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June 10, 2025

VIA ELECTRONIC SUBMISSION

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006-1506

Re: ***Regulatory Notice 25-04*** **(FINRA Launches Broad Review to Modernize Rules Regarding Member Firms and Associated Persons)**

Dear Ms. Mitchell:

Robinhood Financial LLC and Robinhood Securities, LLC[1] (together, "Robinhood") are broker-dealers registered with the U.S. Securities and Exchange Commission ("SEC") and are members of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Robinhood respectfully submits this letter in response to the above-referenced request by FINRA for comment on modernizing the regulatory requirements applicable to FINRA member firms and their associated persons.[2]

FINRA's request is a breath of fresh air. Many of FINRA's rules are based on implicit premises that no longer hold. The variation in business models among FINRA members is far wider than it was when many of the rules were drafted (in many cases decades ago). Business practices that were once universal—such as charging customers commissions for trades and providing products and services over the phone or in brick-and-mortar locations—no longer are. Fractional or notional trading of shares, the elimination of minimum charges, and the ability to invest and trade on mobile devices have dramatically reduced barriers to entry. In sum, the modernization of FINRA's rules is long overdue, so we welcome this initiative as a key step towards a more rational framework for regulation.

Robinhood was founded on the principle that increased participation in the market by more investors is a good thing for all. Robinhood is proud that as a result of its innovation and technology, first-time and other retail investors are able to participate in the U.S. markets and join in the wealth creation that institutional and high-net-worth investors have taken advantage of for decades. Robinhood's mission is to democratize finance for all by providing access to investing regardless of a customer's income or wealth. Using technology to open the markets to retail investors from all backgrounds and remove traditional barriers to investing is central to our mission, and we have made investing and trading more accessible to many investors by eliminating account minimums and trading commissions and offering fractional trading.[3]

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[1] Both of these firms are wholly owned subsidiaries of Robinhood Markets, Inc.

[2] In accordance with the instructions in Regulatory Notice 25-04, Robinhood is not commenting in this letter on FINRA's rules regarding capital formation and the modern workplace.

[3] In recent years there has been a significant increase in the number of new investors participating in the securities markets. *See, e.g.*, FINRA Investor Education Foundation, *The Changing Landscape of Investors*

It is imperative that FINRA act quickly to modernize its rules. FINRA has moved slowly and failed to act on previous retrospective rule reviews[4] in spite of broad consensus within the industry about a number of common-sense reforms. The costs of FINRA's outdated rules are immense and continue to impact FINRA members and investors every day that they remain in place.

I. Costs of Outdated Rules

We emphasize that outdated and unduly burdensome rules have significant negative impacts that go well beyond the direct costs of complying with such rules. Outdated rules:

- Diminish investor protection and the integrity of the markets by requiring broker-dealers to allocate finite resources to compliance with unnecessary and ineffective regulatory requirements;
- Inhibit innovation by increasing the cost and slowing the pace of product development, and making many products and innovations infeasible;
- Decrease access to the securities markets by making it more difficult for firms to utilize alternative business models or service retail customers, particularly retail customers with small accounts;
- Prevent members from being able to effectively communicate with their customers, which impedes investors' access to useful information;
- Stifle competition, as complex rules favor larger and more established firms with the resources and economies of scale needed to comply with such rules;
- Drive talented professionals (particularly technology professionals, who can easily work in other industries and are desperately needed at many firms) away from the industry through unnecessarily burdensome and invasive compliance requirements and the threat of enforcement actions; and
- Diminish the competitiveness of brokerage firms as compared to firms providing similar products and services (e.g., investment advisers and banks), and in some cases drive investors towards unregulated and risky financial service providers.

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in the United States: A Report of the National Financial Capability Study (Dec. 2022), https://www.finrafoundation.org/sites/finrafoundation/files/NFCS-Investor-Report-Changing-Landscape.pdf ("A substantial proportion of investors joined the market relatively recently. The percentage of investors who began investing within the two years prior to the 2021 NFCS is nearly as large as the percentage who began in the preceding eight years (21 percent and 25 percent, respectively).").

[4] *See, e.g.*, FINRA Requests Comment on the Effectiveness and Efficiency of its Gifts and Gratuities and Non-Cash Compensation Rules, FINRA Regulatory Notice 14-15 (Apr. 2014); FINRA Requests Comment on the Effectiveness and Efficiency of its Membership Application Rules, FINRA Regulatory Notice 15-10 (May 2015).

II. Guiding Principles for Modernization

Before describing our specific recommendations for modernization of the FINRA rules, we set forth several principles that we believe should guide FINRA's approach to that process:

- FINRA's rules should establish clear and easily understandable standards of conduct. If a FINRA rule is so Delphic that it immediately invites varying understandings or interpretations, or is too complex for a firm's employees and customers to understand, the rule is not doing its job.

- Rules should not be one-size-fits-all and should take into account the wide range of business models among FINRA members. Rules that are designed to address specific types of activities or business models (e.g., advice-based brokerage) should be narrowly drafted so that they do not impose burdensome requirements on other activities or business models (e.g., self-directed brokerage) that don't implicate the same risks. For example, rules can be drafted on an "if . . . then" basis: "*If* a member is charging a commission to a retail customer, *then* . . . .".

- FINRA should take a fresh look at all of its rules and be open-minded about simplifying and clarifying all of its rules, and about speaking to today's members and customers in understandable terms. No rule or provision should be considered sacrosanct simply because it has been in place for decades. Legacy language that is outdated, or that never had a clear meaning to begin with, serves no purpose and should be eliminated or clarified.

