff the Advanced Brokerage and Core Brokerage groups.

44. Robinhood represents that it now offers customers multiple methods to submit complaints, make inquiries and receive support, including email support, live 24/7 voice support, and live 24/7 chat support.

Voice Support

45. Robinhood launched its voice support program in December 2020 and gradually increased its availability. By October 2021, voice support was available 24/7 for all customer support inquiries, including but not limited to inquiries regarding options, potential account takeovers, account restrictions, equities, margin, withdrawals, cash management, cybersecurity, fraud, bank-linking, and cryptocurrency. Robinhood's 24/7 voice customer support offers live phone support to customers 24 hours a day, 7 days a week. Customers can request phone support via a call-back option in the Robinhood app or website and will receive a notification when they are next in line for a call. Robinhood has an internal target of calling customers within 30 minutes of submission of their request.

Chat Support

46. In July 2022, Robinhood added 24/7 chat support for all customer support inquiries.

Customer Support Metrics

47. Robinhood represents that it currently tracks a number of metrics regarding customer response times and focuses on median response time and a metric called "P85 response time," which is the time it takes to respond to 85% of support requests. Notably, for customers requesting voice support, although not required by regulation, Robinhood has

consistently met its target of calling customers back within 30 minutes. Robinhood represents that its current practice is to track pending unresolved customer support inquiries and maintain records of customer correspondence and contacts, including failures of customer service to respond to inquiries.

48. Robinhood represents that its Customer Experience team uses several internal data dashboards to monitor customer support-related metrics. Senior management, including the Vice President of Operations Shared Services (who oversees customer support), and Robinhood Market, Inc.'s Chief Brokerage Officer, is kept apprised of these metrics on a regular basis as well as on an ad hoc basis.

Remedial Undertakings

49. Robinhood will maintain reasonable and effective policies and procedures governing the supervision of its customer support function, including but not limited to accurate disclosures to customers regarding available customer support. As part of customer support supervision, regular, appropriate and timely reports shall be made to the Vice President of Customer Experience, who is also a member of Robinhood's Board of Managers.

50. Robinhood will maintain records of customer complaints and correspondence, including complaints and correspondence concerning failure of customer service response to inquiries, in accordance with all applicable regulatory requirements.

51. Robinhood has or will establish additional reimbursement policies or procedures for evaluating whether retail customers have suffered losses related to deficiencies in the supervision of customer support or from other system issues or from the deficiencies laid out in

the FINRA AWC. Robinhood is not aware of any customers impacted by the underlying deficiencies in the FINRA AWC who have not already been evaluated for remediation.

C. AUDITS AND INSPECTIONS

52. Within two years of the date of the first executed Order, at Robinhood's expense, state securities regulators may send a multistate team to examine and review compliance with the Order which may include, but are not limited to:

- a. Reviewing and evaluating the effectiveness of Robinhood's remediation practices and overall supervision of customer support.
- b. Evaluating and addressing the accuracy and timeliness of Robinhood's communications and disclosures to customers regarding the level of support that they can expect to receive.

53. This multistate examination is a part of the state regulators' authority to require the production of books and records, audit, examinations, and review, and should not be interpreted to limit this authority in any way.

CONSTRUCTION AND DEFAULT

54. This Consent Order represents the complete and final resolution of and discharge of all administrative and civil claims, demands, actions, and causes of action by the Commissioner against the Respondent for violations of the Act with respect to the causes of action by the Commissioner against the Respondent under the Act involved in the above-referenced facts.

However, excluded from, and not covered by this paragraph, are any claims by the Division arising from or relating to the enforcement of the Consent Order provisions contained herein.

55. This Order shall not, (a) form the basis for any disqualifications from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of any state, or for any disqualification from relying upon the securities registration exemptions or safe harbor provisions to which Robinhood or any of its affiliates may be subject under the laws, rules, and regulations of the settling states, (b) form the basis for any disqualifications under the laws of any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands; under the rules or regulations of any securities or commodities regulator of self-regulatory organizations; or under the federal securities laws, including but not limited to, § 3(a)(39) of the Securities Exchange Act of 1934, Rule 262 of Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF, (c) form the basis for disqualification under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuance in membership. Except in an action by the Division to enforce the obligations of this Order, any acts performed or documents executed in furtherance of this Order: (a) may not be deemed or used as an admission of, or evidence of, the validity of any alleged wrongdoing, liability, or lack of any wrongdoing or liability; or (b) may not be deemed or used as an admission of; or evidence of, any such alleged fault or omission of Respondents in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or tribunal.

56. This Consent Order is in the best interest of both the public and the parties, and it represents a compromise and settlement of the controversy between the parties. By its signature affixed below, the Respondent states that it has (1) freely agreed to the entry and execution of this

Consent Order; (2) effectively consulted with legal counsel in this matter; (3) reviewed the Statements of Fact and Conclusions of Law contained herein; and (4) waived his right to a hearing on the matters underlying this Consent Order and the enforcement of this Consent Order. The Respondent further states that no threats or promises of any kind have been made by the Commissioner, the Division, or any agent or representative thereof with regard to this Consent Order.


57. By signing this Consent Order, the parties affirmatively state their agreement to be bound by the terms of this Consent Order and aver that no promises or offers relating to the circumstances described herein, other than the terms of the settlement as set forth herein, are binding upon them.

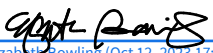
58. This Consent Order may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same document. The facsimile, email, or other electronically delivered signatures of the parties shall be deemed to constitute original signatures, and facsimile or electronic copies shall be deemed to constitute duplicate originals.

ENTERED AND EXECUTED October, 19, 2023.


Carter Lawrence (Oct 19, 2023 08:27 CDT)
Carter Lawrence, Commissioner
Department of Commerce and Insurance

APPROVED FOR ENTRY AND EXECUTION:

DocuSigned by:

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Robinhood, LLC
Respondent


Elizabeth H. Bowling (Oct 12, 2023 17:51 CDT)
Elizabeth H. Bowling
Assistant Commissioner for Securities
Department of Commerce and Insurance

DocuSigned by:
Lara C. Thyagarajan
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