

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 92591 / August 6, 2021

ADMINISTRATIVE PROCEEDING
File No. 3-20171

In the Matter of :
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Robinhood Financial, LLC, :
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Respondent. :
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ORDER APPROVING
PLAN OF DISTRIBUTION

On December 17, 2020, the Commission issued an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (the “Order”)¹ against Robinhood Financial, LLC (“Robinhood” or the “Respondent”). In the Order, the Commission found that Robinhood launched its retail brokerage business in 2015, and by mid-2018, it was one of the largest retail broker-dealers in the United States. One of Robinhood’s primary selling points was that it did not charge its customers trading commissions. In reality, however, “commission free” trading at Robinhood came with a catch: Robinhood’s customers received inferior execution prices compared to what they would have received from Robinhood’s competitors. For larger value orders, this price differential exceeded the amount of commissions that Robinhood’s competitors would have charged. These inferior prices were caused, in large part, by the unusually high fees Robinhood charged the principal trading firms to which it routed its customer orders for the opportunity to obtain Robinhood’s customer order flow. These fees are generally referred to as “payment for order flow.”

Robinhood omitted to disclose its receipt of payment for order flow in certain of its communications with its retail customers. Since Robinhood’s launch, payment for order flow has been Robinhood’s single largest source of revenue. In its customer agreements and trade confirmations, Robinhood stated it “may” receive payment for order flow, and it disclosed certain information about those payments, as required, in its SEC-mandated Rule 606 reports. However, in FAQs on its website describing how it made money, and in certain communications with customers addressing the same issue, Robinhood omitted payment for order flow when it described its revenue sources because it believed that payment for order flow might be viewed as controversial by customers. Robinhood also instructed its customer service representatives not

¹ Securities Act Rel. No. 10906 (Dec. 17, 2020).

to mention payment for order flow in responding to questions about Robinhood's sources of revenue.

As a broker-dealer that routed its customer orders for execution, Robinhood had a duty to seek to obtain the best reasonably available terms for its customers' orders, including price. This duty is referred to as the duty of "best execution." From July 2016 through June 2019, while Robinhood was on notice that its high payment for order flow rates from principal trading firms could result in inferior execution prices for its customers, Robinhood violated its duty of best execution by failing to conduct adequate, regular, and rigorous reviews of the execution quality it provided on customer orders. Robinhood did not begin comparing its execution quality to that of its competitors until October 2018, and did not take appropriate steps during the entire period to assess whether its high payment for order flow rates adversely affected customer execution prices. The Commission ordered the Respondent to pay a \$65,000,000.00 civil money penalty. The Commission created a Fair Fund, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, so the civil penalty paid can be distributed to harmed investors (the "Fair Fund").

The Fair Fund is comprised of the \$65,000,000.00 paid by the Respondent, pursuant to the Order. The Fair Fund is subject to the continuing jurisdiction and control of the Commission and has been deposited at United States Department of Treasury's Bureau of the Fiscal Service in an interest-bearing account. Any interest accrued will be added to the Fair Fund.

On June 4, 2021, the Division of Enforcement, pursuant to delegated authority, published a Notice of Proposed Plan of Distribution and Opportunity for Comment (the "Notice")² pursuant to Rule 1103 of the Commission's Rules on Fair Fund and Disgorgement Plans ("Commission's Rules").³ The Notice advised interested persons that they could obtain a copy of the Proposed Plan of Distribution (the "Proposed Plan") from the Commission's public website at <http://www.sec.gov/litigation/fairfundlist.htm> or by submitting a written request to Noel Gittens, United States Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5876.

The Notice also advised that all persons desiring to comment on the Proposed Plan could submit their comments, in writing, no later than thirty (30) days from the publication of the Notice in the following ways: (1) to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090; (2) by using the Commission's Internet comment form (<http://www.sec.gov/litigation/admin.shtml>); or (3) by sending an e-mail to rule-comments@sec.gov. The Commission received no negative comments concerning the Proposed Plan during the comment period.⁴

² Exchange Act Rel. No. 92115 (June 4, 2021).

³ 17 C.F.R. § 201.1103.

⁴ A total of 123 comments were received in response to the Notice during the comment period. Additional comments have been received since the comment period ended, which have also been reviewed and considered. None of the comments objected to, or raised any concerns regarding the pool of investors deemed to be eligible to participate in the distribution, the method of allocation used in the Proposed Plan, or the Proposed Plan generally. As such, no modification of the Proposed Plan is necessary.

The Plan provides for the distribution of the Net Available Fair Fund⁵ to Robinhood's customers who were harmed as a result of Robinhood's omissions and false and misleading disclosures during the Harm Period described in the Order.

The Division of Enforcement now requests that the Commission approve the Proposed Plan.

Accordingly, it is hereby ORDERED, pursuant to Rule 1104 of the Commission's Rules,⁶ that the Proposed Plan is approved, and the approved Plan of Distribution shall be posted simultaneously with this order on the Commission's website at www.sec.gov.

For the Commission, by the Division of Enforcement, pursuant to delegated authority.⁷

Vanessa A. Countryman
Secretary

⁵ All capitalized terms used herein but not defined shall have the same meanings ascribed to them in the Proposed Plan.

⁶ 17 C.F.R. § 201.1104.

⁷ 17 C.F.R. § 200.30-4(a)(21)(iv).