

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES ACT OF 1933**  
**Release No. 10906 / December 17, 2020**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 90694 / December 17, 2020**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-20171**

**In the Matter of**

**ROBINHOOD  
FINANCIAL, LLC,**

**Respondent.**

**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**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Robinhood Financial, LLC (“Robinhood” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this 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 (“Order”), as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **INTRODUCTION**

1. This matter involves material misrepresentations and omissions by Robinhood relating to its revenue sources, specifically its receipt of payments from certain principal trading firms, also known as electronic market makers, for routing Robinhood customer orders to them, and relating to certain statements about the execution quality Robinhood achieved for its customers' orders. It also involves Robinhood's failure to satisfy its duty of best execution.

2. Robinhood launched its retail brokerage business in 2015. 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 difference at Robinhood exceeded the commission its competitors would have charged. These inferior prices were caused in large part by the unusually high amounts Robinhood charged the principal trading firms for the opportunity to obtain Robinhood's customer order flow. These payments are generally referred to as "payment for order flow."

3. From 2015 through September 2018, certain of Robinhood's retail communications omitted its receipt of payment for order flow. Since Robinhood's launch, payment for order flow has been Robinhood's single largest source of revenue. Robinhood's customer agreements and trade confirmations stated it "may" receive payment for order flow, and Robinhood 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 to mention payment for order flow in responding to questions about Robinhood's sources of revenue.

4. In October 2018, after media outlets raised questions about whether Robinhood's payment for order flow rates negatively affected the execution prices that Robinhood customers received on their orders, Robinhood responded by claiming as part of an FAQ page on its website that its order execution quality matched or beat that of its competitors. However, at that time, Robinhood had begun comparing Robinhood's execution quality to competitors' and was aware it was worse in many respects. By March 2019, Robinhood had conducted a more extensive internal analysis that found Robinhood's execution quality and price improvement metrics were

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

substantially worse than other retail broker-dealers' in many respects, and senior Robinhood personnel were aware of this analysis. The claim about Robinhood's execution quality matching or beating its competitors' was not removed from its website until June 2019.

5. As a broker-dealer that routed customer orders for execution, Robinhood had a duty to seek to obtain the best reasonably available terms for customers' orders. This duty is referred to as the duty of "best execution." From September 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 was providing 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 higher payment for order flow rates were adversely affecting customer execution prices.

6. In addition, Robinhood failed to maintain required records of its modifications to its website FAQ pages relating to its order routing practices and receipt of payment for order flow, and the approvals of those modifications.

7. As a result of the above actions, Robinhood violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, and Section 17(a) of the Exchange Act and Rule 17a-4 thereunder.

## **FACTS**

### **A. Respondent**

8. **Robinhood** is a Delaware LLC with its principal place of business in Menlo Park, California. It offers self-directed securities brokerage services to customers by means of its website and smartphone applications. Robinhood is a Commission-registered broker-dealer and a member of FINRA.

9. Robinhood was founded in 2013 and began offering retail brokerage accounts to the general public in March 2015. Robinhood distinguished itself from other retail-oriented broker-dealers by, among other things, allowing customers to place orders to buy and sell securities without paying a trading commission. By June 2019, Robinhood had 9 million approved customer accounts.

### **B. Background**

#### **Principal Trading Firms and Payment for Order Flow**

10. Rather than sending customer orders to buy or sell equity securities directly to national exchanges, Robinhood, like other retail broker-dealers, routed its orders to other broker-dealers (often referred to as "principal trading firms" or "electronic market makers") to either execute those orders or route them to other market centers. Principal trading firms attempt to profit from executing large volumes of retail buy and sell orders either by taking the other side of

customer orders and exiting the positions at a profit, which is also known as “internalization,” or by routing the orders to other market centers.