- FINRA should carefully weigh the benefits of each rule against the direct and indirect costs of complying with the rule and revisit that analysis on a regular basis.

- FINRA should eliminate rules and reporting requirements that are duplicative of, or that overlap with, SEC rules. There is no need for FINRA to regulate matters that are already effectively overseen by the SEC, adding needless cost and complexity.

- FINRA should approach the review of its rules with an awareness of, and sensitivity to, modern customer behaviors and preferences, including how customers and firms use technology. While it may be appropriate for FINRA's rules to be technology-neutral, they should also be created and updated with an understanding of the ways in which customers and firms use technology, including mobile devices and artificial intelligence ("AI").

- The application and enforcement of FINRA rules should be straightforward, consistent and transparent.

III. Recommendations for Modernization

Robinhood believes that FINRA should take a broad approach in looking for opportunities to modernize its rules. Below we identify some areas that are ripe for modernization and suggest how the rules governing those areas could better serve the purposes for which they are intended. We have not attempted to catalogue all of the FINRA rules that should be changed, and we look forward to engaging with FINRA in more detail in connection with this project and future rule reviews and proposals.

A. Communications with Investors

Brokerage firms exist to meet their customers' needs. Customers want tools to analyze, buy, and sell in their own time and on their own terms. They also want access to, and reliable information about, the

cutting edge of the financial markets. In order to serve those needs, Robinhood has to move quickly, engage with investors through all modern forms of media, and provide investors with access to the information necessary to understand new markets and other financial innovations and to make intelligent decisions about them. In an age when the information cycle is measured in minutes or even seconds, rules created for a weekly or monthly cycle of advertisements in print magazines can hinder as easily as they can help. Investors have access to many other sources of information, and if brokers are unable to keep up because of overly burdensome compliance requirements, then investors will simply go elsewhere for their information, which may include unregulated, conflicted, and otherwise unreliable sources of information. FINRA should update its marketing and customer communication rules to meet modern realities:

- *Disclosure practices.* FINRA should amend Rule 2210 to allow firms to make disclosures in a manner that befits the communication subject to the disclosure. In Regulatory Notice 19-31 and its related FAQs, FINRA welcomed innovative design techniques and provided some relief from restrictive disclosure requirements,[5] but we believe that this guidance is inadequate to address modern customers' demands for timely and rapidly updated communications delivered to their mobile devices. In communications presented through mobile devices, it is cumbersome and often impractical to provide investors with the lengthy written disclosures that have traditionally accompanied written marketing materials—and highly questionable whether those disclosures are serving their intended functions. In spite of existing guidance, there are ongoing concerns about whether hyperlinked or layered disclosures can satisfy requirements or expectations regarding the prominence or proximity of disclosures. We recommend that FINRA explicitly recognize that disclosures included within a sufficiently prominent hyperlink or similar feature (e.g., a pop-up) can satisfy prominence and/or proximity requirements. It would also be helpful for FINRA to allow—or even provide models of—simplified disclosures that more accessibly deliver customers the essential points that the lengthier, legacy disclosures were originally designed to convey.

    - Similar issues can arise under SEC rules that include prominence and proximity requirements for disclosures. We request that FINRA coordinate and work closely with the SEC to provide guidance that would similarly modernize the SEC's approach to today's advertising practices and layered disclosure.[6]

- *Harmonization.* FINRA should work with the SEC to harmonize FINRA Rule 2210 with Rule 206(4)-1 under the Investment Advisers Act of 1940, which governs marketing materials issued by investment advisers (the "IA Marketing Rule"). While the amendment to Rule 2210 that FINRA adopted in 2024[7] included some welcome steps towards harmonization, it fell short of full

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5 *See* FINRA, Frequently Asked Questions About Advertising Regulation ("FINRA Advertising FAQs"), https://www.finra.org/rules-guidance/guidance/faqs/advertising-regulation.

6 The SEC has already recognized the appropriateness of layered disclosure in a number of contexts. *See, e.g.*, Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements, 87 Fed. Reg. 72758 at n. 40 ("This feedback generally showed that retail investors prefer concise, layered disclosure and feel overwhelmed by the volume of information they currently receive, with some individual investors specifically addressing and supporting a more concise, summary shareholder report."); Staff Statement Regarding Form CRS Disclosures (Dec. 17, 2021), https://www.sec.gov/newsroom/speeches-statements/staff-statement-form-crs-disclosures-121721 ("This allows firms to summarize this information while making available more detailed information for retail investors through layered disclosure.").

7 Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, To Amend FINRA Rule 2210 (Communications with the

harmonization with the IA Marketing Rule and was withdrawn by the SEC.[8] Because of the greater flexibility provided by the IA Marketing Rule with respect to certain types of performance information, broker-dealers and investment advisers are competing on an unequal playing field when advertising their services to investors.

- *Recommendations.* FINRA should also work with the SEC to modernize the definition of a "recommendation" for purposes of FINRA's suitability rule (Rule 2111) and SEC Regulation Best Interest.[9] Decades-old guidance from the National Association of Securities Dealers ("NASD") suggests that merely sending a communication to a group of customers could, in some circumstances, constitute a recommendation.[10] That guidance is terminally outdated, particularly with respect to self-directed brokers who make clear to investors that they do not provide recommendations. No reasonable customer of a self-directed firm would view a broadly disseminated communication from such a self-directed broker to be a recommendation. Moreover, the purpose of the recommendation-related rules is to manage the conflicts of interest that arise when a broker-dealer earns a commission on a transaction or stands to benefit from a customer's purchase of one security to the exclusion of another—concerns not relevant in the modern self-directed brokerage space. Self-directed broker-dealers should be able to empower investors and provide information without risk of transforming that information into a recommendation.

