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February 12, 2021

The Honorable Elizabeth Warren
309 Hart Senate Office Building
Washington, DC 20510

Response to February 2, 2021 Letter re: Robinhood

Dear Senator Warren,

I write in response to your letter, dated February 2, 2021, regarding the measures taken by Robinhood¹ in response to the recent market volatility. We appreciate your interest in this matter, and welcome the opportunity to describe why RHS decided temporarily to restrict the purchase of certain securities on January 28, 2021. We continue to prioritize our customers and our mission to increase access to investing, and we believe the steps taken by RHS reflect this commitment. Should additional responsive information become available, we respectfully reserve the right to supplement this response as appropriate.

* * *

1. Robinhood announced on January 28, 2021 that it was restricting “transactions for certain securities to position closing only,” 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.

As brokerage firms, RHF and RHS have many financial requirements, including U.S. Securities and Exchange Commission (“SEC”) net capital obligations and clearinghouse deposit requirements. Some of these requirements fluctuate based on volatility in the markets and can be substantial in the current environment. These requirements exist to protect investors and the markets, and we take our

¹ Unless otherwise specified, references to Robinhood herein refer collectively to Robinhood Markets, Inc. (“RHM”), Robinhood Financial LLC (“RHF”), and Robinhood Securities, LLC (“RHS”). RHM wholly owns RHF, which acts as an introducing broker for its customers by taking their trade orders. RHM also wholly owns RHS, which, as a member of SEC-registered clearinghouses, serves as a clearing broker for RHF. In that capacity, RHS executes customer orders received from RHF by routing them to market makers and also clears and settles trades for RHF.



responsibilities to comply with them seriously, including through the measures taken by RHS to temporarily limit customer purchases of certain securities.

In late January 2021, trading activity in a small number of stocks triggered massive volatility that prompted clearinghouses to take swift action to increase deposit requirements. These deposits are the collateral RHS posts to ensure access to clearinghouse services on behalf of Robinhood’s customers. In a matter of days, RHS’s clearinghouse-mandated deposit requirements related to stocks increased ten-fold. This led us to put temporary buying restrictions on a small number of securities, including GameStop, which accounted for hundreds of millions of dollars in deposit requirements. Consistent with our customer agreement, we took steps to limit buying in those securities to ensure we could meet our deposit requirements. We met and have continued to meet these requirements.

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.

When opening an account with RHF, all customers are required to sign a customer agreement, in which the customer acknowledges that RHF retains authority, in its “sole discretion and without prior notice,” to restrict customer trading activity.² Agreements with these terms are standard across the industry.³

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

By January 28, Robinhood customers could not trade GameStop, among other stocks, on margin. Other brokers took similar actions.⁴ As described above, RHS restricted trading in certain securities,

² See Ex. A (RHF & RHS Customer Agreement (last updated Dec. 30, 2020)) ¶ 5(F) (“I understand Robinhood may at any time, in its sole discretion and without prior notice to Me, prohibit or restrict My ability to trade securities.”); *id.* ¶ 16 (“I understand that Robinhood may, in its discretion, prohibit or restrict the trading of securities . . . in any of My Accounts.”).

³ See SEC Office of Investor Education & Advocacy, *Thinking About Investing in the Latest Hot Stock?*, SEC (Jan. 30, 2021), <https://www.sec.gov/oiea/investor-alerts-and-bulletins/risks-short-term-trading-based-social-media-investor-alert>. (“[B]roker-dealers may reserve the ability to reject or limit customer transactions. This may be done for legal, compliance, or risk management reasons, and is typically discussed in the customer account agreement. In certain circumstances, broker-dealers may determine not to accept orders where a transaction presents certain associated compliance or legal risks.”).

⁴ Charles Schwab, eToro, E*Trade, Freetrade, Interactive Brokers, M1 Finance, Public, Revolut, TD Ameritrade, Trading 212, and Webull all either restricted trading or tightened certain restrictions on



including GameStop, as a risk management measure. RHS met the deposit requirements imposed by the clearinghouse on January 28 and has continued to meet those requirements to date. RHM also raised additional capital, a significant portion of which is being held as regulatory capital by RHS and can be deployed in the event deposit requirements increase significantly in the future.

- 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?**

Under current rules, RHF is not required to collect and disclose the number of customers who hold margin accounts.

- 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.” 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.”**

- 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.**

During the relevant period, RHF and RHS were in compliance with the SEC’s net capital requirements, and remain so through the present. To the best of our knowledge, Robinhood has acted in compliance with all other applicable laws and regulations related to the market volatility during the relevant period.

- ii. Please describe in detail any conversations that Robinhood’s senior leadership had with staff of financial regulatory agencies regarding the recent market volatility.**

Robinhood has been in regular communications with the SEC, Financial Industry Regulatory Authority (“FINRA”), and other self-regulatory organizations regarding the recent market volatility events.

these stocks. See Harry Robertson, *Robinhood, Webull, MI and these other platforms have resumed trading of GameStop and AMC shares*, MARKETS INSIDER (Jan. 29, 2021, 2:39 PM), <https://markets.businessinsider.com/news/stocks/robinhood-webull-m1-reopen-gamestop-stock-trading-2021-1-1030019926>.