11. Principal trading firms offer incentives to retail broker-dealers to send them order flow. One such incentive is “payment for order flow,” which is defined in Rule 10b-10(d)(8) of the Exchange Act to include any monetary payment, service, property, or other benefit that results in remuneration, compensation, or consideration to a broker-dealer in return for the routing of customer orders. Since it began operating as a broker-dealer, Robinhood, like other retail broker-dealers, has received payment for order flow in exchange for routing its customer orders to principal trading firms. SEC rules permit the receipt of payment for order flow by broker-dealers as long as it does not interfere with their efforts to obtain best execution, and as long as the routing of that order flow, as well as a description of all terms of any such arrangements that may influence the broker-dealer’s order routing decision, are disclosed in quarterly reports filed pursuant to Rule 606.

12. Another incentive that principal trading firms may provide to retail broker-dealers is “price improvement” on customer executions. Price improvement occurs when a customer order receives an execution at a price that is superior to the best available quotation then appearing on the public quotation feed, that is, by executing a “buy” order at a price lower than the lowest prevailing offer or executing a “sell” order at a price higher than the highest prevailing bid. Price improvement creates a financial benefit for the customer, since the customer receives a better price than he or she would have received had the order been executed at the national best bid and offer (“NBBO”) on the public quotation feed. In practice, most retail broker-dealers obtain price improvement on the vast majority of customer orders that they send to principal trading firms.

### **The Duty of Best Execution**

13. Broker-dealers such as Robinhood owe their customers a duty of “best execution.” Best execution requires that a broker-dealer endeavor to execute customer orders on the most favorable terms reasonably available in the market under the circumstances. This includes taking into account price, order size, trading characteristics of the security, as well as the potential for price improvement and other factors. *See Newton v. Merrill, Lynch, Pierce, Fenner & Smith*, 135 F.3d 266, 270 & n.2 (3d Cir. 1998); *Marc N. Geman*, Securities Exchange Act Release No. 43963 (Feb. 14, 2001) (Commission opinion). Although a broker-dealer is not required to examine every customer order individually for compliance with its duty of best execution, it must undertake regular and rigorous reviews of the quality of its customer order executions. *See Payment for Order Flow*, Securities and Exchange Commission Final Rule Release, Exchange Act Release No. 34902, 59 Fed. Reg. 55006, at 55009 (Oct. 27, 1994) (“*Payment for Order Flow Release*”).

14. The duty of best execution derives from, among other sources, the common law agency duty of loyalty, which obligates an agent to act exclusively in the principal’s best interest. Payment for order flow has the potential to create a conflict of interest between the broker-dealer and its customer because payment for order flow is a benefit that goes to the broker-dealer itself, whereas other incentives that may be obtained for routing order flow, such as price improvement,

benefit the broker-dealer's customers. A broker-dealer must not allow payment for order flow to interfere with its efforts to obtain best execution. *See Payment for Order Flow Release*, at 55009 & n.28.

### **Robinhood's Initial Public Messaging Concerning Payment for Order Flow**

15. In 2014, prior to its public launch, Robinhood published an FAQ on its website providing information about the company and its anticipated brokerage operations. The first version of the FAQ disclosed that Robinhood anticipated receiving payment for order flow in its answer to the question "How does Robinhood make money?"

16. Also in 2014, a best-selling author published a book that chronicled various aspects of the electronic securities trading industry and portrayed payment for order flow as a controversial practice. Several news organizations also published articles discussing payment for order flow and other issues concerning electronic trading venues. Senior Robinhood personnel were aware of these publications and the ensuing controversy regarding payment for order flow and its association with principal trading firms (which were also sometimes referred to as "high frequency trading firms"). They became concerned that if the public associated Robinhood with payment for order flow and high frequency trading firms, it could be viewed as controversial by Robinhood's customers.