- *Principal approval.* Firms need to be nimble in their communications with investors, including retail investors, especially in today's fast-moving marketplace. We believe that firms can effectively supervise lower-risk retail communications without requiring that every retail communication be approved by a registered principal (as is currently required by Rule 2210(b)(1)). There is currently an exception from the preapproval requirement in Rule 2210(b)(1)(D)(iii) for "any retail communication that does not make any financial or investment recommendation or otherwise promote a product or service of the member." We believe that it would be appropriate for that exception to simply apply to "any retail communication that does not make any financial or investment recommendation," provided that a principal is still responsible for supervising any such communication (e.g., in the same manner as institutional communications under FINRA Rule 2210(b)(3)). We note that, in light of significant advancements in AI, it may be possible for firms to develop AI systems that can empower principals to efficiently and effectively supervise such retail communications without the principal needing to separately review each communication in advance.

- *Consistent application of FINRA Rule 2210.* Many of the content standards in FINRA Rule 2210(d), such as the fair and balanced standard, are subjective and involve nuanced judgment

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Public) To Permit Projections of Performance in Institutional Communications and Specified Communications to Qualified Purchasers and Knowledgeable Employees, Exchange Act Release No. 100561 (July 19, 2024).

8 *See* Letter from J. Matthew DeLesDernier, SEC, to Meredith Cordisco, FINRA (July 26, 2024) https://www.finra.org/sites/default/files/2024-07/SR-FINRA-2023-016-notice-of-review-stay.pdf.

9 *See* FINRA Rule 2111, Supplementary Material .08.

10 *See* NASD Notice to Members 01-23 (Mar. 2001) (holding that the following would constitute a recommendation: "A member uses data-mining technology (the electronic collection of information on Web Site users) to analyze a customer's financial or online activity—whether or not known by the customer—and then, based on those observations, sends (or "pushes") specific investment suggestions that the customer purchase or sell a security.").

calls when applying them in practice. We have concerns that Rule 2210 has not been enforced by FINRA in a consistent and equitable manner. Individual staff within FINRA's Advertising Regulation Department ("Ad Reg") have significant discretion to provide feedback on firms' communications, including communications that are not required to be filed with Ad Reg, that can hinder firms' communications and marketing strategies. If Rule 2210 is functioning properly, one member should not be prohibited from using a certain type of content while other members openly use such content. In order to ensure that FINRA Rule 2210 functions properly, FINRA should implement organizational and procedural safeguards that promote consistent feedback from Ad Reg staff and provide members with clear recourse when they believe that the rule is being improperly interpreted or inconsistently enforced.[11]

B. Membership, Registered Representative and Associated Persons

The rules, requirements, and processes around continuing membership applications ("CMAs"), Forms U4 and U5, and the registration of representatives present a number of opportunities for modernization:

- *CMA Process*. The requirements of Rule 1017 and related rules create significant costs for FINRA members. The CMA process itself can require significant expenditures of time and resources, but just as significantly, the CMA process creates uncertainty and delays around business changes that can inhibit innovation. Similarly, the requirement to file a CMA in connection with ownership changes and mergers and acquisition transactions adds uncertainty to such transactions that can materially impact the enterprise value of a broker-dealer. We recommend that FINRA implement broad changes to FINRA Rule 1017 and related rules and the CMA process to allow lower-risk business and ownership changes to proceed more quickly and with less uncertainty.[12] FINRA should adopt clear exemptions from the CMA requirements for certain low-risk business and ownership changes and merger and acquisition transactions. FINRA should also provide greater transparency around eligibility for the Fast Track review process, dedicate more resources to that program, and allow more CMAs to be eligible for Fast Track review.

- *Form U4*. The current version of the Uniform Application for Securities Industry Registration or Transfer ("Form U4") has been in place without any substantive changes for over 15 years.[13] We recommend that FINRA coordinate with the SEC and the states to review the entire Form U4 and study whether changes should be made to modernize the form. Of particular importance, we suggest that regulators consider eliminating, narrowing or otherwise modifying the Disclosure Questions in Item 14 to make the form more user-friendly and ensure that the information required in the form is reasonably necessary to protect investors. Specifically:

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[11] FINRA should consider moving Ad Reg from within the Office of the Chief Legal Officer to the Member Supervision Group. This change could help ensure better coordination between Ad Reg and exam teams.

[12] We note that the exception in FINRA Rule 1017(c)(1) that allows a member to effect a change of control 30 days after filing a CMA is inadequate, as most buyers and investors are unwilling to accept the risk of FINRA imposing interim restrictions or denying the application after the change of control has been effected.

[13] Forms U4 and U5 were last amended in May 2009. *See* Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc. and Order Approving a Proposed Rule Change as Modified by Amendment No. 1 and Notice of Filing and Order Granting Accelerated Approval to Filing as Amended by Amendment No. 2 Relating to Changes to Forms U4, U5, and FINRA Rule 8312, 74 Fed. Reg. 23750 (May 20, 2009).

