

1 Robert K. Shelquist, MN #21310X
 2 Karen H. Riebel, MN #0219770
 3 Rebecca A. Peterson, CA #241858
 4 Stephen M. Owen, MN #0399370
LOCKRIDGE GRINDAL NAUEN P.L.L.P.
 5 100 Washington Avenue South, Suite 2200
 Minneapolis, MN 55401
 6 Telephone: (612) 339-6900
 Facsimile: (612) 339-0981
 7 rkshelquist@locklaw.com
khriebel@locklaw.com
rapeterson@locklaw.com
 8 smowen@locklaw.com

9 *Additional Counsel Listed in Signature Block*

10 **Attorneys for Plaintiff**

11 **IN THE UNITED STATES DISTRICT COURT**
 12 **SOUTHERN DISTRICT OF CALIFORNIA**

13
 14 Robel Ghebrehiwet, on behalf of himself
 15 and all others similarly situated,

16 Plaintiff,

17 vs.

18
 19 ROBINHOOD FINANCIAL LLC, a
 20 Delaware corporation; ROBINHOOD
 SECURITIES, LLC, a Delaware
 21 corporation; and ROBINHOOD
 22 MARKETS, INC., a Delaware
 corporation,

23 Defendants.
24

Case No. '21CV214 AJB RBB

**CLASS ACTION COMPLAINT
FOR:**

1. **Violation of the Consumer Legal Remedies Act – Cal. Civil Code §§ 1750 et seq.**
2. **Breach of Fiduciary Duty**
3. **Violation of Business & Professions Code §§ 17200, et seq.**

JURY TRIAL DEMANDED

1 Plaintiff Robel Ghebrehiwet (“Plaintiff”). by and through his attorneys,
2 brings this class action lawsuit against Defendants Robinhood Financial LLC;
3 Robinhood Securities, LLC; and Robinhood Markets, Inc. (“Defendants” or
4 “Robinhood”), on behalf of himself and all others similarly situated and alleges,
5 upon personal knowledge, information, belief, and the investigation of his
6 counsel.
7
8

9 **NATURE OF ACTION**

10 1. Founded in 2013, Robinhood is a multi-billion online brokerage firm
11 and website investment service that places stock trade orders on behalf of users like
12 Plaintiff and Class members. According to its website, Robinhood is on a “mission
13 to democratize finance for all” with the belief that “the financial system should be
14 built to work for everyone.” (About Us, ROBINHOOD (2021),
15 <https://robinhood.com/us/en/about-us/> (last visited January 29, 2021). The average
16 age of Robinhood customer is 28-41, and half of Robinhood’s customers do not have
17 any experience in securities trading.
18
19
20

21 2. Robinhood touts “commission-free” trading, does not require
22 customers to maintain a minimum account balance, and allows customers to engage
23 in one-click trading with simple access to complex investment products. As such,
24 Robinhood encourages its customers to make frequent trades, as Robinhood is paid
25 more if its customers complete more trades. During the first three months of 2020,
26
27
28

1 Robinhood users traded nine times as many shares as E-Trade customers and 40
2 times as many shares as Charles Schwab customers.

3
4 3. Robinhood is subject to state and federal securities laws, and also owes
5 a duty to its customers to obtain the most favorable trade terms and prices possible,
6 *i.e.*, the duty of “best execution.” This duty requires Robinhood to consider price,
7 order size, and trading characteristics of the security, as well as potential for price
8 improvement. The duty of best execution also requires Robinhood to regularly and
9 rigorously review the quality of its customer order executions.
10

11
12 4. From September 1, 2016, through June 16, 2020, Robinhood breached
13 its duty of best execution and its duty of loyalty by abusing a practice in which it
14 negotiated and received “payments for order flow” (PFOF) at four times the industry
15 standard from the principal trading firms through which it routed its customers’
16 orders. In turn, these trading firms would recoup their payments to Robinhood by
17 providing Robinhood customers, including Plaintiff and the Class, less price
18 improvement¹ on their trades or no price improvement at all. In other words,
19
20
21

22
23 ¹ “Price Improvement” is a phenomenon that occurs when an investor order receives
24 an execution at a price superior to the best available quotation on the public quotation
25 feed at that time. Stated differently, a price improvement means executing a “buy”
26 order at a price lower than the lowest prevailing offer, or executing a “sell” order at
27 a price higher than the highest prevailing bid. Price Improvement creates a financial
28 benefit to the investor, as the investor receives a better price than he or she would
have received had the order been executed at the national best bid and offer on the
public quotation feed.