17. In light of these concerns, in December 2014, Robinhood removed the reference to payment for order flow from its answer to the "How does Robinhood make money" FAQ and created a new FAQ page that specifically discussed payment for order flow. This new FAQ page stated that the payment for order flow revenue Robinhood received at the time was "indirect" and "negligible." It also stated that if payment for order flow ever became a direct or significant source of revenue, Robinhood would inform customers of those facts on the "How does Robinhood make money" FAQ page.

18. In the first quarter of 2015, Robinhood launched its trading platform to the public. Although the company's overall revenue was modest in 2015 through mid-2016, during that time payment for order flow comprised more than 80% of the company's revenue.

### **C. Robinhood Received Unusually High Payment for Order Flow Rates and Failed to Conduct Rigorous Reviews of its Execution Quality**

19. Initially, Robinhood relied on another broker-dealer to provide both clearing and order execution services for Robinhood customer orders. That broker-dealer routed Robinhood customer orders to principal trading firms, received payment for order flow in return, and shared a portion of that payment for order flow with Robinhood.

20. During the first half of 2016, Robinhood decided to start routing customer orders directly to principal trading firms and cease relying on the other broker-dealer for order execution routing services. By doing so, Robinhood could earn additional payment for order flow revenue.

21. In or around May 2016, Robinhood began negotiations with a number of principal trading firms about potentially routing Robinhood customer orders to those entities. In the course of those negotiations, certain of the principal trading firms told Robinhood that there was a trade-off between payment for order flow on the one hand and price improvement on the other: If Robinhood negotiated for higher payment for order flow revenue, according to the principal trading firms, there would be less money available for the principal trading firms to provide price improvement to Robinhood's customers.

22. At least one principal trading firm communicated to Robinhood that large retail broker-dealers that receive payment for order flow typically receive four times as much price improvement for customers than they do payment for order flow for themselves—an 80/20 split of the value between price improvement and payment for order flow.

23. Robinhood negotiated a payment for order flow rate that was substantially higher than the rate the principal trading firms paid to other retail broker-dealers—which resulted in approximately a 20/80 split of the value between price improvement and payment for order flow. Robinhood explicitly offered to accept less price improvement for its customers than what the principal trading firms were offering, in exchange for receiving a higher rate of payment for order flow for itself.

24. In September 2016, Robinhood began routing customer orders directly and solely to principal trading firms. Around the same time, Robinhood formed a "Best Execution Committee" to monitor the speed and the prices at which the principal trading firms were executing Robinhood customer orders. The Committee met at least once per month and included Robinhood's General Counsel. From October 2016 through at least June 2019, the Committee observed that Robinhood was not obtaining much price improvement on its customer orders in equity securities, particularly on orders of 100 shares or more.

25. Meanwhile, in 2017, Robinhood developed a proprietary routing algorithm, known as a smart order router, designed to make the principal trading firms with which Robinhood had payment for order flow arrangements compete for order flow by routing customer orders to the principal trading firm that had provided the most price improvement for that stock over the prior 30 days. However, the smart order router did not address Robinhood's high payment for order flow rates or any potential execution prices that may be available at venues that did not agree to pay those rates. Even with its smart order router, Robinhood customer orders received poor execution quality.

26. Although Robinhood was on notice that its high payment for order flow rates could lead to less price improvement, the Best Execution Committee did not conduct adequate regular and rigorous reviews to ensure that Robinhood was satisfying its best execution obligations. The Committee took no steps to determine whether Robinhood's payment for order flow rates were having a negative impact on the execution prices that Robinhood's customers received. Until October 2018, the Committee did not consider how Robinhood's price improvement statistics compared to those of other retail broker-dealers, or to the retail order execution market generally.

27. In mid-2017, when one of the principal trading firms to which Robinhood routed order flow told Robinhood it would no longer agree to pay Robinhood's unusually high payment for order flow rates, but would pay a lower payment for order flow rate, Robinhood stopped routing customer orders to that principal trading firm.

