

United States Senate

February 2, 2021

Vladimir Tenev
Chief Executive Officer
Robinhood
85 Willow Road
Menlo Park, CA 94025

Dear Mr. Tenev:

I am writing regarding Robinhood's decision last week to restrict trading and impose other limits on its customers, abruptly changing the rules for these individual investors with no warning or recourse. In addition to putting customers' finances at risk, Robinhood's actions revealed a new set of questions about its relationship with large hedge funds and other financial institutions, and follows past criticisms of Robinhood's insufficient investor protections. Robinhood has a responsibility to treat its investors honestly and fairly, and provide them with access to the market under a transparent and consistent set of rules. It is deeply troubling that the company may not be doing so.¹

In recent weeks, share prices for GameStop and other companies have undergone sharp changes in value.² Amidst this extreme volatility, Robinhood and several other brokerages abruptly "restricted trading on Thursday in GameStop and other stocks caught in a frenzy" and raised requirements for "how much money an investor using leverage and derivatives must have in their brokerage account after a stock purchase."³ These restriction reportedly stemmed from "an early morning message from a clearinghouse asking for a sharp increase in deposits for that day's trading" following the surge in trading volume for volatile stocks like GameStop.⁴ To meet these requirements, Robinhood reportedly drew "on a line of credit from six banks amounting to between \$500 million and \$600 million" and "raise[d] more than \$1 billion from its existing

¹ Washington Post, "Robinhood's Role in the 'Gamification' of Investing," Annie Massa and Edward Robinson, December 21, 2020, https://www.washingtonpost.com/business/robinhoods-role-in-the-gamification-of-investing/2020/12/19/83b310ca-41bf-11eb-b58b-1623f6267960_story.html.

² Wall Street Journal, "BlackBerry, AMC and Other Reddit YOLO Favorites That Aren't GameStop," Sebastian Pellejero and Marco Quiroz-Gutierrez, January 26, 2021, <https://www.wsj.com/articles/blackberry-amc-and-other-reddit-yolo-favorites-that-arent-gamestop-11611681716>; CNBC, "Bed Bath & Beyond, AMC rally with GameStop as little investors squeeze hedge funds in more stocks," Maggie Fitzgerald, January 25, 2021, <https://www.cnbc.com/2021/01/25/bed-bath-beyond-amc-rally-wjoin-gamestop-in-rally-as-trend-of-retail-investors-squeezing-hedge-funds-spreads.html>.

³ CNBC, "Robinhood restricts trading in GameStop, other names involved in frenzy," Maggie Fitzgerald, January 28, 2021, <https://www.cnbc.com/2021/01/28/robinhood-interactive-brokers-restrict-trading-in-gamestop-s.html>.

⁴ Wall Street Journal, "Robinhood Raises \$1 Billion to Meet Surging Cash Demands," Peter Rudegeair and Orla McCaffrey, January 29, 2021, <https://www.wsj.com/articles/robinhood-raises-1-billion-to-meet-surging-cash-demands-11611928504>.

investors.”⁵ The public deserves to know the details of circumstance behind Robinhood’s decision to restrict trading and about other actions that appear to be treating individual investors in an unequal or unfair fashion.

Concerns about Robinhood’s insufficient investor protections are not new. In 2019, the Financial Industry Regulatory Authority fined the company for “execution violations related to its customers’ equity orders and related supervisory failures.”⁶ In July 2020, U.S. Representatives Lauren Underwood, Brad Sherman, Bill Foster, and Sean Casten and Senators Richard Durbin and Tammy Duckworth wrote to your company, raising concerns that “[b]y seeking to cultivate a customer base of relatively inexperienced investors, [your company has]also taken on an especially great responsibility to make sure your customers are protected and always provided with clear and accurate information.”⁷ In December 2020, the state of Massachusetts filed a legal complaint against Robinhood on grounds of failing to act “without regard for the best interest of its customers.”⁸ That same month, Robinhood paid \$65 million to settle charges brought by the Securities and Exchange Commission for “misleading customers about revenue sources and failing to satisfy duty of best execution.”⁹ Robinhood’s recent decision to abruptly restrict particular trades raises further questions about whether the company is meeting its obligations to investors.