1 Robinhood explicitly offered to accept less price improvement for its customers
2 from principal trading firms, in exchange for receiving a higher rate of payment for
3 order flow for itself. Thus, while Robinhood reaped huge profits from these
4 arraignments, Plaintiff and the Class suffered harm as they received inferior
5 execution prices than they otherwise would have received.
6

7
8 5. Robinhood did not disclose that it generated most of its revenue from
9 these PFOF transactions, and did not disclose their negative impact on its customers'
10 trades during this period. Rather, Robinhood affirmatively concealed the PFOF it
11 received and the corresponding poor price improvement passed through to its
12 customers.
13

14
15 6. Robinhood's material omissions, misrepresentations, and concealment
16 of its PFOF arrangements and the inferior execution prices they caused was a breach
17 or Robinhood's fiduciary duty to Plaintiff and the Class, California's Consumer
18 Legal Remedies Act, Civil Code §§ 1750, *et seq.*; and California's Unfair
19 Competition Law, Bus. & Prof. Code §§ 17200, *et seq.*
20

21 7. Plaintiff seeks damages and restitution on behalf of himself and the
22 class.
23

24 JURISDICTION AND VENUE

25
26 8. This Court also has jurisdiction pursuant to the Class Action Fairness
27 Act, 28 U.S.C. § 1332(d)(2)(a) because the amount in controversy, exclusive of
28 interest and costs, exceeds the sum or value of \$5,000,000 and this is a class action

1 in which there are numerous Class members who are citizens of states different from
2 Defendants.

3
4 9. This Court has personal jurisdiction over Defendants, who are citizens
5 of California, and conduct business in California, including the Southern District,
6 and a substantial portion of the acts complained of herein took place in California.

7
8 10. Venue is proper pursuant to 28 U.S.C. §1391(b) because a substantial
9 part of the events or omissions giving rise to the claims occurred in this judicial
10 district, and Plaintiffs' cause of action arose in this district.

11
12 **PARTIES**

13 11. Plaintiff Robel Ghebrehiwet is an adult citizen of California and resides
14 in San Diego County. Plaintiff is 33 years old and is therefore within Robinhood's
15 target market. At all times material hereto, Plaintiff acquired the Robinhood mobile
16 phone application and utilized it to acquire, trade and hold securities in California.
17 On or around October 2019, Plaintiff created a Robinhood account, and in February
18 2020, used Robinhood's brokerage services to complete his first trade. Since then,
19 Plaintiff has executed hundreds of trades, including numerous limit orders and
20 options trading. Plaintiff chose to use Robinhood because, among other reasons, he
21 believed that Robinhood achieved best execution on client trade orders. Plaintiff
22 relied on Robinhood's represented compliance with its duties of best execution and
23 that all investment transactions would be made in compliance with state and federal
24 law as stated in Robinhood's Customer Agreements, and Plaintiff reasonably
25
26
27
28

1 expected Robinhood would comply with its duty of best execution, duty of
2 undivided loyalty to him, duty to fully disclose to him all material facts, duty to
3 refrain from acting adverse to his best interests, and duty to act in good faith. Plaintiff
4 did not know about Robinhood's PFOF arrangements and their adverse effect on his
5 trade execution prices. Plaintiff could not have learned from any publicly available
6 source how much price improvement he lost on his orders as a result of Robinhood's
7 actions. Had Plaintiff known that Robinhood had negotiated substantial PFOF for
8 itself and therefore diminishing the execution quality of his trades, Plaintiff would
9 not have utilized Robinhood's brokerage services. As a result of Robinhood's PFOF
10 arrangements and breach of its duty of best execution, Plaintiff incurred losses on
11 all trades he executed during the Class Period. Plaintiff was also injured because
12 Robinhood's public misrepresentations and poor execution quality impugned the
13 integrity of the trade executions by, among other things, adversely affecting the
14 prices he and the Class members received on their investments. Plaintiff did not
15 know of Robinhood's PFOF arrangements, their adverse effect on the price
16 improvements realized on his trade orders, and that Robinhood was not fulfilling its
17 best execution duties on his behalf, until such facts became publicly available. The
18 amount of Plaintiff's losses can be determined through documents in Robinhood's
19 possession and expert analyses of same.

26
27 12. Defendant Robinhood Markets, Inc. is a financial service holding
28 company incorporated in Delaware with its principal place of business located at 85

1 Willow Road, Menlo Park, CA 94025. It is the holding company for Defendants
2 Robinhood Financial LLC and Robinhood Securities, LLC. Defendant Robinhood
3
4 Markets, Inc. is a named party to the Robinhood Terms & Conditions Agreement
5 governing Robinhood’s website and mobile applications. Defendant Robinhood
6 Markets, Inc. facilitated, participated in, and communicated the PFOF
7
8 misrepresentations and omissions to Plaintiff and Class members and concealed their
9 detrimental effect on the execution prices Plaintiff and Class members realized on
10 their trade orders.

