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December 16, 2020

GALVIN CHARGES ROBINHOOD OVER GAMIFICATION AND OPTIONS TRADING

Secretary of the Commonwealth William F. Galvin has charged Robinhood Financial, LLC over the company's aggressive tactics to attract inexperienced investors, its use of gamification strategies to manipulate customers, and its failure to prevent frequent outages and disruptions on its trading platform.

The administrative complaint filed against Robinhood by Galvin's Securities Division is the first enforcement action of the Massachusetts Fiduciary Rule that Galvin began enforcing in September.

The complaint states that Robinhood employed advertising and marketing techniques meant to target younger, inexperienced investors. Robinhood, which earns revenue for trades executed by its customers, gave customers with no investment experience the ability to make a potentially unlimited number of trades, without properly screening them to be approved for options trading.

According to the company, the median age of a Robinhood customer is 31 years old and approximately 68% of Massachusetts customers approved for options trading on Robinhood report having limited or no investment experience. As of this month, Robinhood had nearly half a million Massachusetts customers whose accounts were valued at a total of more than \$1.6 billion.

Robinhood uses the promise of free stock to attract new customers and employs gamification strategies to lure customers into consistent participation and engagement, the complaint states. Confetti rains down on the screen of the app after each trade and customers are encouraged to interact with the app repeatedly to move up a waitlist for early access to new products.

"As a broker-dealer, Robinhood has a duty to protect its customers and their money," Galvin said. "Treating this like a game and luring young and inexperienced customers to make more and more trades is not only unethical, but also falls far short of the standards we require in Massachusetts."



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As a result of these aggressive marketing tactics, Robinhood's customer base has grown exponentially in recent years, but the complaint alleges that the company has failed to keep up with its rapidly expanding customer base. The company's failure to maintain an adequate infrastructure has resulted in frequent outages and disruptions which have negatively impacted Massachusetts investors.

"Despite its inability to maintain an adequate infrastructure, Robinhood continues to invite more and more customers to open accounts, and once these accounts are open, encourages customers to use the platform constantly," the complaint states. "Once individuals become customers, Robinhood relentlessly bombards them with a number of strategies designed to encourage and incentivize continued and repeated engagement with its application."

According to the complaint, Robinhood experienced approximately 70 outages from the beginning of the year, through the end of November. One of the worst outages lasted for nearly two days, March 2-3, which meant that customers were unable to access their accounts on the day that the Dow Jones Industrial Average saw its largest one-day gain to date. Only one week later, Robinhood experienced another outage amid a stock market plunge.

With the complaint, the Securities Division is seeking an administrative fine and an order requiring Robinhood to engage an independent compliance consultant to review its platform and infrastructure, as well as its policies and procedures.

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