



BRAD SHERMAN
UNITED STATES CONGRESS

PH: (202) 225-5911
FAX: (202) 225-5879

July 13, 2020

Mr. Vladimir Tenev
Co-Founder and Co-CEO

Mr. Baiju Bhatt
Co-Founder and Co-CEO

Robinhood
85 Willow Road
Menlo Park, CA 94025

Dear Mr. Tenev and Mr. Bhatt,

We are writing to raise a number of investor protection concerns regarding the Robinhood trading platform. Robinhood has been very successful in marketing itself as an easy to use and low-cost brokerage service among first-time retail investors, especially in recent months. By seeking to cultivate a customer base of relatively inexperienced investors, you have also taken on an especially great responsibility to make sure your customers are protected and always provided with clear and accurate information.

In a number of instances in recent months, the Robinhood trading platform has experienced outages. In one case, users appear to have been locked out from making trades for up to 17 hours during a period of historic market volatility.¹ While Robinhood has made public statements committing to address the source of this issue, it remains an ongoing concern.

More recently, we were alarmed and saddened by the heartbreaking news of Alex Kearns's death by suicide, which seems to have been related to his Robinhood account displaying a negative balance of \$730,000. Although Robinhood has kept many of the facts regarding Kearns's account and trading activity private, based on information which has been made public, we have a number of serious concerns. It would appear that Mr. Kearns, who described himself as a "20-year-old with no income," was approved by Robinhood to trade options using margin. While we expect that Robinhood's minimum requirements for options trading and approval for a margin account are consistent with the law and Financial Industry Regulatory Authority's (FINRA) regulations, this is nonetheless concerning.

¹ Forbes, "Why Did The Robinhood App Go Down This Time?," Smith, Kelly Anne, June 3, 2020. Available at: <https://www.forbes.com/sites/advisor/2020/06/03/why-did-the-robinhood-app-go-down-this-time/#3d8476431c0e>



Furthermore, news reports have indicated that Mr. Kearns's account displayed a negative "cash" balance of \$730,000 as a result of performing a "bull put spread" options trade. As you know, a bull put spread generally involves simultaneously purchasing and selling put options in a way that provides a measure of insulation from potential losses. Media reports have also suggested that using Robinhood, Mr. Kearns could have either put together this trade manually and performed each of the separate buy and sell transactions himself, or that this bull put spread was a pre-packaged product offered by Robinhood. If the former was the case, then Mr. Kearns would have been authorized to make trades that could have reasonably resulted in major investment losses. If the latter is true, and Mr. Kearns had not experienced a \$730,000 loss, then Robinhood clearly failed in its responsibility to provide him with clear and accurate information. In either case, the circumstances regarding this heartbreaking episode are highly alarming.

In response to this tragedy, in a June 19, 2020, statement titled "Commitments to Improving Our Options Offering," you announced planned improvements to Robinhood's user interface. These improvements include changes to emails and in-app messages that customers receive, to Robinhood's in-app history page, and to how information is displayed on Robinhood's user interface. In this statement you also indicated plans to hire an "Options Education Specialist." However, a number of serious questions remain as to whether these proposed changes will have any meaningful impact on the ways your platform enables and encourages inexperienced investors to engage in high risk trading.

Currently, Robinhood's website states that it is required to create levels of options trading that determine who can execute specific strategies, depending primarily on a user's experience trading options and the complexity of the strategy. The website further notes that although these standards affect the entire industry, each brokerage has the discretion to set specific parameters for its customers. The company website goes on to say that when a user signs up for a new account, they will automatically start with a Robinhood Instant account, which is a margin account. It further states that a Robinhood Gold account is like a Robinhood Instant account but gives a user more "buying power" and larger instant deposits.

