

ALABAMA SECURITIES COMMISSION

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Alabama Securities Commission Joins Multiple States in \$10 Million Settlement with Robinhood for Failing Investors

Montgomery, Alabama (April 6, 2023) - The Alabama Securities Commission (ASC) 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 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 were dropping.

"Today's agreement reflects the ongoing efforts by state securities regulators to protect investors and make sure that they are treated fairly by financial service firms," said ASC Director Joseph Borg.

The order sets out the following violations:

- 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.

“Today’s multistate agreement represents states at their best – working together for the benefit of main street investors,” said NASAA President Andrew Hartnett. “Robinhood repeatedly failed to serve its clients, but this settlement makes clear that Robinhood must take its customer care obligations seriously and correct these deficiencies.”

ASC found no evidence of willful or fraudulent conduct by Robinhood. Robinhood fully cooperated with the investigation.

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If you have questions or concerns about your investments or financial professional, please contact the ASC Public Affairs Department at 1-800-222-1253.

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