

**STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION**

IN RE: ROBINHOOD FINANCIAL LLC)
) DOCKET NO. 21-051-S
)

STIPULATION AND CONSENT ORDER

WHEREAS, the Vermont Department of Financial Regulation (the “Department”) asserts that Robinhood Financial LLC (“Respondent”) has violated the securities laws as set forth below; and

WHEREAS, Respondent has produced documents responsive to the Department’s requests and has cooperated with the Department’s investigation; and

WHEREAS, Respondent admits the jurisdiction of the Department over this matter; and

WHEREAS, Respondent and the Department wish to resolve these violations without further administrative proceedings or litigation;

NOW, THEREFORE, Respondent, without admitting or denying the Statement of Facts and Violations of Law set forth below, and solely for the purposes of this proceeding, stipulates and agrees to the terms and conditions in this Stipulation and Consent Order.

STATEMENT OF FACTS

1. The Department, through the Commissioner of Financial Regulation, is responsible for administering and enforcing the securities laws of the State of Vermont, including the Vermont Uniform Securities Act (9 V.S.A. §§ 5101-5616) and the Vermont Securities Regulations.
2. Respondent is incorporated in Delaware with a principal place of business in Menlo Park, California.

3. Respondent is a Vermont-registered broker dealer firm with the assigned Financial Industry Regulatory Authority, Inc. (“FINRA”) Central Registry Depository (“CRD”) # 165998.
4. Respondent is a broker-dealer that offers commission-free, self-directed trading for retail investors with no account minimums, through its mobile application and web site.
5. Respondent launched mobile trading in December 2014.
6. Since its inception, Respondent has experienced periods of dramatic growth in the number of its customers.
7. Respondent’s customers include many self-identified first-time investors and investors between the ages of 18 and 30.
8. Between only the dates of October 1, 2019 and March 31, 2020, Respondent acquired 5,655 new customers in Vermont for a total of 18,565 Vermont customers as of March 31, 2020.
9. Between October 1, 2019 and March 31, 2020, Respondent approved 809 Vermont customers for options trading.
10. Between October 2, 2019 and December 31, 2020, Respondent approved 581 Vermont customers for margin trading.

Platform Outages

11. Until October 2020, Respondent relied exclusively on its website and mobile platform to receive, accept, and execute orders for security trades.
12. On March 2-3, 2020, Respondent’s website and mobile application experienced a significant outage, preventing Respondent’s customers from accessing their accounts during a time of historic market volatility.

13. During the March 2-3, 2020 outage, Respondent's customers could not enter, modify, or cancel orders.
14. Respondent's support options at the time—a general support email and an in-application customer contact portal—also experienced disruptions during portions of the March 2-3, 2020 outage.
15. On March 9, 2020, Respondent's platforms experienced a significant outage, causing Respondent's order entry system to be inoperable for approximately 45 minutes.
16. During the March 9, 2020 outage, customers could not submit new orders or cancel existing orders, unexecuted orders could not be modified or canceled, and it was unclear to customers whether existing orders were being executed. In addition, certain customer orders were stuck in a "pending" state.
17. March 2, 3, and 9, 2020 were times of historic market volatility, including two of the largest daily point gains and losses in the Dow Jones Industrial Average in history.
18. During the March 2020 outages, Respondent did not provide live, telephone customer service support.
19. At least 40 Vermont customers contacted Respondent during and in response to the March 2020 outages concerning their inability to trade, many expressing extreme frustration with the lack of market access during historic market volatility.
20. During the March 2020 outages, certain Vermont customers were impacted by their inability to access their accounts, their inability to engage in trades or have submitted trades executed, and the lack of information from Respondent about what was happening and when it would be resolved.

21. Between March 2020 and December 2020, Respondent's website and mobile application platforms and systems experienced limited outages on at least four additional occasions affecting various aspects of customers' orders and their ability to submit orders.
22. Pursuant to a June 2021 Letter of Acceptance, Waiver, and Consent agreed to by Respondent in connection with a FINRA investigation ("2021 FINRA AWC") concerning, among other matters, Respondent's March 2020 outages, and after review of customer accounts, Respondent paid restitution to a subset of its customers who attempted to close positions or cancel orders during the March 2-3, 2020 and March 9, 2020 outages, provided that the customers had written to Respondent through the general support e-mail address or customer contact portal by 11:59 pm on March 3, 2020 for the March 2-3, 2020 outage and on March 9, 2020 for the March 9, 2020 outage. Respondent asserts that it had provided restitution to many customers before the 2021 FINRA AWC.
23. In connection with FINRA's investigation and the March 2020 outages, Respondent has undertaken significant remedial actions relating to its customer support function and the functionality of its platform.