11
12 13. Defendant Robinhood Financial LLC is a Delaware corporation with
13 its principal place at 85 Willow Road, Menlo Park, California 94025. It is a wholly-
14 owned subsidiary of Robinhood Markets, Inc. and an affiliate of Defendant
15 Robinhood Securities, LLC. Robinhood Financial, LLC is registered as a broker-
16 dealer with the U.S. Securities & Exchange Commission (“SEC”). Defendant
17 Robinhood Financial LLC, acts as an introducing broker-dealer, offering brokerage
18 services to retail investors and allowing customers to open online accounts and
19 electronically deposit funds. It is a named party to the Robinhood Terms &
20 Conditions Agreement governing Robinhood’s website and mobile applications. It
21 is also a party to the Robinhood Customer Agreements, governing the purchase, sale,
22 or carrying of securities or contracts and/or relating thereto and/or the borrowing of
23 funds. Defendant Robinhood Financial LLC facilitated, participated in, and
24 communicated the PFOF misrepresentations and omissions to Plaintiff and Class
25
26
27
28

1 members and concealed their detrimental effect on the execution prices Plaintiff and
2 Class members realized on their trade orders.
3

4 14. Defendant Robinhood Securities, LLC is a Delaware corporation with
5 its principal place of business at 500 Colonial Center Parkway, Suite 100, Lake
6 Mary, Florida 32746. It is a wholly-owned subsidiary of Defendant Robinhood
7 Markets, Inc. and a registered as a broker-dealer with the SEC and full service
8 securities firm. Once a customer creates an account with Robinhood Financial LLC,
9 Defendant Robinhood Securities is the custodian of customers' funds and the
10 securities customers purchase. Defendant Robinhood Securities services customer
11 accounts; executes, clears, and settles customer trades; prepares and distributes
12 customer account statements and trade confirmations; and extends credit to customer
13 margin accounts. It is a party to the Robinhood Customer Agreements governing the
14 purchase, sale, or carrying of securities or contracts relating thereto and/or the
15 borrowing of funds, which transactions are cleared through it. Defendant Robinhood
16 Securities, LLC facilitated, participated in, and communicated the PFOF
17 misrepresentations and omissions to Plaintiff and Class members and concealed their
18 detrimental effect on the execution prices Plaintiff and Class members realized on
19 trade orders.
20
21
22
23
24
25
26
27
28

FACTUAL ALLEGATIONS

Duties Robinhood Owed to Customers as Broker Dealer

1
2
3
4 15. Robinhood is a registered broker-dealer with the Securities Exchange
5 Commission and a member of the Financial Industry Regulation Authority
6 (“FINRA”). It offers self-directed securities brokerage services to customers through
7
8 its website and smartphone applications.

9 16. In March 2015, Robinhood began offering retail brokerage accounts to
10 the general public, targeting young adults with little investing experience by
11 promising “commission-free” and “discount” services. By November 2020,
12 Robinhood had 13 million approved customer accounts. The average age of
13 Robinhood’s customers is 28-41, and many of them use Robinhood to make their
14
15 first stock purchase.

16
17 17. Robinhood owes a duty of loyalty to act in its customer’s best interest
18 and must satisfy a duty of best execution, which among other requirements,
19 encompasses a duty to act exclusively in its customer’s best interests and use
20 reasonable diligence to execute a transaction in the shortest time possible, maximize
21 the likelihood that the transaction is executed in its entirety and, where possible, seek
22 price improvement to obtain the best price available. Fulfilling its duty of best
23 execution requires Robinhood to perform regular and rigorous reviews of the quality
24 of its customer order executions, which includes comparing and benchmarking its
25 execution quality against competitor broker-dealers to determine whether it is
26
27
28

1 obtaining the best terms reasonably available for customer orders. When Robinhood
2 receives a trade order from a client and routes the order to a venue for execution, it
3
4 must fulfill its duty of loyalty to act in its customers' best interest and its duty of best
5 execution.

6 18. Robinhood does not send its customer orders to national exchanges;
7
8 rather, Robinhood routes its customers' orders to Robinhood Securities for clearing
9 and further routing to principal trading firms. Then, these principal trading firms
10 attempt to profit from executing large volumes of retail buy and sell orders either by
11 taking the other side of customer orders and exiting the positions at a profit, also
12 known as "internalization," or by routing the orders to other market centers.

13
14 19. Principal trading firms offer incentives to retail broker-dealers, such as
15 Robinhood, to send them orders. One such incentive is "payment for order flow,"
16 defined in Rule 10b-10(d)(8) of the Securities Exchange Act of 1934 ("the Exchange
17 Act") to include any monetary payment, service, property, or other benefit that
18 results in remuneration, compensation, or consideration to a broker-dealer in return
19 for the routing of customer orders. Since it began operating as a broker-dealer,
20 Robinhood, like other retail broker-dealers, has received payment for order flow in
21 exchange for routing its customer orders to principal trading firms. SEC rules permit
22 the receipt of payment for order flow by broker-dealers as long as it does not interfere
23 with the efforts of broker-dealers to obtain best execution, and as long as the routing
24 of that order flow, and a description of all terms of any such arrangements that may
25
26
27
28

1 influence the broker-dealer's order routing decision, are disclosed in quarterly
2 reports filed pursuant to Rule 17 C.F.R. § 242.606 ("Rule 606").
3