28. When certain Robinhood personnel began comparing the firm's order execution quality to competitors in October 2018, they learned that for most execution quality metrics, including the percentage of orders receiving price improvement, Robinhood's execution quality was worse.

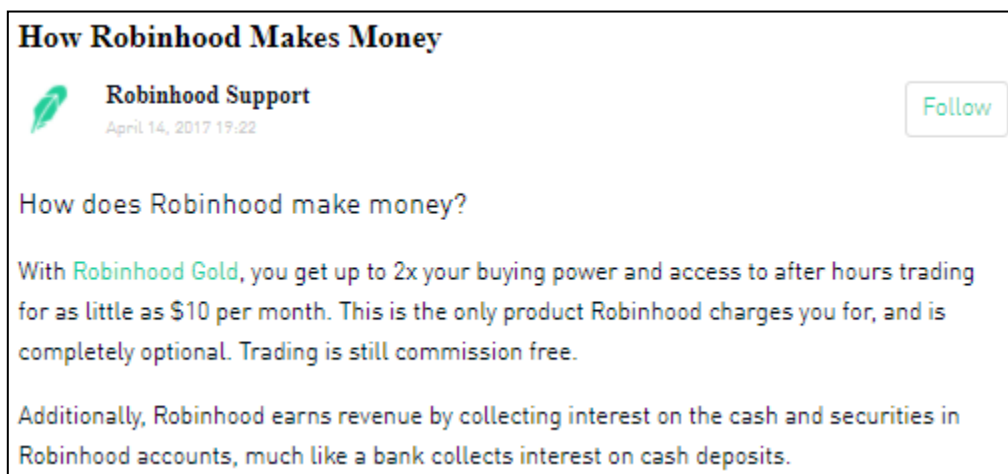
29. By March 2019, Robinhood had conducted a more extensive internal analysis, which showed that its execution quality and price improvement metrics were substantially worse than other retail broker-dealers in many respects, including the percentage of orders that received price improvement and the amount of price improvement, measured on a per order, per share, and per dollar traded basis. Senior Robinhood personnel were aware of this analysis.

30. However, Robinhood's Best Execution Committee did not take appropriate steps to assess whether, in light of this information, Robinhood was complying with its duty to seek best execution of customer orders. Robinhood's failure from October 2016 through June 2019 to conduct adequate regular and rigorous reviews that involved benchmarking its execution quality against competitor broker-dealers to determine whether it was obtaining the best terms reasonably available for customer orders, violated the firm's duty of best execution.

**D. Robinhood Misleadingly Omitted Payment for Order Flow From Descriptions of Its Revenue Sources**

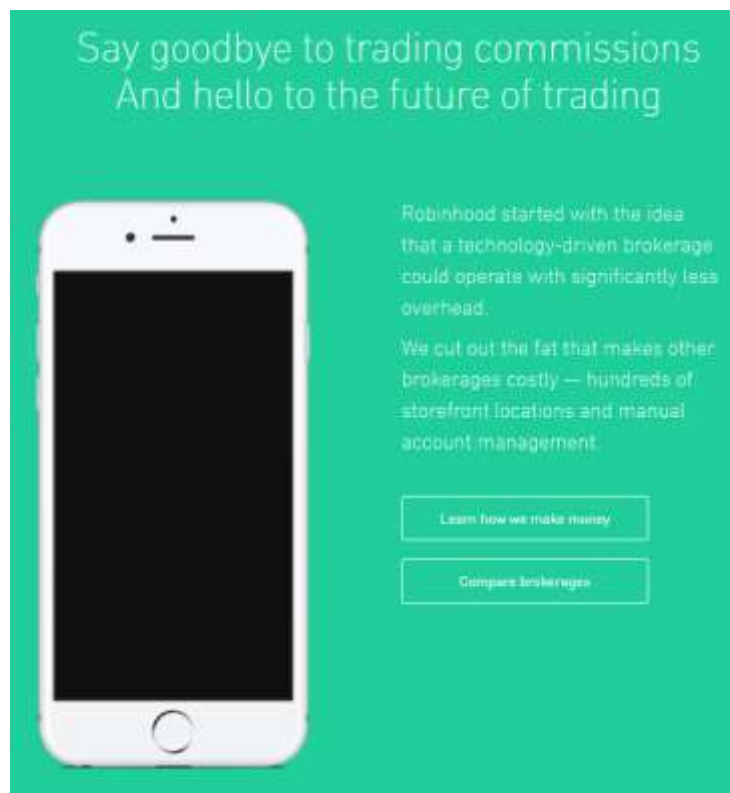
31. By the end of 2016, Robinhood was generating a significant amount of revenue, the majority of which its controlling officers knew continued to come from payment for order flow. However, contrary to what the company had said in the payment for order flow FAQ, Robinhood did *not* disclose the new payment for order flow arrangements in its answer to the "How Robinhood Makes Money" FAQ on its website. Instead, at some point during 2016, Robinhood deleted the payment for order flow FAQ. Robinhood kept no records showing when the payment for order flow FAQ was deleted, why it was deleted, or who was responsible for approving its removal.