Options and Margin Trading Eligibility and Approval

24. Respondent makes available two levels of options trading to its customers, identified as "Level 2" and "Level 3."
25. Respondent's Level 2 options trading allows customers to engage in the options strategies of covered calls, cash-back puts, long calls and puts, and long straddles and strangles.
26. Level 3 options trading allows more advanced trading such as options spreads.

27. To apply for Level 2 or Level 3 options trading, customers respond to a series of eligibility questions on Respondent's website or mobile application.
28. Respondent also makes available margin trading, giving customers the ability to borrow funds from Respondent in order to trade using the cash and securities in their account as collateral.
29. To apply for margin trading, customers complete a Robinhood Gold application on Respondent's website or mobile application, and upon upgrading to Robinhood Gold, request to enable margin investing on their account.
30. Respondent's requirements for approval for Level 2 or Level 3 options trading and margin trading include criteria in areas such as a customer's account equity, employment status, liquid net worth, income, risk tolerance, overall investment experience, options investment experience, investment objective, and/or risk tolerance.
31. When a customer applies for Level 2 or Level 3 options trading or margin trading, Respondent's algorithms automatically, and nearly instantaneously, approve or reject the application by comparing the information in a customer's account profile and in the customer's responses to eligibility questions with Respondent's requirements.
32. All of the information considered by Respondent in the options and margin trading approval process, aside from a customer's account equity, is self-reported by the customer on their account profile and in answers provided by the customer to the applicable eligibility questions. Customers are also required to sign a margin agreement.
33. Other than to verify age and name, customers applying for options or margin trading are not required to submit documents in support of their self-reported information, and Respondent does not review the self-reported information manually for accuracy or

internal consistency, and Respondent asserts it is not required to do so under FINRA rules.

34. Customers whose options or margin applications are denied are immediately able to re-apply and may be approved if they change their account profile or responses to eligibility questions.
35. The approval process for options and margin trading, including repeat applications, is entirely automated. With the exception of the audit procedures described below, neither Respondent's Designated Principals nor other staff review individual applications or speak with applicants to verify the information provided.
36. Prior to April 2020, when a customer's profile information was updated, Respondent did not engage in a standardized review process to check for inconsistencies in the information provided by its customers, nor did Respondent verify on a continuing basis that individual customers remained eligible for options and margin trading.
37. Respondent asserts that in April 2020, Respondent began a monthly review of all customers approved for options trading to identify and address inconsistencies in information provided by these customers. As a result of this monthly review, Respondent downgrades accounts that do not or no longer qualify for options trading.
38. Respondent asserts that since May 2021, Respondent has conducted a weekly audit of a sample of its customers approved for options trading in the prior week to verify that the customers were properly approved based on applicable eligibility standards, addressing and downgrading accounts where ineligibility is found.
39. Respondent asserts that since approximately September 2021, Respondent has conducted a monthly audit of a sample of its customers approved for margin trading in

the prior month to verify that the customers were properly approved based on applicable eligibility standards, addressing and downgrading accounts where ineligibility is found.

40. As part of the 2021 FINRA AWC, Respondent engaged a third-party consultant to complete a comprehensive review of Respondent's compliance with areas identified as deficient in the AWC, including Respondent's procedures for options trading approval, and recommend modifications or supplements to Respondent's processes, controls, policies, systems, procedures, and training.

41. Pursuant to the 2021 FINRA AWC, Respondent is required to adopt each recommendation or to propose alternatives to specific recommendations to the third-party consultant and adopt the third-party consultant's ultimate recommendation.

LEGAL STANDARDS AND DESCRIPTION OF VIOLATIONS

42. The Commissioner of Financial Regulation is responsible for administering and enforcing the securities laws of the State of Vermont and is authorized to investigate securities activities to determine compliance with Vermont law and issue orders imposing civil penalties and remedial actions pursuant to 8 V.S.A. §§ 10-13 and 9 V.S.A. §§ 5601-14.

43. Pursuant to 9 V.S.A. § 5604(a) and (d), the Commissioner may impose a civil penalty of up to \$15,000 for each violation of the Vermont Securities Regulation (V.S.R.) and may require restitution and the disgorgement of any sums obtained in conjunction with such violations.

44. Pursuant to V.S.R. § 2-2(b)(2), incorporating FINRA Rule 3110(a), it is a violation of the Vermont Securities Regulation for a broker dealer firm to fail to establish and

maintain a supervisory system that is reasonably designed to achieve compliance with security laws and regulations.