4 20. Another incentive that principal trading firms may provide to retail
5 broker-dealers is "price improvement" on customer executions. Price improvement
6 occurs when a customer order receives an execution at a price that is superior to the
7 best available quotation then appearing on the public quotation feed. In other words,
8 a price improvement occurs when executing a "buy" order at a price lower than the
9 lowest prevailing offer or executing a "sell" order at a price higher than the highest
10 prevailing bid. Price improvement creates a financial benefit for the customer, since
11 the customer receives a better price than he or she would have received had the order
12 been executed at the national best bid and offer ("NBBO") on the public quotation
13 feed. In practice, most retail broker-dealers obtain price improvement on the vast
14 majority of customer orders that they send to principal trading firms.
15
16
17

18 21. PFOF, unlike price improvement, has the potential to create a conflict
19 of interest between the broker-dealer and its customer because payment for order
20 flow is a benefit that goes to the broker-dealer itself, whereas other incentives that
21 may be obtained for routing order flow, such as price improvement, benefit the
22 broker-dealer's customers. Robinhood's duty of best execution, accordingly,
23 requires it prevent PFOF from interfering with its efforts to secure the most favorable
24 execution prices and trade terms.
25
26
27
28

1 22. During the Class Period, Robinhood negotiated PFOF arrangements
2 with principal trading firms that significantly reduced the price improvement its
3 customers received. Robinhood did not disclose its PFOF and the adverse effect the
4 payments had on the price improvement customers received. Instead, Robinhood
5 misrepresented that its execution quality and speed exceeded those of other
6 brokerages.
7
8

9 **Robinhood's Extortionate PFOF Arrangements**

10 23. Initially, Robinhood relied on another broker-dealer to provide both
11 clearing and order execution services for Robinhood customer orders. That broker-
12 dealer routed Robinhood customer orders to principal trading firms, received PFOF
13 in return, and shared a portion of that PFOF flow with Robinhood.
14
15

16 24. During the first half of 2016, Robinhood decided to start routing
17 customer orders through Robinhood Securities directly to principal trading firms and
18 cease relying on the other broker-dealer for order execution routing services. By
19 doing so, Robinhood could earn additional payment for order flow revenue.
20

21 25. In or around May 2016, Robinhood began negotiations with a number
22 of principal trading firms about potentially routing Robinhood customer orders to
23 those entities. During those negotiations, certain of the principal trading firms told
24 Robinhood that there was a trade-off between PFOF on the one hand and price
25 improvement on the other: if Robinhood negotiated for higher PFOF, according to
26
27
28

1 the principal trading firms, there would be less money available for the principal
2 trading firms to provide price improvement to Robinhood's customers.

3
4 26. Robinhood was also told, by at least one principal trading firm, that
5 large broker-dealers that receive PFOF typically receive four times as much price
6 improvement for customers than they do PFOF themselves – an 80/20 split of the
7 value between price improvement and PFOF. Nonetheless, Robinhood negotiated
8 the exact opposite split, with only 20% going to its customers and 80% going to
9 directly to it in the form of PFOF. In mid-2017, when one of the principal trading
10 firms to which Robinhood routed order flow informed Robinhood it would no longer
11 agree to pay Robinhood's unusually high payment for order flow rates and pay a
12 lower PFOF rate, Robinhood stopped routing customer orders to that principal
13 trading firm.

14
15
16
17 27. Robinhood's acute focus on obtaining the highest PFOF interfered with
18 its duty of best execution. *See Battalio, et al., Can Brokers Have it All? On the*
19 *Relation between Make-Take-Fees and Limit Order Execution Quality*, Dec. 15,
20 2013, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2367462
21 (last February 1, 2021); see also *Schwab v. E*Trade Fin. Corp.*, 258 F. Supp. 3d
22 418, 427 (S.D. N.Y. 2017) (“a broker-dealer’s focus on obtaining the highest amount
23 of PFOF tends to interfere with best execution”). As noted at a hearing before the
24 Permanent Subcommittee on Investigations of the Senate’s Committee on Homeland
25 Security and Governmental Affairs by Joseph Brennan, the Vanguard Group’s Head
26
27
28

1 of Global Equity Index Group, some broker-dealers, like Vanguard, do not accept
2 order flow payments because of the inherent conflict of interest that such payments
3 automatically produce. *See also* CFA INSTITUTE, Payment for Order Flow,
4 Internalisation, Retail Trading, Trade-Through Protection, and Implications for
5 Market Structure, July 2016, available at [https://www.cfainstitute.org/-](https://www.cfainstitute.org/-/media/documents/issue-brief/payment-for-order-flow.ashx)
6 [/media/documents/issue-brief/payment-for-order-flow.ashx](https://www.cfainstitute.org/-/media/documents/issue-brief/payment-for-order-flow.ashx) (last visited Jan.
7 February 1, 2021) (PFOF effectively banned by UK Financial Services Authority
8 because it “creates a conflict of interest in brokers’ best execution obligations to their
9 clients”); UK FINANCIAL SERVICES AUTHORITY, Finalised Guidance on the
10 practice of ‘Payment for Order Flow,’ May 2012, available at
11 <https://www.fca.org.uk/publication/finalised-guidance/fg12-13.pdf> (last visited Jan.
12 15, 2021) (“PFOF arrangements create a clear conflict of interest between the clients
13 of the firm and the firm itself. Therefore, it is unlikely to be compatible with ... best
14 execution rules”).
15