This lack of safeguards appears to correspond with Robinhood users engaging in much more high-risk and frequent trading activity relative to customers of other retail brokerages. According to recent reporting, the number of options trades per dollar in the average customer account in the first quarter of 2020 was ten times higher on Robinhood than its next closest competitor.² As a result, Robinhood seems to be reaping outsized revenues by selling the trades of its users to third-party firms to execute the orders. By some metrics, this practice of "payment for order flow" generates between ten and almost one hundred times more earnings for Robinhood than for its three closest competitors.³

This dynamic underscores the need for Robinhood to prove that it is taking every appropriate step to make sure its customers are not being put in harms way. For Alex Kearns, and all of its users, Robinhood must do better. Therefore, we ask that you please provide responses in writing to the following questions by July 24, 2020:

² The New York Times, "Robinhood Has Lured Young Traders, Sometimes With Devastating Results," Popper, Nathaniel, July 8, 2020. Available at: <https://www.nytimes.com/2020/07/08/technology/robinhood-risky-trading.html>

³ *Id.*

1. How many levels of options trading does Robinhood have, and for each such level, what eligibility criteria does Robinhood currently use in determining whether to approve an individual? How were those criteria determined? What mechanisms are used to verify that an individual meets those criteria?
2. As of June 12, 2020, to what extent did a user's age, their Robinhood usage history, and their knowledge and experience with respect to financial matters, including the maximum profit or loss that may result from multi-leg trading strategies, factor in to Robinhood's determination of approval for each of its options trading levels? What process does Robinhood use to authenticate the age and identity of its users?
3. What is the minimum amount of time that a Robinhood user must use the platform before they can be approved for a Level 3 options trading designation, i.e. one in which the user may, in addition to executing long calls, long puts, covered calls, and cash-covered puts, also execute, as Robinhood states on its website, "the whole collection of fixed-risk spreads, including Iron Condors, Iron Butterflies, and Credit Spreads"?
4. What eligibility criteria, if any, does Robinhood currently use in determining whether to approve an individual for margin trading? How are those criteria determined? What mechanisms are used to verify that an individual meets those criteria? Is there a default limit to how much margin can be used with a Robinhood Instant account?
5. Robinhood's website notes that within its Robinhood Gold account, users can apply a "Borrowing Limit" value to help a user control how much margin they would like to use. A user may set this limit to any amount he or she chooses or remove this limit at any time. When a user first opens a Robinhood Gold account, is there any default limit to how much margin a user may use?
6. Does Robinhood ever send unsolicited messages, notifications, or other written communications to its users inviting them to apply for either a margin account or options trading approval? If so, does Robinhood maintain policies regarding how often it makes unsolicited contact with a Robinhood customer with respect to margin accounts or options trading? If so, are there any limitations on how often Robinhood sends such communications?
7. What additional eligibility criteria are you planning on adding to ensure your users fully understand the nature of their trades? What disclosure, training sessions, and education documents are Robinhood users given access to through the platform? What mechanisms are used to ensure that those materials are understood by investors?
8. Please provide details on the planned improvements and an update on the timeline for implementation. Specifically, what steps is Robinhood taking to ensure that its eligibility criteria are sufficient to protect inexperienced retail investors from being put at risk of major financial losses?

9. When Robinhood users engage in multi-leg options trades, how are the risks at the time of the trade communicated to investors? How are the investors informed of these risks? How does Robinhood ensure investors understand how the risks of options trades can change over time? How does Robinhood update disclosures over time, to properly account for changes to the risks of options trades after they been executed?
10. Please explain the avenues through which Robinhood users can contact the company for support.
- a. It is our understanding that Robinhood currently does not have a phone number that users can call for support. Does Robinhood plan to add a phone support option in the future?

We look forward to your response.

Sincerely,



BRAD SHERMAN
Chairman
Subcommittee on Investor Protection,
Entrepreneurship and Capital Markets



BILL FOSTER
Chairman
Task Force on Artificial Intelligence



LAUREN UNDERWOOD
Member of Congress



SEAN CASTEN
Member of Congress



RICHARD J. DURBIN
U.S. Senator



TAMMY DUCKWORTH
U.S. Senator