45. In the context of a trading platform that relies exclusively or principally on automated systems and other technology and the individuals and companies who maintain such technology, it is a violation of V.S.R. § 2-2(b)(2) to fail to maintain and implement supervisory systems for such technology.
46. Pursuant to V.S.R. § 2-2(b)(2), incorporating FINRA Rule 2360(b)(16), it is a violation of the Vermont Securities Regulation for a broker dealer firm to fail to exercise due diligence when ascertaining essential facts about a customer's financial situation and investment objectives in the context of reviewing an application for options trading.
47. Respondent failed to maintain adequate oversight of its trading technology and significant platform outages occurred during times of historic market volatility, as well as subsequent periodic outages, resulting in harm to some Vermont customers. Respondent's failure to maintain and implement adequate supervisory systems for its technology violated V.S.R. § 2-2(b)(2).
48. Respondent failed to provide consistent and adequate customer support during platform outages, resulting in harm to some Vermont customers. Respondent's failure to maintain and implement adequate supervisory systems for its technology violated V.S.R. § 2-2(b)(2).
49. In the course of allowing increases in its Vermont customer base while experiencing repeat platform outages, Respondent failed to maintain and implement adequate supervisory systems. Therefore, Respondent violated V.S.R. § 2-2(b)(2).

50. By utilizing an automated approval process for options and margin trading by Vermont customers that did not check for inconsistencies in the information provided by customers or include review following modification by customers of their application answers or information in their account profiles, Respondent failed to maintain and implement adequate supervisory systems for its technology and failed to exercise due diligence in ascertaining essential facts about Vermont customers' qualifications for options and margin trading. Therefore, Respondent violated V.S.R. § 2-2(b)(2).
51. In the course of approving Vermont customers for options and margins trading while maintaining inadequate approval processes, Respondent failed to maintain and implement adequate supervisory system. Therefore, Respondent violated V.S.R. § 2-2(b)(2).
52. Because Respondent violated V.S.R. § 2-2(b)(2), the Commissioner may impose penalties pursuant to 9 V.S.A. § 5604(a) and (d).

CONSENT ORDER

53. Within 30 calendar days of the entry of this Stipulation and Consent Order by the Commissioner, Respondent shall pay an administrative penalty of \$590,000.
54. Within 30 calendar days of the entry of this Stipulation and Consent Order by the Commissioner, Respondent shall contribute \$50,000 to the Vermont Financial Services Education and Victim Restitution Special Fund.
55. The amounts identified in Paragraphs 53 and 54 shall be made by via wire or check made payable to the "Department of Financial Regulation" and mailed to:

Attn: Beth Sides
Department of Financial Regulation
Legal Division, Third Floor
89 Main Street
Montpelier, VT 05620-3101

56. Within 90 calendar days of the entry of this Stipulation and Consent Order by the Commissioner, Respondent shall:

- a. Conduct a review of each of its Vermont customers currently approved for options trading since April 2021, including a review of customers whose options applications were initially denied and whose subsequent applications were approved, to verify whether they remain eligible under the current information in their account profile and the current eligibility standards, addressing and downgrading accounts where ineligibility is found.
- b. Conduct a review of all Vermont customers who are currently margin-enabled to confirm that they were eligible when they were approved to trade on margin.
- c. Submit a report to the Department identifying the number of accounts approved for options and margins found ineligible pursuant to subparagraphs (a) and (b), along with a list of the customers, names redacted, identifying the age of each customer found ineligible, the type of approval for which the customer was found ineligible, and a detailed explanation of the reason they were found ineligible but had previously been identified as eligible.

57. Within 60 calendar days of the entry of this Stipulation and Consent Order by the Commissioner, Respondent shall:

- a. Submit a description of the process Respondent will follow going forward to review and verify the accuracy of information submitted by Vermont customers whose initial options applications are denied and who subsequently re-apply for options using different information from their initial applications.

- b. Apply this review and verification process to current Vermont customers approved for options trading since April 2021 whose initial options applications were denied and who subsequently re-applied for options using different information from their initial applications.
- c. Submit a report to the Department identifying the number of accounts found ineligible pursuant to this review and verification process, along with a list of the customers, names redacted, identifying the age of each customer found ineligible, the type of approval for which the customer was found ineligible, and a detailed explanation of the reason they were found ineligible but had previously been identified as eligible.
- d. Submit a report to the Department identifying any relevant changes Respondent has made or will make to its automated approval processes and written supervisory procedures as a result of the findings of the review and verification process.