- Item 14A(1), which currently asks whether a person has *ever* (i.e., with no time limitation) been convicted of or charged with a felony, should be changed to (i) incorporate a limited look-back period of 10 years for convictions for felonies other than financial crimes and (ii) eliminate reporting of felony charges that have been dismissed or are otherwise no longer pending. The collection of information regarding felony convictions that are older than 10 years and felony charges is not necessary for statutory disqualification determinations and can have a discriminatory impact without providing any meaningful protection to investors.[14]

- Item 14I can require reporting of pending arbitration or litigation matters that have no merit or reporting with respect to a complaint against a registered representative who had absolutely no involvement in the relevant matter simply because a customer named them in their complaint. This item should be narrowed significantly to exclude pending matters and allow the exclusion of registered representatives who are reasonably determined to have no involvement in the relevant complaint.

- *Form U5.* Like Form U4, the Uniform Termination Notice for Securities Industry Registration ("Form U5") has not changed substantively in over 15 years.[15] Again, Robinhood suggests that FINRA, the SEC and states conduct a wholesale review of the efficacy of Form U5. One area of specific focus should be the approach to the collection of information regarding the termination of registered representatives on Form U5. Currently, the requirements of Form U5 create a high-stakes scenario any time a registered representative is terminated for any reason other than "voluntary." Firms spend time, effort and resources to ensure that the information that they provide on Form U5 is accurate but also not defamatory towards the registered representative. We encourage regulators to implement changes to Form U5 and related rules so that they continue to receive information regarding terminations that implicate material risks to customers and FINRA members, while limiting the costs and unintended consequences for ordinary course terminations. Alternatively, the SEC could issue regulations preempting any private claim for damages arising from a Form U5 disclosure.

- *Registered representatives and associated persons.* FINRA's rules and guidance and the scope of registered representative and associated person status have not kept pace with evolving technology and broker-dealers' business models and operations. There is a sufficient lack of clarity as to when a person is "engaged in the investment banking or securities business of a member" and required to be a registered representative pursuant to FINRA Rule 1210 or whether the person's functions are "solely and exclusively clerical or ministerial" and exempt from registration pursuant to FINRA Rule 1230. There is a similar lack of clarity with respect to the definition of an "associated person of a member" under Article I(rr) of FINRA's Bylaws. The lack of guidance, combined with aggressive enforcement by FINRA's Department of Enforcement, has resulted in firms having to register or associate substantial numbers of personnel who have very limited substantive involvement with their broker-dealer businesses, and undertaking all of the significant compliance burdens associated with registered representative or associated person status with respect to such personnel (e.g., outside business activity and private securities transaction reviews, communication surveillance, gift and entertainment reviews,

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[14] For further information, please see the discussion in a comment letter that we submitted in response to a prior request for comment from FINRA. Letter from Robinhood Financial, LLC and Robinhood Securities, LLC to Jennifer Piorko Mitchell, FINRA, *Regulatory Notice 21-17 ("FINRA Seeks Comment on Supporting Diversity and Inclusion in the Broker-Dealer Industry")*, (June 24, 2021).

[15] *See id.*

securities account reviews). This issue is particularly acute at financial services firms with significant non-broker–dealer business, who often must prophylactically register or associate significant numbers of employees (particularly technology and other back-office personnel, who can number in the hundreds or thousands at larger firms) who have minor or tangential connection to the firm's broker-dealer business, because of the threat of enforcement. We strongly urge FINRA to issue updated registered representative and associated person definitions or interpretations that reflect the structure of modern broker-dealers and that include clear and meaningful exemptions for personnel with limited roles and that pose low risks to members and their customers. We understand that these issues overlap substantially with the fingerprinting requirements in Rule 17f-2 under the Securities and Exchange Act of 1934 (the "Exchange Act"), so we encourage FINRA to work collaboratively with the SEC to similarly modernize Rule 17f-2.

- *Permissive Registration.* FINRA should provide further guidance on Supplementary Material .02 to FINRA Rule 1210 regarding permissive licenses and when a firm may maintain an individual's registration.

C. Supervision

Broker-dealers have extensive obligations to supervise their associated persons and business activities. Because of the importance of effective supervision, it is critical that FINRA rules do not require member firms to expend resources on supervisory activities that do not provide meaningful protections to investors or the markets. We have several suggestions for how FINRA could modernize various supervisory rules to make them more efficient and targeted to material risks:

- *Gifts*. The current restrictions and recordkeeping requirements around gifts[16] have been a huge administrative burden for FINRA members without any clear benefit. There is no evidence of widespread misconduct or risk involving the small gifts that are regulated by the current rules. As any broker-dealer compliance officer can attest, countless hours have been wasted on dealing with harmless and well-meaning gifts, particularly around the end-of-year holidays. We recommend that FINRA substantially increase the current $100 limit on gifts in the FINRA rules (which has been in place for over 30 years)[17] to $500 to not only take into account historical inflation, but to also provide a cushion for future inflation and reflect the overall low risk of gifts. Additionally, FINRA should set a clear threshold of $100 for gifts of a *de minimis* value and promotional items displaying a firm's logo that are excluded from the recordkeeping and aggregation requirements of the gift rule.[18] To the extent that any FINRA member has concerns about the risk of gifts

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[16] FINRA Rule 3220 regulates gifts generally, and FINRA Rules 2310 (Direct Participation Programs), 2320 (Variable Contracts of an Insurance Company), 2341 (Investment Company Securities), and 5110 (Corporate Financing Rule – Underwriting Terms and Arrangements) effectively incorporate the limit on gifts in Rule 3220 in connection with the sale and distribution of securities covered by those rules.