16
17
18
19
20 28. In September 2016, Robinhood began routing customer orders directly
21 and solely to principal trading firms using the 80/20 PFOF/price improvement split
22 arrangement. Around the same time, Robinhood formed a “Best Execution
23 Committee” to monitor the speed and the prices at which the principal trading firms
24 were executing Robinhood customer orders. The Committee met at least once per
25 month and included Robinhood’s General Counsel. In 2017, Robinhood developed
26 a proprietary routing algorithm designed to make the principal trading firms with
27
28

1 which Robinhood had arrangements compete for order flow by routing customer
2 orders to the principal trading firm that provided the most price improvement for
3 that stock over the last 30 days. This routing algorithm, however, did not take into
4 account Robinhood's high PFOF rates or execution prices that may be available at
5 venues that did not agree to pay those rates. Thus, from October 2016 through at
6 least June 2020, Robinhood was not obtaining much price improvement on its
7 customer orders in equity securities, particularly on orders of 100 shares or more.

10 29. The Best Execution Committee did not conduct adequate, regular, and
11 rigorous reviews to ensure that Robinhood was satisfying its best execution
12 obligations. The Committee took no steps to determine whether Robinhood's high
13 PFOF rates were having a negative impact on the execution prices that Robinhood's
14 customers received. The Committee did not consider how Robinhood's price
15 improvement statistics compared to those of other retail broker-dealers, or to the
16 retail order execution market generally, until October 2018. In October 2018, the
17 Committee learned that, for most execution quality metrics, including the percentage
18 of orders receiving price improvement, Robinhood's quality was worse than that of
19 its competitors.
20
21
22
23

24 30. By March 2019, Robinhood had conducted a more extensive internal
25 analysis, showing that its execution quality and price improvement metrics were
26 substantially worse than other retail broker-dealers in many respects, including the
27 percentage of orders that received price improvement and the amount of price
28

1 improvement, measured on a per order, per share, and per dollar traded basis. The
2 internal report stated “[n]o matter how we cut the data, our % orders receiving price
3 improvement lags behind that of other retail brokerages by a wide margin.” And the
4 margin widened the larger the order. For example, Robinhood learned that for most
5 orders of more than 100 shares, customers would be better off trading at another
6 broker-dealer, where they would get additional price improvement exceeding the \$5
7 per-order commission costs those broker-dealers would have charged them. For
8 orders over 500 shares, the average Robinhood customer lost more than \$15 per
9 order in price improvement compared to Robinhood’s competitors. That loss rose to
10 more than \$23 per order for orders over 2,000 shares. As a result, between October
11 2016 and June 16, 2020, Robinhood orders lost over \$34.1 million in price
12 improvement compared to the price improvement they would have received had they
13 been placed at competing retail broker-dealers, even after the \$5 per-order broker
14 commission costs. In effect, for each trade executed during the Class Period, a better
15 price was available and, but for Robinhood’s conduct, Plaintiff and Class members
16 would have received those better prices. Senior Robinhood personnel were aware of
17 this analysis.
18
19
20
21
22
23

24 31. Despite Robinhood’s poor execution quality and price improvement,
25 the Best Execution Committee did nothing to ensure Robinhood met its best
26 execution duty. From October 2016 through June 16, 2020, when Robinhood had
27 implemented all recommendations as required by a Letter of Acceptance, Waiver
28

1 and Consent entered into between Robinhood and FINRA, Robinhood failed to
2 achieve best execution quality while at the same time making misrepresentations,
3 omitting material information, and actively concealing its revenue sources and poor
4 execution quality from its clients.
5

6 **Robinhood’s Misrepresentations, Omissions, Concealment of Its Revenue**
7
8 **Sources, and Poor Execution Policy.**

9 32. In 2014, prior to its public launch, Robinhood published an FAQ on its
10 website providing information about the company and its anticipated brokerage
11 operations. The first version of the FAQ disclosed that Robinhood anticipated
12 receiving PFOF in its answer to the question “How does Robinhood make money?”
13 After Robinhood published the FAQ page, however, Robinhood removed the PFOF
14 discussion from its FAQ discussion in December 2014 after media sources began
15 criticizing PFOF. Robinhood then moved this discussion to a separate page
16 dedicated to PFOF. This new FAQ page stated that the PFOF revenue Robinhood
17 received at the time was “indirect” and “negligible.” The new FAQ also stated if
18 PFOF ever became a direct or significant source of revenue, Robinhood would
19 inform customers of those facts on the “How does Robinhood make money” FAQ
20 page.
21
22
23
24