32. Between late 2016 and September 2018, Robinhood continued to grow rapidly. Although payment for order flow remained the company's largest revenue source throughout this period, Robinhood did not include payment for order flow as a revenue source in its answer to the "How Robinhood Makes Money" FAQ on its website. The company failed to update the FAQ to include payment for order flow despite the fact that, in 2016 and 2017, the company did update the FAQ to include two other, smaller revenue sources: subscription-based memberships and interest on securities lending. The version of the "How Robinhood Makes Money" FAQ page that was posted on Robinhood's website from approximately April 2017 through September 2018 stated:



33. Robinhood kept incomplete records of its updates to the “How Robinhood Makes Money” FAQ page, including incomplete records of who was responsible for approving updates to that page.

34. The “How Robinhood Makes Money” FAQ was featured in certain of Robinhood’s customer communications. From at least February 22, 2016 to October 26, 2017 Robinhood displayed a link to the “How Robinhood Makes Money” FAQ on the home page of its website:





35. Moreover, Robinhood instructed customer service representatives to direct customers to the “How Robinhood Makes Money” FAQ page or use the language of the misleading FAQ answer when responding to general questions about how Robinhood made money. Thus, in response to inquiries from its customers between 2015 and August 2018 about how Robinhood made money—approximately 150 inquiries in total—Robinhood’s customer service representatives did not identify payment for order flow as one of the company’s revenue sources. Training documents for customer service representatives in early 2018 explicitly instructed them to “avoid” talking about payment for order flow and stated that it was “incorrect” to identify payment for order flow in response to the question how Robinhood makes money.

36. Throughout this period, Robinhood disclosed some information about its receipt of payment for order flow as required in SEC-mandated reports pursuant to Rule 606. The company included these reports on the “Disclosure Library” page on its website that included a number of other legally-mandated disclosures. However, the company did not feature the “Disclosure Library” or the reports contained in that library prominently in its communication strategy, like it did with the “How Robinhood Makes Money” FAQ page. Robinhood’s customer agreements and trade confirmations stated that Robinhood “may” receive payment for order flow.

**E. Robinhood Falsely Claimed That Its Execution Quality Matches or Beats That of Its Competitors**

37. In response to media reports in September and October 2018 about Robinhood’s payment for order flow rates, Robinhood added payment for order flow to the list of revenue sources appearing on the “How Robinhood Makes Money” FAQ page. But on October 12, 2018, it also published a new FAQ page that discussed payment for order flow and Robinhood’s order execution quality. The new FAQ page stated that Robinhood’s “execution quality and speed matches or beats what’s found at other major brokerages.” It also cited one statistic related to execution speed and one statistic related to the percentage of orders for S&P 500 stocks executed within the NBBO.