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.”

a. Please describe in detail the relationship between Robinhood and Citadel Securities.

Like other clearing brokers, RHS routes customer trade orders to market makers, including Citadel Execution Services (which is an SEC registered broker-dealer), to execute RHS’s customers’ orders. RHS receives rebates for directing customer orders to market makers in an arrangement known as “payment for order flow.” This payment for order flow practice is regulated by the SEC, and RHS complies with its disclosure obligations under SEC Rule 606. Citadel Execution Services is one of seven market makers to which RHS routes customer orders. No Citadel entity including, but not limited to, Citadel Execution Services, holds any ownership stake directly, or to Robinhood’s knowledge indirectly, in Robinhood.⁵

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.

RHS is in regular dialogue with all of the market makers to which it routes customer orders including, among others, Citadel Execution Services. RHS’s decision to impose limits on purchases of certain securities was not prompted by nor the result of any such discussions.⁶ We have attached for your reference documentation regarding communications related to the decision to impose limits on certain securities.⁷

c. What user data does Robinhood share with Citadel Securities, and on what terms?

Robinhood does not share customer data beyond customer orders with any of RHS’s market makers. As stated above, RHS routes customer orders to market makers for order execution.

⁵ See Ex. B (Robinhood Financial LLC, Robinhood Securities, LLC & Robinhood Markets, Inc.’s Mem. Law Opp’n Pl.’s *Ex Parte* Appl. TRO & Order Showing Cause Prelim. Inj., *Cobos v. Robinhood Fin. LLC*, No. 21-cv-00835-VAP-MRW (C.D. Cal. Feb. 8, 2021), ECF Nos. 27-27-3) at 18.

⁶ See Ex. B at 142 (Decl. of James Swartwout).

⁷ See *id.*



d. How much revenue does Robinhood earn from its contractual relationship with Citadel Securities?

Consistent with its regulatory obligations under SEC Rule 606, RHS discloses on a quarterly basis its payment for order flow arrangements with market makers. RHS's Rule 606 disclosures are publicly available on Robinhood's website.⁸

In comparison, other major online brokers also route a significant portion of their customers' orders to Citadel Execution Services for order execution.

TD Ameritrade Clearing, Inc. - December 2020

S&P 500 Stocks

Venue - Non-directed Order Flow	Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
Citadel Execution Services	38.22	44.28	42.56	20.03	52.03
Virtu Americas, LLC	20.73	23.16	21.19	5.74	34.24
G1 Execution Services	16.15	30.03	29.42	12.92	8.74
UBS Securities, LLC	14.20	1.03	3.89	36.93	1.12
Two Sigma Securities, LLC	8.93	0.96	2.42	22.91	0.85

Non-S&P 500 Stocks

Venue - Non-directed Order Flow	Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
Citadel Execution Services	38.30	44.21	42.48	19.06	53.05
Virtu Americas, LLC	21.60	23.28	21.96	7.79	34.78
G1 Execution Services	15.08	29.80	29.03	8.80	7.20
UBS Securities, LLC	13.74	1.09	3.53	37.45	0.81
Two Sigma Securities, LLC	9.24	1.09	2.49	24.85	0.61

Options

Venue - Non-directed Order Flow	Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
Citadel Execution Services	44.67	44.81	44.76	44.49	45.15
Global Execution Brokers LP	35.08	44.50	44.05	34.85	26.33
Dash Financial	9.47	4.55	4.91	8.90	16.24
Wolverine Execution Services	6.43	3.45	3.58	8.82	1.52

⁸ See Robinhood Securities LLC - Held NMS Stocks and Options Order Routing Public Report, 4th Quarter, 2020 (Jan. 25, 2021, 11:07), <https://cdn.robinhood.com/assets/robinhood/legal/RHS%20SEC%20Rule%20606a%20and%20607%20Disclosure%20Report%20Q4%202020.pdf> (reflecting Q4 2020 Rule 606 Report).