58. Respondent shall maintain continued compliance with all undertakings and remedial actions required by the 2021 FINRA AWC.

59. Within 7 calendar days of the entry of this Stipulation and Consent Order by the Commissioner, Respondent shall provide a complete copy to the Department of the initial written report of the third-party consultant selected pursuant to the 2021 FINRA AWC. Within 7 calendar days of receipt or submission of the third-party consultant's report on proposed alternative procedures, if any, and Respondent's implementation report, Respondent shall provide a complete copy of such report to the Department.

60. All reporting to the Department required pursuant to Paragraphs 56, 57 and 59 shall be sent by e-mail to Bill Carrigan, Deputy Commissioner of Securities, at william.carrigan@vermont.gov or to such other person as Deputy Carrigan shall designate in writing.
61. Respondent acknowledges and admits the jurisdiction of the Commissioner over the subject matter of this Stipulation and Consent Order.
62. With respect to the facts and violations identified herein, Respondent waives its right to a hearing before the Commissioner or the Commissioner's designee and waives its right to all other administrative or judicial review otherwise available under Vermont law, including the rules of the Vermont Department of Financial Regulation and the provisions of 3 V.S.A. Chapter 25.
63. This Stipulation and Consent Order is entered into solely for the purpose of resolving the violations identified herein, and it is not intended for any other purpose.
64. Respondent understands all terms and conditions in this Stipulation and Consent Order, consents to the entry of this Stipulation and Consent Order and acknowledges that its consent is given freely and voluntarily and that, except as set forth herein, no promise was made to induce Respondent's consent.
65. Noncompliance with any of the terms and conditions in this Stipulation and Consent Order shall be a violation of a lawful order of the Commissioner and a violation of the laws of the State of Vermont and may result in additional administrative action and the imposition of injunctive relief, sanctions, and additional penalties pursuant to applicable provisions of Title 8 and 9 of the Vermont Statutes Annotated.

66. Nothing herein shall be construed as limiting the Commissioner's ability to investigate Respondent for violations not resolved herein or to respond to and address any consumer complaints made with regard to Respondent.
67. Nothing herein shall be construed as having relieved, modified, or in any manner affected Respondent's ongoing obligation to comply with all federal, state, or local statutes, rules, and regulations applicable to Respondent.
68. This Order is not intended to form the basis for any disqualification from registration as a broker-dealer, investment adviser, or issuer under the laws, rules, and regulations of Vermont, and waives any disqualification from relying upon the securities registration exemptions or safe harbor provisions to which Respondent or any of its affiliates may be subject under the laws, rules, and regulations of Vermont.
69. Nothing in this Order is intended to form the basis for any disqualification 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 or self-regulatory organizations; or under the federal securities laws, including but not limited to, Section 3(a)(39) of the Securities Exchange Act of 1934, Regulation A and Rules 504 and 506 of Regulation D under the Securities Act of 1933 and Rule 503 of Regulation CF. Furthermore, nothing in this Order is intended to form the basis for disqualification under the FINRA rules prohibiting continuance in membership or disqualification under other SRO rules prohibiting continuance in membership. This Order is not intended to be a final order based upon violations of any Vermont statute, rule, or regulation that prohibits fraudulent, manipulative or deceptive conduct.

70. This Order is not intended to state or imply willful, reckless, or fraudulent conduct by Respondent, or its affiliates, directors, officers, employees, associated persons, or agents.

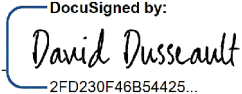
71. Nothing herein shall be construed as limiting any private right of action a person may have.

72. This Stipulation and Consent Order shall be governed by and construed under the laws of the State of Vermont.

SIGNATURES

The terms and conditions set forth in this Stipulation and Consent Order are hereby stipulated and agreed to. I certify under the pains and penalties of perjury that I have taken all necessary steps to obtain the authority to bind Robinhood Financial LLC to this Stipulation and Consent Order and that I have been duly authorized to enter into this Stipulation and Consent Order on behalf of the named Respondent.

ROBINHOOD FINANCIAL LLC

By:  _____ March 10, 2022
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Printed name: David Dusseault

Title: President and COO

The terms and conditions set forth in this Stipulation and Consent Order are hereby stipulated, agreed to, and ordered.

VERMONT DEPARTMENT OF FINANCIAL REGULATION

By:  _____ 3/16/2022
 Michael S. Pieciak Date
 Commissioner of Financial Regulation
 Vermont Department of Financial Regulation