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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

ISAAC LANDRETH and JAIME MARQUEZ, Individually and on Behalf of All Others Similarly Situated, Plaintiff, vs. ROBINHOOD FINANCIAL, LLC, ROBINHOOD SECURITIES, LLC, AND ROBINHOOD MARKETS LLC, Defendants.	CASE NO.: **CLASS ACTION COMPLAINT** **(1) VIOLATIONS OF SECTION 10(B) OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 10B-5;** **(2) VIOLATIONS OF THE CALIFORNIA UNFAIR COMPETITION LAW;** **(3) BREACH OF FIDUCIARY DUTY** **(4) BREACH OF IMPLIED COVENANT OF GOOD FAITH & FAIR DEALING;** **(5) NEGLIGENCE;** **(6) UNJUST ENRICHMENT; AND** **(7) VIOLATIONS OF THE MAINE UNFAIR TRADE PRACTICES ACT** **DEMAND FOR JURY TRIAL**

Plaintiffs Isaac Landreth and Jaime Marquez ("Plaintiffs") allege the following based upon the investigation of their counsel, which included a review of, among other things, United States Securities and Exchange Commission ("SEC") filings by Robinhood Financial, LLC ("Robinhood" or the "Company"), as well as regulatory filings and reports, press releases and other public statements issued by Robinhood, and various agreements between Robinhood and its clients, except for allegations regarding his own acts, which are based on knowledge:

NATURE OF THE ACTION

1. This is a class action on behalf of all clients of Robinhood who placed trade orders with Robinhood between September 1, 2016, and June 30, 2019, (the "Class Period") which were not executed in accordance with Defendant's duty to secure the best execution available. Plaintiffs assert claims for violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and SEC Rule 10b-5; violations of the California Unfair Competition Law; breach of fiduciary duty; breach of the implied covenant of good faith and fair dealing; negligence; unjust enrichment; and violations of the Maine Unfair Trade Practices Act, on behalf of themselves and all similarly-situated customers of Robinhood, a wholly owned subsidiary of co-defendant Robinhood Markets, Inc.

2. Robinhood is a privately-owned financial services company that offers its customers the ability to self-direct their investments in stocks, ETFs, options, and cryptocurrency through its website and mobile application. Since its launch in 2015, Robinhood has grown into a multi-billion-dollar enterprise. With the stated mission to "democratize finance for all,"[1] the Company has targeted young adults—the median age of a Robinhood user is thirty one[2]—and

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[1] Our Mission, Robinhood.com, *available at* https://robinhood.com/us/en/support/articles/our-mission/ (*last visited* Feb.19, 2021).

[2] *In re Robinhood Financial LLC*, Administrative Complaint, Docket No. E-2020-0047 (the "Massachusetts Complaint"), *available at* https://www.sec.state.ma.us/sct/current/sctrobinhood/MSD-Robinhood-Financial-LLC-Complaint-E-2020-0047.pdf.

novice investors through youth-forward marketing and an interface that "gamifies" investing.[3] Robinhood encourages its largely unsophisticated customer base to trade frequently, most notably by promising "commission-free investing" and offering "unlimited commission-free trades in stocks, funds, and options."[4]

3. Robinhood's customers pay a hidden cost on each trade, however, one which often exceeds the cost Robinhood's competitors' commissions. Robinhood accomplished this sleight of hand through undisclosed arrangements that generate substantial profit for Robinhood in exchanged for inferior execution quality for each and every one of its customers' trades. In order to conceal these arrangements, the sizable revenue resulting therefrom, and their impact on customer trade execution prices, Robinhood omitted, misrepresented, and concealed material facts from its customers and the public. The SEC found that this scheme cost Robinhood's customers approximately $34.1 million "even after netting the approximately $5 per-order commission costs" charged by Robinhood's competitors.[5]

4. Robinhood, like all broker-dealers, owes its customers the duty of best execution. Under Financial Industry Regulation Authority ("FINRA") and SEC rules, this duty requires Robinhood to conduct "reasonable diligence to ascertain the best market for the subject security

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[3] *See*, *id.* at 12-14 (discussing Robinhood's strategies to encourage investor engagement with its application).

[4] https://robinhood.com/; https://robinhood.com/signup.

[5] *In re* Robinhood Financial, LLC, SEC Admin. Proceeding, File No. 3-20171 (Dec. 17, 2020) (order instituting administrative cease and desist proceedings) (hereinafter "Cease and Desist Order") at 10.

and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions."[6]

5. Throughout the Class Period, Robinhood sought to conceal its practice of routing customer orders to a group of outside trading firms (the "Trading Partners") in exchange for compensation. This compensation is remitted to Robinhood either as "liquidity rebates" or "payment for order flow" (together, "PFOF") (*i.e.*, revenue to the Company) or "price improvement" (*i.e.*, improved prices for customer trade executions). Robinhood negotiated a compensation split that reduced price-improvement for its customers in order to boost its own revenues—approximately 20 per cent of the order flow compensation went to price improvement, while 80 per cent went to Robinhood. This inverted the industry standard, generating 400 per cent more revenue than the typical PFOF split, and reducing price improvement by 75 per cent. It was a lucrative arrangement: Robinhood's PFOF payments constituted the majority of its revenue during the Class Period.

6. Until late 2018, Robinhood wholly concealed the fact that it generated revenue from PFOF, let alone that most of its revenue came from PFOF or that its arrangements deviated from industry standards. Throughout the Class Period Robinhood continually acknowledged that it owes its clients a duty of best execution and claimed to consider factors relevant to fulfilling such duty when routing clients' orders. It also expressly stated that its execution quality matched or surpassed competing retail brokers. After the media raised concerns about its PFOF arrangements in late 2018, Robinhood acknowledged that it relied on PFOF revenue while maintaining that its order execution quality was equal to or better than its competitors. This claim

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[6] FINRA Rule 5310.

was false, and senior personnel at Robinhood knew that it was false at the time, but the misleading statements remained on Robinhood's website until the end of June 2019.

7. Robinhood's reliance on PFOF revenue and its poor execution quality are material facts. The Company omitted, concealed, and misrepresented its order flow practices and its execution quality to continue growing its customer base and encourage its customers to continue trading. Plaintiffs and other members of the Class relied on Defendant's misrepresentations regarding PFOF and execution quality, as well as Defendant's omissions regarding its reliance on PFOF, in continuing to use Robinhood's trading platform.

8. Robinhood's failure to disclose these material facts regarding its actual order routing practices and execution quality caused Plaintiffs and the Class substantial harm in the form of, *inter alia*, higher prices for purchase orders, lower prices for sale orders, slower executions, lesser fill rates, and exposure to a greater risk of adverse selection, than they could have obtained by using a broker than fulfilled its legal and regulatory duties to provide best execution.

9. Robinhood's material omissions and misrepresentations regarding its PFOF arrangements and execution quality were a breach of Robinhood's fiduciary duty to Plaintiffs and the Class and violated section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, among other laws.

10. Plaintiffs hereby seek, on behalf of themselves and all similarly-situated clients of Robinhood, damages as well as restitution of benefits unjustly received by Robinhood at their expense.

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