[17] *See* Order Approving File No. SR-NASD-92-40, Exchange Act Release No. 31662 (Dec. 28, 1992). Although FINRA recently submitted a proposed rule change to the SEC that would increase the gift limit from $100 to $250 per person per year, Robinhood believes that $250 is still too low and continues burdensome tracking and reporting without benefit. *See* Proposed Rule Change to Amend Rule 3220 (Influencing or Rewarding Employees of others), SR 2025-003 (May 29, 2025) ("Proposed Gift Rule Amendment").

[18] Currently, FINRA guidance provides an exemption from recordkeeping requirements for promotional items whose value is substantially below the current $100 limit. *See* NASD Notice to Members 06-69 (Dec. 2006). The Proposed Gift Rule Amendment would retain the same "substantially below" standard, which we believe is unnecessarily vague. If the rule includes a specific dollar amount for the maximum annual

within their own business model, they will be free to implement policies and procedures with stricter requirements.

- *Employee securities accounts.* Another burdensome and outdated rule that firms continuously struggle with is FINRA Rule 3110(d)(1), which requires members to review transactions in associated persons' personal and family securities accounts. While the general intention behind this requirement is valid, the rule is overbroad and imposes significant compliance burdens that are not justified with respect to many firms and employees. Firms and their employees spend inordinate amounts of time (time that increases exponentially as a result of the overbroad scope of the associated person definition, as discussed in Section III.B above): (i) cataloguing employees' securities accounts and those of their family members, (ii) establishing electronic brokerage feeds from other broker-dealers, and troubleshooting issues that arise with those feeds, (iii) collecting paper account statements when an electronic brokerage feed is unavailable, (iv) training employees on the requirements regarding securities accounts, which often involve nuanced and complicated distinctions between different types of accounts and family relationships, and (v) reviewing voluminous trading data,[19] among other tasks. All of this time and effort is spent in spite of the fact that many firms' business models do not involve activities that implicate the concerns of Rule 3110(d)(1). There are also many firms where only a small number of employees have roles or access to information that implicate meaningful risk. We urge FINRA to implement clear and meaningful exemptions from the requirements of FINRA Rule 3110(d)(1) for lower-risk firms or with respect to lower-risk associated persons.

D. Regulatory Reporting

FINRA members are currently required to report numerous types of data to FINRA (and other regulators and self-regulatory organizations). These reporting requirements would benefit from updates that eliminate unnecessary or duplicative information.

- *Duplicative or extraneous reporting*. FINRA should not require submission of data that is not actually being used. Firms are required to provide data to various regulatory systems, including, but not limited to, the Consolidated Audit Trail, the Trade Reporting and Compliance Engine, and the Trade Reporting Facility, and must submit reports such as the Financial and Operational Combined Uniform Single report, electronic blue sheets, and short interest position reports. FINRA has proposed a new facility, the Securities Lending and Transparency Engine ("SLATE"), to report covered securities loan transactions. Some of the data collected in these systems or through these reports is of unclear value or duplicative of other data collected. For example, FINRA Rule 4560 requires short interest position reporting. Because firms report that data twice a month, there is little, if any, utility to it in today's fast-moving markets. As such, Robinhood suggests that such reports be eliminated or included in SLATE reporting. More generally, FINRA should thoroughly review its usage of the information provided pursuant to various reporting rules and eliminate reporting requirements that are not providing FINRA with data that is actually being used in practice.

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value of gifts, there is no reason that it cannot also include a specific dollar amount for the *de minimis* threshold. In 2016, FINRA proposed a specific *de minimis* threshold of $50. *See* Regulatory Notice 16-29 (Aug. 8, 2016).

[19] In most cases, the burden of these reviews is magnified by the fact that the person reviewing the activity in an employee's account has no meaningful basis for determining whether a trade or series of trades in an account "may violate the provisions of the Exchange Act."

Five years ago, FINRA initiated a retrospective review of Rule 4530 and collected comments, but the exercise did not result in any changes to the rule.[20] As such, FINRA already has received extensive feedback as to the effectiveness and efficiency of Rule 4530. Robinhood also has a number of specific recommendations for modernization of the requirements of Rule 4530:

- *FINRA Rule 4530(d).* Rule 4530(d) requires FINRA members to provide quarterly reports to FINRA on written complaints. The rule, as currently structured and interpreted, may have made sense many years ago when the primary form of a written complaint was a letter mailed by a customer. However, modern technology has made it much easier for investors to communicate with brokers. Robinhood, of course, welcomes easier communication with investors and wants to hear about how to make customers' user experience on Robinhood better, but this has become problematic in the context of Rule 4530(d) when nearly any form of feedback from a customer (or a person purporting to be customer) can constitute a "complaint" that must be analyzed and processed under Rule 4530(d).[21] Because of how broadly "complaint" has been defined and interpreted by FINRA, Rule 4530(d) can require firms to gather and report voluminous and immaterial information to FINRA. Rule 4530(d) should not require reporting of all feedback from customers, regardless of merit or materiality. We recommend that FINRA limit Rule 4530(d) reporting to "complaints that warrant a response." This would be a similar approach taken by Australian regulators, which define a complaint as an "expression of dissatisfaction made to or about an organisation, related to its products, services, staff or the handling of a complaint, where a response or resolution is explicitly or implicitly expected or legally required."[22] Additionally, FINRA has previously provided guidance indicating that tweets and similar messages received from customers can be reportable under Rule 4530(d). As a general matter, Robinhood (and we expect most firms) does not have any reliable means of determining whether communications received though public social media channels, such as comments, video chats, and other social media posts, are being sent by an actual customer (or even a real person), and combing through such social media channels for the purposes of identifying complaints can be an extremely burdensome and impractical exercise. We recommend that FINRA narrow Rule 4530(d) reporting to complaints received through a channel or in a manner through which a firm can reasonably authenticate the identity of the person providing the complaint, such as a specific intake location. Ultimately, the purpose of Rule 4530(d) should be to inform FINRA of potential customer harm. In practice, the rule has created an endless paper chase that has detracted from firms' ability to efficiently respond to customer feedback because of the time they must spend applying the requirements of Rule 4530(d) to immaterial and in some cases fictitious "complaints."