**What is the execution quality for orders on Robinhood?**

Reg NMS ensures your order gets executed at the national best bid and offer, or better, at the time of execution. Our execution quality and speed matches or beats what’s found at other major brokerages. Even when measured at the time of routing, our customers’ orders get executed at the NBBO or better. By way of example, in August 2018, 99.12% of our customers’ marketable orders were executed at the the national best bid and offer or better with an execution speed of 0.08 seconds from routing to execution (for S&P 500 stocks, during market hours).

38. However, the internal analyses referenced in paragraphs 28-29 above that Robinhood conducted in October 2018 and March 2019 showed that Robinhood’s execution

quality was worse than that of other large retail broker-dealers in many respects. In particular, in October 2018, when certain Robinhood employees began gathering data to compare Robinhood's execution quality metrics to those of its competitors, other Robinhood personnel remarked that most of Robinhood's metrics were worse and discussed the execution quality metrics with certain senior Robinhood personnel.

39. A more extensive analysis Robinhood conducted in March 2019 stated that “[n]o matter how we cut the data, our % orders receiving price improvement lags behind that of other retail brokerages by a wide margin.” Robinhood further found that the amount of price improvement obtained for Robinhood customers was far lower than at competing broker-dealers, measured on a per order, per share, and per dollar traded basis. Senior Robinhood personnel were aware of this analysis.

40. For most orders of more than 100 shares, the analysis concluded that Robinhood customers would be better off trading at another broker-dealer because the additional price improvement that such orders would receive at other broker-dealers would likely exceed the approximately \$5 per-order commission costs that those broker-dealers were then charging. The analysis further determined that the larger the order, the more significant the price improvement losses for Robinhood customers—for orders over 500 shares, the average Robinhood customer order lost over \$15 in price improvement compared to Robinhood's competitors, with that comparative loss rising to more than \$23 per order for orders over 2,000 shares.

41. Robinhood removed the claim about Robinhood's execution quality matching or beating that of other broker-dealers from its FAQ in June 2019, after staff from the Commission's Office of Compliance Inspections and Examinations raised concerns about that sentence.

42. Between October 2016 and June 2019, certain Robinhood orders lost a total of approximately \$34.1 million in price improvement compared to the price improvement they would have received had they been placed at competing retail broker-dealers, even after netting the approximately \$5 per-order commission costs those broker-dealers were charging at the time.

## **VIOLATIONS**

43. As a result of the conduct described above, Robinhood willfully<sup>2</sup> violated Sections 17(a)(2) and 17(a)(3) of the Securities Act. Section 17(a)(2) proscribes obtaining “money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.” Section 17(a)(3) proscribes engaging “in any

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<sup>2</sup> A willful violation of the securities laws means merely “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.” *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.”

44. As a result of the conduct described above, Robinhood willfully violated Section 17(a) of the Exchange Act and Rule 17a-4 thereunder. Rule 17a-4 requires, among other things, that broker-dealers preserve, for a period of not less than three years, originals of all communications sent relating to its business as such (and any approvals thereof) by the broker-dealer, including all communications which are subject to rules of a self-regulatory organization of which the broker-dealer is a member.

### **UNDERTAKINGS**

45. On February 5, 2020, as required by a Letter of Acceptance, Waiver and Consent entered into between Robinhood and FINRA on December 19, 2019 (the “FINRA AWC”), Robinhood engaged an independent compliance consultant to conduct a comprehensive review of the policies, systems, procedures, and training of Robinhood and its affiliated firm, Robinhood Securities, LLC, to which Robinhood began sending all customers orders for trade execution beginning in November 2019, related to achieving compliance with FINRA Rule 5310 regarding best execution.

46. On April 17, 2020, the independent consultant submitted its report and recommendations related to Robinhood’s and Robinhood Securities’ compliance with FINRA Rule 5310. On June 16, 2020, Robinhood and Robinhood Securities certified to FINRA that they adopted and implemented all recommendations of the independent consultant as set forth in its report.