25 33. By the end of 2016, Robinhood was generating a significant amount of
26 revenue and it knew that the majority of that revenue (more than 80%) came from
27 PFOF. However, contrary to what the company originally said in its PFOF FAQ, it
28

1 did not disclose this to its customers, either on its website or through its customer
2 service agents who it uniformly instructed to “avoid” talking about PFOF and it was
3 “incorrect” to identify PFOF in response to customer inquiries regarding how
4 Robinhood makes money. Robinhood also did not revise its customer agreements,
5 which simply stated “[t]he nature and source of any payments or credits received by
6 Robinhood in connection with any specific transactions will be furnished upon
7 written request.” Instead, Robinhood removed all mention of PFOF from its website
8 at some point in 2016.
9
10

11
12 34. Robinhood did, however, update its FAQ page in 2016 and 2017 to
13 disclose two other, smaller revenue sources: subscription-based memberships and
14 interest on securities lending. The version of the “How Robinhood Makes Money”
15 FAQ page that was posted on Robinhood’s website from approximately April 2017
16 through September 2018 stated: “Robinhood earns revenue by collecting interest on
17 the cash and securities in Robinhood accounts, much like a bank collects interest on
18 cash deposits.” And when customers directly asked about Robinhood’s revenue, they
19 were given false, misleading, and incomplete information, as Robinhood instructed
20 its customer service agents to direct customers to, and respond using, the language
21 on the FAQ page, which failed to mention that PFOF was one of the company’s
22 revenue sources.
23
24
25

26
27 35. When Robinhood negotiated its 80/20 PFOF arrangements, it did not
28 disclose to its clients that it had agreed to accept less price improvements than what

1 the principal trading firms were offering in order to receive a higher rate of PFOF
2 for itself.

3
4 36. Robinhood, however, did disclose some information about its PFOF
5 revenue as required in SEC-mandated reports pursuant to Rule 606, which it posted
6 on the “Disclosure Library” page of its website along with other legally-mandated
7 disclosures. However, Robinhood did not feature the “Disclosure Library” or the
8 reports contained in that library prominently in its communication strategy, like it
9 did with the “How Robinhood Makes Money” FAQ page. Retail customers are not
10 likely to have seen this information or understood it.
11
12

13 37. Further, Robinhood did not disclose the percentage of its revenue from
14 PFOF arrangements, their negative effect on the price improvement realized for its
15 customers’ trades, and the resulting poor execution quality. Instead, Robinhood hid
16 these material facts from its customers, as Robinhood’s new FAQ page stated
17 Robinhood’s “execution quality and speed matches or beats what’s found at other
18 major brokerages[,]” despite Robinhood’s knowledge that its execution quality was
19 significantly inferior to that of its competitors. Robinhood did not remove this claim
20 until June 2019 after the Security Exchange Commission’s Office of Compliance
21 Inspections and Examinations raised concerns about it, but its failure to fulfil its duty
22 of best execution throughout the Class Period.
23
24
25
26
27
28

1 **CLASS ALLEGATIONS**

2 38. Plaintiff seeks relief on behalf of himself and as a representative of all
3
4 others who are similarly situated. Pursuant to Fed. R. Civ. P. Rules 23(a) and (b)(3),
5 Plaintiff seeks certification of a Nationwide class defined as follows:

6 All persons who used Robinhood’s brokerage services between
7 September 1, 2016 and June 16, 2020 to place investment orders in
8 connection with which Robinhood received payment for order flow (the
9 “Class”).

10 39. In the alternative, Plaintiff seeks certification pursuant to Fed. R. Civ.
11 P. Rules 23(a) and (b)(3) of a California-Only class defined as follows:

12 All California citizens who used Robinhood’s brokerage services between
13 September 1, 2016 and June 16, 2020 to place investment orders in connection
14 with which Robinhood received payment for order flow (the “Class”).

15 40. Excluded from the Classes are Robinhood and any of its affiliates,
16 parents, or subsidiaries; all persons who make a timely election to be excluded from
17 the Class; government entities; and the judges to whom this case is assigned, their
18 immediate families, and court staff.

19
20 Plaintiff hereby reserves the right to amend or modify the Class definitions
21 with greater specificity or division after having had an opportunity to conduct
22 discovery.

