

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 92115 / June 4, 2021**

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

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**In the Matter of**

**Robinhood Financial, LLC**

**Respondent.**

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**NOTICE OF PROPOSED PLAN OF  
DISTRIBUTION AND OPPORTUNITY  
FOR COMMENT**

Notice is hereby given, pursuant to Rule 1103 of the United States Securities and Exchange Commission's ("Commission") Rules on Fair Fund and Disgorgement Plans ("Commission's Rules"), 17 C.F.R. § 201.1103, that the Division of Enforcement has submitted to the Commission a proposed plan of distribution (the "Proposed Plan") for the distribution of monies paid in the above-captioned matter.

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")<sup>1</sup> against Robinhood Financial, LLC (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."<sup>2</sup>

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<sup>1</sup> Securities Act Rel. No. 10906 (Dec. 17, 2020).

<sup>2</sup> Exchange Act Rule 10b-10(d)(8) defines "payment for order flow" as including 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.

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 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.

## **OPPORTUNITY FOR COMMENT**

Pursuant to this Notice, all interested persons are advised that they may obtain a copy of the Plan from the Commission's public website at <http://www.sec.gov/litigation/fairfundlist.htm>. Interested persons may also obtain a written copy of the Plan by submitting a written request to Noel Gittens, United States Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5876. All persons who desire to comment on the Plan may submit their comments, in writing, no later than thirty (30) days from the date of this Notice:

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](mailto:rule-comments@sec.gov).

Comments submitted by email or via the Commission’s website should include “Administrative Proceeding File No. 3-20171” in the subject line. Comments received will be publicly available. Persons should submit only information they wish to make publicly available.

## **THE PROPOSED PLAN**

The Net Available Fair Fund<sup>3</sup> is comprised of \$65,000,000.00 in civil money penalties paid by the Respondent, plus interest and income earned thereon, minus all taxes, fees, and other expenses of distributing the Net Available Fair Fund. The Proposed Plan provides for the distribution the Net Available Fair Fund to Robinhood customers who were harmed as a result of Robinhood’s omissions and false and misleading disclosures during the Harm Period described in the Order.

For the Commission, by its Division of Enforcement, pursuant to delegated authority.<sup>4</sup>

Vanessa A. Countryman  
Secretary

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<sup>3</sup> All capitalized terms used herein but not defined shall have the same meanings ascribed to them in the Proposed Plan.

<sup>4</sup> 17 C.F.R. § 200.30-4(a)(21)(iii).