47. In response to the independent consultant’s report and recommendations, among other steps, Robinhood Securities revised its Written Supervisory Procedures (“WSPs”) and Execution Quality Procedures Manual to reflect its best execution program at the time, including the roles and responsibilities of the Execution Quality Department, the Execution Quality Manager and associates, and the Best Execution Committee (collectively, “Robinhood Best Execution personnel”). The Execution Quality Procedures Manual was updated to include titles and descriptions of the best execution analytics reports used by Robinhood Best Execution personnel at the time to assess execution quality.

48. Independent Consultant. Given that the nature and the scope of the Commission’s claims against Robinhood are distinct from the FINRA action described above, Robinhood has agreed to the following undertakings:

a. Robinhood shall retain, within sixty (60) days of the entry of this Order, the services of an Independent Compliance Consultant (“Independent Consultant”) that is not unacceptable to the Commission staff, which may be the same Independent Consultant previously engaged by Robinhood in connection with the FINRA AWC. The Independent Consultant’s compensation and expenses shall be borne exclusively by Robinhood.

b. Robinhood shall provide to the Commission staff, within sixty (60) days of the entry of this Order, a copy of the engagement letter detailing the Independent Consultant's responsibilities, which shall include a comprehensive compliance review as described below in this Order. Robinhood shall require that, within ninety (90) days of the date of the engagement letter, the Independent Consultant conduct:

i. A comprehensive review of Robinhood's supervisory, compliance, and other policies and procedures designed to ensure that Robinhood's retail communications, including all disclosures relating to Robinhood's receipt of payment for order flow, comply with the content, books and records, and other requirements of the federal securities laws.

ii. An updated review of Robinhood's and Robinhood Securities' policies and procedures, specifically including Robinhood Securities' WSPs and Execution Quality Procedures Manual, designed to ensure that Robinhood's and Robinhood Securities' payment for order flow arrangements and rates with principal trading firms are not interfering with their duty to seek to obtain best execution for customers under the federal securities laws, including by ensuring that:

- a. the policies and procedures require Robinhood Best Execution personnel to conduct regular empirical analysis of the firms' payment for order flow arrangements compared with those of other retail broker-dealers, based on publicly available payment for order flow data;
- b. the policies and procedures require Robinhood Best Execution personnel to conduct regular empirical analysis of the firms' execution quality compared with that of other retail broker-dealers, based on the full set of data and analytical tools that trading venues (including principal trading firms and electronic market makers) make available to their broker-dealer clients to help them assess their execution quality compared to other firms, including the frequency and amount of price improvement, effective-over-quoted spread (E/Q), and payment for order flow rate, taking into account factors such as type of security, price of security, type of order, and size of order; and
- c. the policies and procedures require Robinhood Best Execution personnel regularly to assess whether any deficiencies revealed by the analyses described in subparts (a) and (b) above require renegotiation or other modifications of the firms' order routing and/or payment for order flow arrangements.

iii. An assessment of whether Robinhood has properly documented (1) that it is effectively following its policies and procedures in paragraph ii, and (2), to the extent warranted, that Robinhood has modified its order routing decisions and/or selection of trading center

counterparties based upon its empirical analysis of comparative execution quality. That assessment shall include a discussion of the execution quality that Robinhood achieved for its customers in comparison to the execution quality provided by other major brokerages; a discussion of the metrics Robinhood used to evaluate its order routing decisions and/or selection of trading center counterparties taking into account factors such as type of security, price of security, type of order, and size of order; and a discussion of whether Robinhood's internal execution quality analysis is consistent with its disclosures to customers.