23 41. The proposed Classes meet the criteria for certification under Rules
24 23(a) and (b)(3).
25

26 42. **Numerosity.** Fed. R. Civ. P. 23(a)(1). The members of the Classes are
27 so numerous that the joinder of all members is impractical. Robinhood had
28 approximately 13 million user accounts in November 2020. Upon information and

1 belief, Plaintiff states that there are at least hundreds of thousands of Class members
2 who have been damaged by Robinhood’s conduct as alleged herein. The precise
3 number of Class members is unknown to Plaintiff but can be readily ascertained
4 from Robinhood’s records.
5

6 **43. Commonality and Predominance. Fed. R. Civ. P. 23(a)(2) and**
7 **(b)(3).** This action involves common questions of law and fact, which predominate
8 over any questions affecting individual Class members. These common legal and
9 factual questions include, but are not limited to, the following:
10

11 (a) whether Robinhood’s misrepresentations and omissions discussed
12 above are false, misleading, or reasonably likely to deceive;
13

14 (b) whether Robinhood violated the UCL and CLRA
15

16 (c) whether Robinhood’s conduct constitutes breach of fiduciary duties
17 and/or the duty of best execution; and
18

19 (d) whether Plaintiff and Class members are entitled to appropriate
20 remedies, including damages and restitution.
21

22 **44. Typicality. Fed. R. Civ. P. 23(a)(3).** Plaintiff’s claims are typical of
23 those of other Class members. All claims depend on Robinhood’s uniform course of
24 conduct described herein, and any factual differences in individual Class members’
25 claims are rooted in the same cause. Plaintiff’s damages and injuries are akin to other
26 Class members, all of those injuries and damages arise from Robinhood’s uniform
27 conduct, and Plaintiff seeks relief consistent with the relief sought by the Classes.
28

1 **45. Adequacy. Fed. R. Civ. P. 23(a)(4).** Plaintiff is an adequate
2 representative of the Class because he is a member of the Classes he seeks to
3
4 represent, he is committed to pursuing this matter against Robinhood to obtain relief
5 for the Classes, and has no conflicts of interest with the Class members. Furthermore,
6 Plaintiff's counsel are competent and experienced in litigating class actions,
7
8 including litigation of this kind. Plaintiff intends to vigorously prosecute this case
9 and will fairly and adequately protect the interests of the Class members.

10 **46. Superiority Fed. R. Civ. P. 23(b)(3).** A class action is superior to all
11 other available means for the fair and efficient adjudication of this controversy, and
12 no unusual difficulties are likely to be encountered in the management of this class
13 action. The paramount purpose of a class action mechanism is to permit litigation
14 against any wrongdoers even when damages to an individual plaintiff may not be
15 sufficient to justify individual litigation. The Classes are largely comprised of
16 individuals without much investing experience, not large institutional investors.
17 Thus, the damages suffered by Plaintiff and Class members are relatively small
18 compared to the burden and expense required to individually litigate their claims
19 against Robinhood, and therefore individual litigation to redress Robinhood's
20 wrongful conduct would be impracticable. Individual litigation by each Class
21 member would also strain the court system, increase the delay and expense to all
22 parties, and create the potential for inconsistent or contradictory judgments. By
23 contrast, the class action device presents far fewer management difficulties and
24
25
26
27
28

1 provides the benefits of a single adjudication, economies of scale, and
2 comprehensive supervision by a single court.
3

4 47. Unless a Class is certified, Robinhood will retain monies receives as a
5 result of its conduct that were undertaken from Plaintiff and Class members.
6

7 **COUNT I**
8 **Violation of the Consumer Legal Remedies Act – Cal. Civil Code §§ 1750 *et***
9 ***seq.***

10 48. Plaintiff repeats and realleges the allegations contained in the
11 paragraphs above, as if fully set forth herein.

12 49. Plaintiff brings this cause of action pursuant to the Consumer Legal
13 Remedies Act, California Civil Code §§ 1750, *et seq.* (the “CLRA”).
14

15 50. Plaintiff is a “consumer” as defined by the CLRA § 1761(d). The
16 securities at issue are “goods” as defined by the CLRA § 1761(a). Robinhood’s
17 services are “services” as defined by the CLRA § 1761(b).
18

19 51. By use of the false and misleading statements and omissions set forth
20 herein, Robinhood violated the CLRA by engaging in the following practices
21 proscribed by the CLRA § 1770(a) in transactions with Plaintiff and Class members
22 which were intended to result in, and did result in, the sale of securities and services:
23

24 (5) Representing that goods or services have . . . characteristics, . . .
25 [and] benefits . . . that they do not have . . . ;

26 (7) Representing that goods or services are of a particular standard,
27 quality, or grade . . . [when] they are of another
28

1 (9) Advertising goods or services with an intent not to sell them as
2 advertised;

3 (13) Making false or misleading statements of fact concerning
4 reasons for, existence of, or amounts of, price reductions;

5 (14) Representing that a transaction confers or involves rights,
6 remedies, or obligations that it does not have or involve; and

7 (16) Representing that the subject of a transaction has been supplied
8 in accordance with a previous representation when it has not.

9
10 52. Pursuant to § 1782(d) of the CLRA, Plaintiff and Class members seek
11 a Court order for injunctive relief, and reserve the right to amend the Complaint for
12 an order seeking damages under § 1782.

13 53. Robinhood’s conduct is fraudulent, wanton, and malicious.

14
15 54. Pursuant to § 1780(d) of the CLRA, attached hereto as Exhibit B is the
16 affidavit showing that this action has been commenced in the proper forum.