Charles Schwab - December 2020

S&P 500 Stocks

Venue - Non-directed Order Flow	Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
Citadel Execution Services	31.08	32.02	30.36	27.32	40.32
Virtu Americas, LLC	26.73	26.75	24.17	24.83	36.12
G1 Execution Services, LLC	22.66	23.09	25.32	23.82	13.02
UBS Securities, LLC	13.99	13.05	14.46	16.87	8.66
Two Sigma Securities, LLC	4.68	5.03	5.38	4.70	1.57
Cboe EDGX Exchange, Inc.	0.54	0.07	0.28	1.50	0.21
Nasdaq Execution Services, LLC	0.31	0.00	0.03	0.96	0.11

Non-S&P 500 Stocks

Venue - Non-directed Order Flow	Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
Citadel Execution Services	30.46	30.44	30.58	27.54	40.55
Virtu Americas, LLC	26.21	24.42	24.59	25.19	39.43
G1 Execution Services, LLC	23.12	25.22	24.61	23.38	11.07
UBS Securities, LLC	14.56	14.36	14.64	16.90	7.43
Two Sigma Securities, LLC	4.78	5.53	5.37	4.61	1.30
Cboe EDGX Exchange, Inc.	0.54	0.03	0.17	1.45	0.14
Nasdaq Execution Services, LLC	0.33	0.00	0.03	0.93	0.08

Options

Venue - Non-directed Order Flow	Non-Directed Orders (%)	Market Orders (%)	Marketable Limit Orders (%)	Non-Marketable Limit Orders (%)	Other Orders (%)
Citadel Execution Services	34.56	33.14	33.47	33.16	38.25
Global Execution Brokers LP	30.25	29.99	29.70	29.49	31.94
Wolverine Execution Services, LLC	18.53	18.96	19.44	20.65	14.24
Dash Financial Technologies, LLC	8.70	12.34	11.05	9.53	4.30
Morgan Stanley & Co., LLC	7.95	5.57	6.34	7.17	11.28

At this time, RHS does not expect the data reflected in its Rule 606 disclosures for Q4 2020 to materially change by the end of the current quarter. RHS can make its Rule 606 disclosures for Q1 2021 available to your office following their release at the end of the quarter.

- 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.**

Robinhood does not have any contracts with hedge funds or private equity funds regarding customer order execution. RHS currently has payment for order flow arrangements with seven other market makers: G1X Execution Services, LLC, Global Execution Brokers, LP, Morgan Stanley & Co.,



LLC, Two Sigma Securities, LLC, Virtu Americas, LLC, and Wolverine Securities, LLC, and Wolverine Execution Services LLC.⁹

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 detail the terms of the arbitration processes that Robinhood customers are mandated to participate in when seeking relief.

When customers sign up for accounts, they must acknowledge their agreement to the terms set forth in the operative customer agreement. The disclosures in RHF’s customer agreements regarding arbitration are consistent with RHF’s and RHS’s regulatory obligations under FINRA Rule 2268, which governs requirements when pre-dispute arbitration agreements are used. In particular, the customer agreements include the language set forth in FINRA Rule 2268(a).¹⁰ Further, as required by FINRA Rule 2268(b)(1), the operative customer agreement sets forth, before the customer indicates acceptance, that it contains a pre-dispute arbitration clause and refers to where that clause is located.¹¹

⁹ *See id.*

¹⁰ *See* Ex. A ¶ 38. The language set forth in FINRA Rule 2268, which is identical to the customer agreements, is as follows:

This agreement contains a predispute arbitration clause. By signing an arbitration agreement the parties agree as follows: (1) All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed. (2) Arbitration awards are generally final and binding; a party’s ability to have a court reverse or modify an arbitration award is very limited. (3) The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings. (4) The arbitrators do not have to explain the reason(s) for their award unless, in an eligible case, a joint request for an explained decision has been submitted by all parties to the panel at least 20 days prior to the first scheduled hearing date. (5) The panel of arbitrators may include a minority of arbitrators who were or are affiliated with the securities industry. (6) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court. (7) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

¹¹ *See* Ex. A at 1 (“I also understand that by clicking ‘submit application’ I have acknowledged that this agreement contains a predispute arbitration clause in Section 38 herein.”).



b. How many consumer complaints has Robinhood fielded from customers that were required to use the arbitration process to address their concerns?

As stated above at 4(a), under the operative customer agreement and consistent with FINRA regulations, all RHF customers agree to adhere to the terms of the pre-dispute arbitration clause. As of February 11, there are 24 arbitrations pending. RHF is open to reviewing its use of arbitration and will continue to be guided by what is in its customers' best interests with respect to resolving customer complaints.

c. How many of these customers went through the arbitration process?

One of the cases initiated in 2020 pursuant to the FINRA arbitration process under FINRA Rule 2268 resulted in a final determination by a FINRA arbitrator.

d. What was the outcome of these cases?

A FINRA panel issued a \$0 award for the one case initiated in 2020 that resulted in a final determination.

e. In cases where Robinhood lost in arbitration, was the settlement, or any part of it, made public?

As noted above, a FINRA panel issued a \$0 award for the one case initiated in 2020 that resulted in a final determination. All cases that have been finally determined by a FINRA arbitrator are publicly available on FINRA's website.¹²

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¹² See <https://www.finra.org/arbitration-mediation/arbitration-awards-online>.



Thank you for the opportunity to address these issues. We would be happy to schedule a follow-up conversation at your convenience.

Sincerely,

/s/ Lucas Moskowitz

Lucas Moskowitz
Deputy General Counsel & Head of
Government Affairs
Robinhood Markets, Inc.

cc:

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