- *FINRA Rule 4530(a)(1)(B).* Rule 4530(a)(1)(B) requires a firm to report if it is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery. While we agree that FINRA has a valid interest in being informed of any such activity, in practice customers can submit complaints regarding this type of activity that are completely without merit. Thus, we propose that this rule include a carve-out from reporting of

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20 *See* FINRA Requests Comments on the Effectiveness and Efficiency of Its Reporting Requirements Rule, Regulatory Notice 20-02 (Jan. 9, 2020).

21 Another detrimental effect of Rule 4530(d) is that it discourages firms from conducting surveys or similar forms of outreach because of concerns that the outreach will generate feedback that must be analyzed and processed as a complaint under Rule 4530(d).

22 *See* Guidelines for Complaint Management in Organizations, AS/NZS 10002:2022.

any complaint where a firm reasonably concludes, after appropriate investigation, that the complaint is without merit.

- *FINRA Rule 4530(b).* Rule 4530(b) requires a member firm to report to FINRA when it has concluded or reasonably should have concluded that it or an associated person has violated various rules or regulations. Rule 4530(b) should be eliminated, as it is vague, overbroad and otherwise fundamentally flawed in a number of respects:

    - Rule 4530(b) was adopted in 2011 as part of the NASD/NYSE rulebook consolidation process and originates from former NYSE Rule 351(a)(1).[23] Prior to 2011, there was no similar requirement applicable to NASD or FINRA members, but FINRA incorporated the self-reporting requirements of NYSE Rule 351(a)(1) into Rule 4530(b) without any significant discussion or consideration as to whether those requirements (which impose substantial burdens on members) are necessary or appropriate to apply to all FINRA members.[24] Broker-dealers who trade on the NYSE have very different business models, risk profiles and market impact than many of the firms within the very diverse population of broker-dealers that comprise FINRA's membership.[25] FINRA's mandatory self-reporting of internal conclusions regarding regulatory violations is relatively unique within U.S. financial services regulation, and imposes substantial burdens on broker-dealers.

    - In practice, Rule 4530(b) has operated primarily as a pipeline for enforcement actions, as reporting a matter to FINRA under Rule 4530(b) appears to automatically trigger a cause examination or enforcement investigation, even if other regulators, like the SEC, already have an open inquiry. This contributes to an adversarial dynamic between member firms and FINRA, where instead of focusing on how they can correct mistakes in order to protect customers and the markets, members must spend more and more time evaluating whether matters must be reported pursuant to Rule 4530(b) and, if a matter is reported, respond to inevitable cause exam or enforcement investigation requests.

    - Although the rule includes a materiality threshold for the violative conduct that triggers reporting,[26] the standards are vague; FINRA has not defined or provided adequate

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23 *See* FINRA Regulatory Notice 11-06 (Feb. 3, 2011).

24 *See* Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change to Adopt FINRA Rule 4530 (Reporting Requirements) in the Consolidated FINRA Rulebook, Exchange Act Release No. 62621 (July 30, 2010); FINRA Regulatory Notice 08-71 (Nov. 28, 2008).

25 Prior to the merger of the NYSE and NASD in 2007, there were over 5,000 NASD members, but only approximately 170 of them were also members of the NYSE. *See* Erik R. Sirri, Testimony Concerning Consolidation of NASD with the Member Firm Regulatory Functions of the NYSE: Working Towards Improved Regulation, Before the Subcommittee on Securities, Insurance, and Investment of the U.S. Senate Committee on Banking, Housing, and Urban Affairs (May 17, 2007), available at https://www.sec.gov/news/testimony/2007/ts051707ers.htm.

26 FINRA Rule 4530(b), Supplementary Material .01. When adopting the new rule in 2011 as part of the NYSE/NASD rulebook consolidation, FINRA noted that self-reporting should be limited to the most significant issues. FINRA stated, "[w]0ith respect to violative conduct by a firm, this provision requires the firm to report only conduct that has widespread or potential widespread impact to the firm, its customers or the markets, or conduct that arises from a material failure of the firm's systems, policies or practices involving numerous customers, multiple errors or significant dollar amounts."

guidance on several key terms and concepts in the rule. This has caused industry confusion as to what is required to be reported and effectively punishes firms that take a broader reading of the rule's opaque standards. Additionally, and importantly, for as much time as firms spend on matters that are reported pursuant to FINRA Rule 4530(b), they may spend as much if not more time evaluating and documenting their approach to matters that are not reported pursuant to Rule 4530(b) but that must nevertheless be evaluated because of the rule's breadth and vagueness.

- Much has changed since NYSE Rule 351(a)(1) was operative. FINRA has many more tools for monitoring member firms through its risk monitoring program, extensive cross-market trade surveillance, surveys, the Consolidated Audit Trail, and many other sophisticated tools and reports that have been developed and expanded over time.