17
18 **COUNT II**

19 **Breach of Fiduciary Duty**

20 55. Plaintiff repeats and realleges the allegations contained in the
21 paragraphs above, as if fully set forth herein.

22
23 56. As providers of financial services and registered securities investment
24 dealers, Robinhood was a fiduciary to Plaintiff and Class members, and owed them
25 the highest good faith and integrity in performing financial services and acting as
26 securities brokers on their behalf.
27
28

1 57. Plaintiff and Class members placed their trust and confidence in
2 Robinhood to handle their investments, which Robinhood accepted, thereby creating
3 a fiduciary relationship giving rise to certain fiduciary duties, including but not
4 limited to those duties described in its Customer Agreements and those imposed as
5 matter of law, including: the duties of undivided loyalty, to refrain from engaging in
6 unfair transactions, to fully disclose all material facts, to refrain from obtaining or
7 accepting any advantage over Plaintiff and Class members, and to act in accordance
8 with its duty of best execution.
9
10

11 58. Robinhood also maintains discretionary control over customer
12 accounts, thus assuming all the fiduciary responsibilities associated with its
13 discretion to exercise trades and other transactions with or without customer
14 direction.
15
16

17 59. Robinhood breached its fiduciary duties to Plaintiff and Class member
18 by, *inter alia*, failing to provide best trade execution quality by prioritizing its profits
19 through PFOF at the expense of the price improvements otherwise available on its
20 customers' trades.
21

22 60. Robinhood's conduct has caused Plaintiff and Class members harm,
23 loss, and damages in an amount to be determined at trial.
24
25
26
27
28

COUNT III

Violation of Business & Professions Code §§ 17200, *et seq.*

1
2
3 61. Plaintiff repeats and realleges the allegations contained in the
4 paragraphs above, as if fully set forth herein.
5

6 62. Plaintiff brings this cause of action pursuant to California’s Business &
7 Professions Code §§ 17200, *et seq.* (the “UCL”)
8

9 63. The UCL prohibits acts of unlawful and unfair competition, including
10 any “unlawful, unfair or fraudulent business act or practice,” any “unfair, deceptive,
11 untrue or misleading advertising” and any act prohibited by Business & Professions
12 Code § 17500.
13

14 64. Robinhood has committed business acts and practices that violate the
15 UCL by breaching its duties of best execution, undivided loyalty, good faith, and to
16 refrain from unlawful conduct including disseminating unlawful, unfair, deceptive,
17 untrue, and misleading advertising in connection with its sale of securities brokerage
18 services, as described herein; and violating the various laws asserted herein.
19

20
21 65. The conduct of Robinhood as alleged above also constitutes unfair
22 competition in that the acts and practices offend public policy and are unethical,
23 oppressive, and unscrupulous, and are substantially injurious to the public.
24

25 66. Plaintiff and Class members have suffered injury in fact and lost money
26 or property as a result of Robinhood’s conduct because they engaged in a broker-
27 client relationship with Robinhood in reliance on the materially false and misleading
28

1 statements and omissions, which they otherwise would not have done, and placed
2 trade orders which they otherwise would not have placed, which received inferior
3 execution quality compared to the prices available on the market through other
4 brokerages. For each of Plaintiff and Class members' trades executed during the
5 Class Period, a better price was available than the price they received through
6 Robinhood and, but for Robinhood's wrongdoing alleged herein, Plaintiff and Class
7 members would have received those superior prices.
8

9
10 67. Plaintiff and Class members are entitled to restitution and all other relief
11 this Court deems appropriate, consistent with the UCL § 17203.
12

13 **PRAYER FOR RELIEF**

14
15 Wherefore, Plaintiff prays for a judgment:

- 16 (a) Certifying the Classes as requested herein;
17
18 (b) Awarding damages, restitution and disgorgement of Robinhood's
19 revenues to Plaintiff and Class members;
20
21 (c) Awarding attorneys' fees and costs; and
22 (d) Providing such further relief as may be just and proper.

23 **DEMAND FOR JURY TRIAL**

24 Plaintiff hereby demands a trial of his claims by jury to the extent authorized
25 by law.
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

DATED: February 3, 2021

Respectfully submitted,

LOCKRIDGE GRINDAL NAUEN P.L.L.P.

s/ Rebecca A. Peterson

Robert K. Shelquist, MN #21310X

Karen H. Riebel, MN #0219770

Rebecca A. Peterson, CA #241858

Stephen M. Owen, MN #0399370

100 Washington Avenue South, Suite 2200

Minneapolis, MN 55401

Telephone: (612) 339-6900

Facsimile: (612) 339-0981

rkshelquist@locklaw.com

khriebel@locklaw.com

rapeterson@locklaw.com

smowen@locklaw.com

Leo Kandinov, CA #279650

BARR LAW GROUP

501 W Broadway Suite 800

San Diego, CA 92101

Telephone: (619) 400-4966

Leo@barrlaw.com

Attorneys for Plaintiff

ClassAction.org

This complaint is part of ClassAction.org's searchable [class action lawsuit database](#)