c. Robinhood shall require that, within forty-five (45) days after completion of the review, the Independent Consultant shall submit a detailed written report of its findings to Robinhood and to the Commission staff (the "Report"). Robinhood shall require that the Report include a description of the review performed, the names of the individuals who performed the review, the conclusions reached, the Independent Consultant's recommendations for changes in or improvements to Robinhood's policies and procedures and/or disclosures to clients, and a procedure for implementing the recommended changes in or improvements to Robinhood's policies and procedures and/or disclosures.

d. Robinhood shall adopt all recommendations contained in the Report within sixty (60) days of the date of the Report; provided, however, that within forty-five (45) days after the date of Report, Robinhood shall in writing advise the Independent Consultant and the Commission staff of any recommendations that Robinhood considers to be unduly burdensome, impractical, or inappropriate. With respect to any recommendation that Robinhood considers unduly burdensome, impractical, or inappropriate, Robinhood need not adopt such recommendation at that time, but shall propose in writing an alternative policy, procedure, or disclosure designed to achieve the same objective or purpose.

e. As to any recommendation with respect to Robinhood's policies, procedures, or disclosures on which Robinhood and the Independent Consultant do not agree, Robinhood and the Independent Consultant shall attempt in good faith to reach an agreement within sixty (60) days after the date of the Report. Within fifteen (15) days after the conclusion of the discussion and evaluation by Robinhood and the Independent Consultant, Robinhood shall require that the Independent Consultant inform Robinhood and the Commission staff in writing of the Independent Consultant's final determination concerning any recommendation that Robinhood considers to be unduly burdensome, impractical, or inappropriate. Robinhood shall abide by the determinations of the Independent Consultant and, within sixty (60) days after final agreement between Robinhood and the Independent Consultant or final determination by the Independent Consultant, whichever occurs first, Robinhood shall adopt and implement all of the recommendations that the Independent Consultant deems appropriate.

f. Robinhood shall cooperate fully with the Independent Consultant and shall provide the Independent Consultant with access to such of Robinhood's files, books, records, and personnel as are reasonably requested by the Independent Consultant for review.

g. To ensure the independence of the Independent Consultant, Robinhood: (1) shall not have the authority to terminate the Independent Consultant or substitute another independent compliance consultant for the initial Independent Consultant, without the prior written approval of the Commission staff; and (2) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

h. Robinhood shall require the Independent Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Robinhood, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity, without the prior written approval of the Commission staff. The agreement shall also provide that the Independent Consultant will require that any entity or individual engaged to assist the Independent Consultant in performance of the duties under this Order shall not, without the prior written approval of the Commission staff, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with Robinhood, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

i. The Report and final determinations by the Independent Consultant will likely include confidential financial, proprietary, or competitive business or commercial information. Public disclosure of the Report and final determinations could discourage cooperation, impede pending or potential government investigations, or undermine the objectives of the reporting requirement. For these reasons, among others, the Report and final determinations and the contents thereof are intended to remain and shall remain non-public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (4) is otherwise required by law.

49. Recordkeeping. Robinhood shall preserve, for a period of not less than six (6) years from the end of the fiscal year last used, the first two (2) years in an easily accessible place, any record of compliance with the undertakings set forth in this Order.

50. Deadlines. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

51. In determining whether to accept the Offer, the Commission has considered these undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Section 15(b) of the Exchange Act, it is hereby ORDERED that:

A. Robinhood cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 17(a) of the Exchange Act, and Rule 17a-4 promulgated thereunder.

B. Robinhood is censured.

C. Robinhood shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$65,000,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Robinhood may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Robinhood may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Robinhood may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Robinhood Financial, LLC as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Monique Winkler, Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, San Francisco Regional Office, 44 Montgomery Street, Suite 2800, San Francisco, CA 94104.

D. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended by the Dodd-Frank Act of 2010 [15 U.S.C. § 7246(a)], a Fair Fund is created for the penalty referenced in

paragraph IV.C above. The amount ordered to be paid as a civil money penalty pursuant to this Order shall be treated as a penalty paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman  
Secretary