I am also troubled by Robinhood’s inclusion of forced arbitration clauses in its customer agreement, which suggests that investors will not have sufficient opportunity to pursue their claims and seek relief.¹⁰ According to reports, at least 18 lawsuits have been filed against Robinhood in the last week, with some “seek[ing] damages on behalf of other aggrieved investors.”¹¹ Secretive arbitration processes deny customers a fair hearing, undermine public accountability, and hamper efforts to assemble a thorough and complete understanding of events. Investors harmed by Robinhood’s trading restrictions should be able to argue their case in court, rather than in closed-door proceedings that are too often rigged against claimants.

⁵ New York Times, “Robinhood, in Need of Cash, Raises \$1 Billion From Its Investors,” Kate Kelly, Eric Griffith, Andrew Ross Sorkin, and Nathaniel Popper, January 29, 2021, <https://www.nytimes.com/2021/01/29/technology/robinhood-fundraising.html>.

⁶ Daily Beast, “Robinhood Hit With Class Action Suit—but Here’s Why It’s Likely to Fail,” Arya Hodjat, January 29, 2021, <https://www.thedailybeast.com/robinhood-hit-with-class-action-after-trying-to-shut-down-wallstreetbets-gamestop-uprising/>.

⁷ Letter from Representatives Underwood, Sherman, Foster, and Casten and Senators Durbin and Duckworth to Robinhood Co-Founders and Co-CEOs Vladimir Tenev and Baiju Bhatt, July 13, 2020, <https://underwood.house.gov/sites/underwood.house.gov/files/Underwood%20Letter%20to%20Robinhood%20re%20Investor%20Protections.pdf>.

⁸ Washington Post, “Robinhood agrees to \$65 million civil penalty to resolve SEC charges,” Hannah Denham, December 17, 2020, <https://www.washingtonpost.com/business/2020/12/17/robinhood-sec-investigation/>.

⁹ Securities and Exchange Commission, “SEC Charges Robinhood Financial With Misleading Customers About Revenue Sources and Failing to Satisfy Duty of Best Execution,” press release, December 17, 2020, <https://www.sec.gov/news/press-release/2020-321>.

¹⁰ Robinhood, “Robinhood Financial LLC & Robinhood Securities, LLC Customer Agreement,” June 2020, <https://cdn.robinhood.com/assets/robinhood/legal/Customer%20Agreement.pdf>.

¹¹ Bloomberg, “Robinhood Suits Come Daily, But an Outcome May Be Years Away,” Chris Dolmetsch and Christopher Yasiejko, January 29, 2021, <https://www.bloomberg.com/news/articles/2021-01-29/robinhood-suits-arrive-daily-but-an-outcome-may-be-years-away>.

Robinhood's imposition of trading limits on small investors also raises troubling concerns about its relationships with the large financial institutions that execute its trades, most notably Citadel Securities, "a Chicago-based financial-services giant" affiliated with Citadel, a hedge fund.¹² Citadel Securities "is one of the biggest sources of Robinhood's revenue"¹³ via contracts that "charge[] large investment firms called 'market makers' fees to access real-time information about which stocks its users are buying and selling, a practice some regulators and industry watchers have seen as a potential conflict of interest."¹⁴ The announcement of a "\$2.75 billion emergency cash infusion into Melvin Capital Management, a short seller that was facing steep losses due to the huge rally in GameStop's stock," by Citadel raises further questions about potential conflicts of interest affecting Robinhood's business practices and relationships, as "the deal meant Citadel, the hedge-fund firm, was propping up a fund that had bet against GameStop stock, while Citadel Securities had been profiting from the order flow of small investors placing bullish bets on GameStop."¹⁵ The public deserves a clear accounting of Robinhood's relationships with large financial firms and the extent to which those relationships may be undermining its obligations to its customers.

In order to better understand how Robinhood plans to account for its recent actions and ensure that retail investors are treated honestly and fairly, I ask that you respond to the following questions by Tuesday, February 9, 2021.