If FINRA decides that it must retain Rule 4530(b), it should be narrowed so that it is more clearly risk-based and requires reporting only when there is manifest harm to customers or the integrity of the markets. Robinhood also recommends that FINRA publish additional guidance regarding the contours of the rule, including its thresholds. Finally, FINRA should heed a long-time industry request that credit for self-reporting and extraordinary cooperation be tangible, reliable and transparent. For example, in instances where a firm has self-reported, promptly and effectively addressed an issue, and provided remediation to customers, the default should be that the matter is closed without formal action.

E. Customer Account Transfers

FINRA should update its rules regarding automated account transfers through the industry's Automated Customer Account Transfer Service ("ACATS").

- *Rule 11870(d)(3)*. This provision provides that a firm may take exception to a transfer instruction only for enumerated reasons, none of which include fraud. The rule should be amended to reflect FINRA's recent regulatory guidance regarding the risks of fraudulent ACATS transfers and allow firms to reject an ACATS where they have concerns about fraudulent activity.[27]

- *Rule 11870(d)(4)*. This provision requires a receiving member to attach a customer statement if the carrying member takes exception to the ACATS because the account is "flat." However, many firms generate statements on a monthly basis, which do not necessarily include an up-to-date reflection of a customer's holdings at the time of transfer. Therefore, Rule 11870(d)(4) should be amended to include other methods by which a receiving member can verify a customer's holdings.

F. Rule Alignment

FINRA should review its rules for internally inconsistent applications and definitions. Different scopes and applications between rules create confusion in the industry, as well as significant work for compliance departments, without aiding in the protection of customers or the improvement of market integrity. For example, FINRA Rule 5310, which restricts the purchase and sale of initial public offerings by associated persons, contains provisions that apply to family members of the associated person, including parents, spouses, children, in-laws, and any other individual who the associated person supports. In contrast,

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[27] *See* FINRA Regulatory Notice 22-21 (Oct. 6, 2022) and FINRA Regulatory Notice 23-06 (Mar. 28, 2023).

FINRA Rule 3210, which governs mandatory disclosure of certain accounts connected to associated persons, limits the family members covered by the rule to spouses and children that reside in the same household, or those who have accounts that the associated person controls. FINRA should revise these rules to align with the approach taken by Rule 3210.

G. Interpretive Guidance

While FINRA should strive to adopt rules that are clear and unambiguous, it is inevitable that interpretive questions will arise due to changes in technology, business models, investment products and customer habits, among other factors. We believe that FINRA should be nimble in addressing interpretive questions through Regulatory Notices, FAQs, interpretive letters and other forms of formal and informal guidance. We understand that in some cases there are concerns that certain forms of guidance or "relief" could rise to the level of a rule change that would need to be filed with the SEC pursuant to Section 19(b) of the Exchange Act. While we recognize the constraints imposed by Section 19(b), FINRA and the SEC should provide more transparency regarding what types of guidance are restricted by Section 19(b). In recent years there has been a significant decrease in interpretive guidance from FINRA, and we are concerned that an overbroad interpretation of Section 19(b) has been used as a pretext for inaction by FINRA and the SEC.

H. Enforcement

Part of making clear rules is making clear the consequences for violations of the rules. The current lack of visibility into the enforcement process creates confusion and uncertainty in the industry, hindering FINRA's mission of promoting investor protection, market integrity, and vibrant capital markets. While Robinhood believes that FINRA's Enforcement Department needs to be fundamentally and holistically reformed so that it functions more effectively, efficiently, and fairly for both member firms and for the protection of investors, we offer several reforms below that FINRA could immediately implement to address some of Enforcement's procedural and operational deficiencies.

- *Enforcement manual.* Firms are regularly subject to enforcement investigations that cause them to expend a significant amount of time, money, and other resources responding to requests from FINRA's Department of Enforcement, often after having already done so in connection with requests from Market Regulation and Transparency Services or Member Supervision. Yet, member firms do not have sufficient insight into FINRA's enforcement process—from the genesis of the investigation to the decision as to how the matter should be resolved. This creates confusion and can give firms a sense of arbitrariness regarding the process. FINRA should provide firms with visibility into its enforcement practices by publishing its Enforcement Manual, as do the SEC and Commodity Futures Trading Commission ("CFTC").[28]

- *Sanction Guidelines*. When FINRA levies fines, they are often significantly higher than the range specified in FINRA's Sanction Guidelines. The rationale for this is often unclear, diminishing the value of the Sanction Guidelines to member firms, associated persons, and the industry. Therefore, we recommend that FINRA enact an internal rule that requires (i) FINRA to provide

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[28] *See Securities and Exchange Commission Division Enforcement Manual*, available at https://www.sec.gov/divisions/enforce/enforcementmanual.pdf; *Commodity Futures Trading Commission, Division of Enforcement Manual*, available at https://www.cftc.gov/sites/default/files/2021-05/EnforcementManual.pdf.

written justification for any fine that exceeds FINRA's sanction guidelines[29] and (ii) any such fine to be approved by the FINRA National Adjudicatory Council.

- *Credit for extraordinary cooperation*. Robinhood appreciates that FINRA recognizes that firms may be eligible to receive credit for "extraordinary cooperation" when assessing sanctions in enforcement actions.[30] However, member firms would benefit from being given greater clarity as to the way in which this credit is assessed and the amount of the credit being given. Recently, the CFTC's Division of Enforcement issued an advisory that provided firms with guidance on its calculation of the credit for self-reporting or providing substantial assistance in an investigation. This guidance included a four-tier scale for the level of cooperation and a matrix quantifying the presumptive mitigation credit.[31] Robinhood recommends that FINRA issue similar guidance to provide for tangible, reliable and transparent credit for extraordinary cooperation. Further, FINRA should more clearly reward firms that self-report matters. This should be the case whether FINRA abandons mandatory self-reporting under Rule 4530(b), as we have recommended, or keeps it in place. If FINRA retains mandatory self-reporting, then in the absence of tangible, reliable and clear credit for self-reporting, a firm is perversely disincentivized from conducting robust examinations that could potentially identify compliance violations, as anything that they discover could be reportable under Rule 4530(b) and result in an enforcement action. Similarly, even in the absence of a self-reporting requirement under Rule 4530(b), without clearer standards regarding the reward for doing so, firms may be hesitant to self-report.

- *Rapid remediation review process.* Enforcement investigations and their subsequent resolutions are often time-consuming and expensive. Although Robinhood recognizes that certain issues may warrant intervention from the Department of Enforcement, many issues, especially those relating to transaction reporting, would be better served through resolution outside of the enforcement framework. The creation by FINRA's Department of Market Regulation and Transparency Services of the Rapid Remediation review process, which allows FINRA to alert firms quickly and informally about potential market integrity or market conduct issues, recognizes this. By providing a framework for addressing more technical transactional violations, such as discrete trade reporting issues, outside of the enforcement process, both FINRA and the firm can remediate the issue on an expedited basis, ensuring the integrity of the audit trail, without either the firm or the Department of Enforcement expending time and resources on these issues. The Rapid Remediation review process should be expanded to encompass findings made by Member Supervision and codified into FINRA's rules.

- *Timeliness.* Investors, member firms and FINRA are best served by the timely resolution of enforcement investigations. A firm that is the subject of an enforcement investigation has the proverbial Sword of Damocles hanging over its head, restricting its ability to run its business and plan for the future, and should not be left in this position indefinitely. FINRA should set reasonable goals for the completion of its investigations and initiating enforcement actions, and

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[29] This approach would be similar to FINRA Rule 9270(c), which requires a firm that wishes to make an offer of settlement in a contested enforcement action to provide a settlement proposal that "is consistent with FINRA's then current sanction guidelines or, if inconsistent with the sanction guidelines, a detailed statement supporting the proposed sanction."

[30] *See* Regulatory Notice 19-23 (July 11, 2019).

[31] CFTC, Advisory on Self-Reporting, Cooperation, and Remediation (Feb. 25, 2025).

should publish statistics on its results to make information available for scrutiny by members and the investing public.[32]

- *Minor Rule Violations.* To the extent that the Rapid Remediation review process is not the appropriate mechanism to resolve discreet or minor violations of FINRA rules, FINRA should expand the scope and increase the maximum fine amount provided in FINRA Rules 9216(b) and 9217 under its Minor Rule Violation Plan to address non-systemic violations or rule violations that did not result in customer harm. FINRA rarely utilizes the Minor Rule Violation process, perhaps because the maximum fine has remained at $2,500 for many years. Robinhood believes that the Minor Rule Violation Plan, if updated, would be an efficient way of resolving many issues that do not warrant in-depth investigations.

- *Limitation periods.* FINRA investigations often seek information, data, and documents beyond the current recordkeeping obligations applicable to member firms, and investigations linger for years with no resolution. FINRA should adopt limitation periods similar to those that govern SEC enforcement actions.[33]

- *8210 Requests.* FINRA should implement procedural safeguards, such as requiring senior-level authorization, around the initiation of information requests pursuant to FINRA Rule 8210 to ensure that such requests are not being made in an inconsistent, duplicative or overzealous manner.[34]

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[32] Until Fiscal Year 2018, the SEC published its goals in this area. *See, e.g.*, SEC Office of Inspector General Report No. 576 "Enforcement Investigations: Measures of Timeliness Showed Some Improvement But Enforcement Can Better Communicate Capabilities for Expediting Investigations and Improve Internal Processes," Feb. 15, 2023 available at https://www.sec.gov/files/enforcement-investigat-meas-timeliness-show-some-improvement-enforcement-can-better-comm.pdf (reflecting the results of goals such as the "Percentage of First Enforcement Actions Filed within 2 Years of the Opening of an Investigation" and "Average Months Between Opening a MUI or an Investigation and Commencing an Enforcement Action").

[33] *See, e.g.*, 28 U.S.C. § 2462 (five-year statute of limitations for SEC claims for civil monetary penalties); 15 U.S.C. § 78u(d)(8)(B) (10-year statute of limitations for SEC claims for any equitable remedy, including for an injunction or for a bar, suspension, or cease and desist order); 15 U.S.C. § 78u(d)(8)(A)(ii) (10-year statute of limitations for any SEC claims for disgorgement if the conduct violates antifraud provisions or any other provision of the securities laws for which scienter must be established); 15 U.S.C. § 78u(d)(8)(A)(ii) (five-year statute of limitations for SEC claims for disgorgement in matters involving other violations).

[34] Indeed, the SEC recently changed its rules to eliminate the authority of the Director of Enforcement to issue formal orders of investigation and instead vested such authority in the Commission. *See* Securities and Exchange Commission, Final Commission Votes for Agency Proceedings (Mar. 2025).

Robinhood appreciates the opportunity to submit this comment letter. Please contact Lucas Moskowitz, Senior Vice President, General Counsel and Corporate Secretary, Robinhood Markets, at lucas.moskowitz@robinhood.com if you have any questions or comments.

Respectfully submitted,

Signed by:
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