1. Robinhood announced on January 28, 2021 that it was restricting "transactions for certain securities to position closing only,"¹⁶ abruptly changing the rules for small investors with no warning or recourse. Why did Robinhood make this decision?
 - a. Please explain in detail the factors that led Robinhood to limit customers from making trades on GameStop and other stocks.
 - b. Please explain what contractual provisions with its users allowed Robinhood to summarily bar or otherwise restrict trading activity related to GameStop and other companies and how these provisions were communicated to users.
2. News reports indicate that Robinhood's actions to restrict trading of certain securities, such as GameStop stocks, "suggest that the stock trading platform may not have had enough cash on hand to stay within regulatory rules for brokerage firms," potentially

¹² Washington Post, "Robinhood and Citadel's relationship comes into focus as Washington vows to examine stock-market moves," Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

¹³ Yahoo! Finance, "The Citadel Link: What Ken Griffin Has to Do With GameStop," Katherine Burton and Sridhar Natarajan, January 31, 2021, <https://finance.yahoo.com/news/citadel-ken-griffin-gamestop-200000130.html>.

¹⁴ Washington Post, "Robinhood and Citadel's relationship comes into focus as Washington vows to examine stock-market moves," Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

¹⁵ Wall Street Journal, "GameStop Frenzy Puts Spotlight on Trading Giant Citadel Securities," Alexander Osipovich, January 31, 2021, <https://www.wsj.com/articles/gamestop-frenzy-puts-spotlight-on-trading-giant-citadel-securities-11612089000>.

¹⁶ Robinhood, "Keeping Customers Informed Through Market Volatility," blog post, January 28, 2021, <https://blog.robinhood.com/news/2021/1/28/keeping-customers-informed-through-market-volatility>.

because “Robinhood may have been exposed to too much risk associated with margin trading.”¹⁷ Are these reports accurate?

- a. Does Robinhood disclose the number of customers who hold margin accounts – which allows customers to borrow money from Robinhood to buy stocks – to federal regulators? If so, what is the average total margin among Robinhood margin account holders?
- b. Reports revealed that potential cash flows issues “could have put Robinhood out of compliance with very basic regulatory rules that every brokerage is required to follow.”¹⁸ According to one analyst, “[t]his raises the question of if [Robinhood was] negligent in their management of their net capital and other regulatory obligations.”¹⁹
 - i. Please describe in detail any findings of noncompliance with laws or regulations governing Robinhood’s platform or business practices during or preceding the recent market volatility.
 - ii. Please describe in detail any conversations that Robinhood’s senior leadership had with staff of financial regulatory agencies regarding the recent market volatility.
3. Reports indicate that “Robinhood routes more than half of its customer orders to Citadel [Securities], by far its largest market-making partner by volume.”²⁰
 - a. Please describe in detail the relationship between Robinhood and Citadel Securities.
 - b. Did Robinhood engage in any discussions with any Citadel businesses or affiliates prior to Robinhood reaching its decision to institute restrictions on trading for GameStop and other stocks? If so, please provide a full description of these discussions.
 - c. What user data does Robinhood share with Citadel Securities, and on what terms?
 - d. How much revenue does Robinhood earn from its contractual relationship with Citadel Securities?

¹⁷ Vice, “Experts Say Robinhood’s GameStop Fiasco Likely Caused By Lack of Cash,” Jason Koebler, January 28, 2021, <https://www.vice.com/en/article/wx8bp/experts-say-robinhood-gamestop-fiasco-likely-caused-by-lack-of-cash>.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ Washington Post, “Robinhood and Citadel’s relationship comes into focus as Washington vows to examine stock-market moves,” Douglas MacMillan and Yeganeh Torbati, January 29, 2021, <https://www.washingtonpost.com/business/2021/01/29/robinhood-citadel-gamestop-reddit/>.

- e. Does Robinhood have similar contracts with other large hedge funds, private equity funds, or other large financial services firms? If so, please provide a full description of these relationships.
4. Please describe Robinhood's requirements for addressing customers' complaints and grievances, in particular Robinhood's use of forced arbitration requirements.
 - a. Please explain in the detail the terms of the arbitration processes that Robinhood customers are mandated to participate in when seeking relief.
 - b. How many consumer complaints has Robinhood fielded from customers that were required to use the arbitration process to address their concerns?
 - c. How many of these customers went through the arbitration process?
 - d. What was the outcome of these cases?
 - e. In cases where Robinhood lost in arbitration, was the settlement, or any part of it, made public?

Thank you for your consideration of this important matter, and I look forward to your response.

Sincerely,



Elizabeth Warren
United States Senator

CC:

Allison Herren Lee, Acting Chair, Securities and Exchange Commission
Robert Cook, President and Chief Executive Officer, Financial Industry Regulatory Authority