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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

MENGNI XIA, Individually and On
Behalf of All Others Similarly Situated,

Plaintiff,

v.

ROBINHOOD FINANCIAL, LLC,
ROBINHOOD SECURITIES, LLC, and
ROBINHOOD MARKETS, INC.,

Defendants.

Case No. 3:20-cv-02352

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF:

- (1) Breach of Contract**
- (2) Breach of the Implied Covenant of Good Faith and Fair Dealing**
- (3) Breach of Fiduciary Duty**
- (4) Negligence**
- (5) Gross Negligence**
- (6) California’s Consumer Legal Remedies Act, Civ. Code §§ 1750, et seq.;**
- (7) California’s Unfair Competition Law, Bus. & Prof. Code §§ 17200, et seq.;**
- (8) Unjust Enrichment; and**
- (9) Declaratory Relief**

DEMAND FOR JURY TRIAL

INTRODUCTION

1
2 1. Plaintiff Mengni Xia (“Plaintiff”), individually and on behalf of all others similarly
3 situated, brings this putative class action against Defendants Robinhood Financial, LLC
4 (“Robinhood Financial”), Robinhood Securities, LLC (“Robinhood Securities”), and Robinhood
5 Markets, Inc. (“Robinhood Markets”) (collectively, “Robinhood”), demanding a trial by jury.
6 Plaintiff makes the following allegations pursuant to the investigation of counsel and based upon
7 information and belief, except as to the allegations specifically pertaining to herself, which are
8 based on personal knowledge. Accordingly, Plaintiff alleges as follows:

9 2. Robinhood is an online brokerage firm founded in 2013 that touts itself as “a pioneer
10 in commission-free investing.” Robinhood’s customers place securities trades through the firm’s
11 website, by using a web-based application (or “app”)¹, or by calling the firm’s help center.
12 Unfortunately for Robinhood’s customers, including Plaintiff, Robinhood’s trading systems
13 completely crashed on Monday, March 2, 2020, and experienced a total outage of its operating
14 systems (the “Outage”). Throughout the *entire* trading day, Robinhood’s customers were prevented
15 from making any securities trades through the firm’s website, app, or call center.

16 3. As a result of the Outage, Plaintiff brings this class action on behalf of Robinhood
17 customers who were denied access to their Robinhood trading accounts during the Outage and for
18 the many, including herself, who suffered losses in their Robinhood trading accounts specifically
19 as a result of their inability to place any securities or options trades during the Outage. Plaintiff
20 asserts putative class action claims generally including breach of contract, negligence, breach of
21 fiduciary duty, and violations of California consumer protection laws, on behalf of herself and all
22 other Robinhood customers who are similarly situated. She seeks damages, restitution, and
23 injunctive relief.

PARTIES

24 4. Plaintiff Xia is a citizen of New York and is over the age of 18.
25
26

27 ¹ In exchange for using the app, Robinhood collects personal data about its users (including
28 financial information), and sells this data to third parties.

1 Multiple factors contributed to the unprecedented load that
2 ultimately led to the outages. The factors included, among others,
3 highly volatile and historic market conditions; record volume; and
4 record account sign-ups.

5 Our team is continuing to work to improve the resilience of our
6 infrastructure to meet the heightened load we have been
7 experiencing. We're simultaneously working to reduce the
8 interdependencies in our overall infrastructure. We're also investing
9 in additional redundancies in our infrastructure.

10 *See*: <https://blog.robinhood.com/> (last accessed Mar. 5, 2020).

11 15. Under federal and state securities laws, securities industry rules, and industry best
12 practices, brokerage firms that offer online trading services to their customers are required to,
13 among other things, ensure that customers receive best execution of trades and that the firm has
14 adequate operational capability to handle customer trading volume.

15 16. More specifically, the Financial Industry Regulatory Authority ("FINRA"), which
16 governs brokers like Robinhood, espouses rule 5310 regarding "Best Execution and
17 Interpositioning." Rule 5310.01 requires that Robinhood "must make every effort to execute a
18 marketable customer order that it receives promptly and fully." By failing to respond at all to
19 customers' placing timely trades, and in fact preventing them from doing so altogether, Robinhood
20 has breached these obligations and caused its customers substantial losses due solely to its own
21 negligence and failure to maintain adequate infrastructure.

22 17. Moreover, Robinhood has a history of flouting these obligations. Just a few months
23 before the outage, on December 19, 2019, FINRA announced it fined Defendant Robinhood
24 Financial \$1.25 million for best execution violations related to its customers' equity orders and
25 related supervisory failures that spanned from October 2016 to November 2017.³ As part of the
26 settlement, Robinhood also agreed to retain an independent consultant to conduct a comprehensive
27 review of the firm's systems and procedures related to best execution. *Id.*

28 ³ See <https://www.finra.org/media-center/newsreleases/2019/finra-fines-robinhood-financial-llc-125-million-best-execution> (last accessed March, 4, 2020).

PLAINTIFF’S EXPERIENCE

1
2 18. Plaintiff is a customer of Robinhood and entered into a Customer Agreement, as
3 discussed further below, in order to use Robinhood’s online trading systems.

4 19. On Tuesday, February 25, 2020, Plaintiff purchased certain Facebook Inc.
5 (“Facebook”) and Alphabet Inc. (“Google”) options in her Robinhood trading account. Facebook
6 and Google options are American-style options that may be exercised at any time after the trader
7 buys them before they expire.

8 20. More specifically, Plaintiff established a position known as a “Facebook call option
9 contract,” which is a “bullish” option position that is established by an investor who is anticipating
10 an increase in the value of Facebook stock. To establish this position, an investor purchases a
11 specific number of Facebook calls at a lower strike price and sells the same number of Facebook
12 calls with the same expiration date at a higher price.

13 21. Additionally, Plaintiff established a position known as a “Google call option
14 contract,” which is a “bullish” option position that is established by an investor who is anticipating
15 an increase in the value of Google stock. To establish this position, an investor purchases a specific
16 number of Google calls at a lower strike price and sells the same number of Google calls with the
17 same expiration date at a higher price.

18 22. The specific Facebook and Google options that Plaintiff utilized as part of her debit
19 spread had expiration dates of Monday, March 6, 2020.

20 23. Throughout the entire days of Monday, March 2 and March 3, 2020, Plaintiff
21 repeatedly attempted to access her Robinhood account through the Robinhood app, via the website,
22 and by calling the help center. However, because of the Outage, Plaintiff was denied any access to
23 her account and thus was unable to close out the option position in her account, while both
24 Facebook and Google share prices rose in value throughout those days. Moreover, because the
25 strike prices for the contracts decreased dramatically immediately after the Outage, plaintiff could
26 no longer sell the options once her Robinhood account was accessible, and the contracts expired at
27 zero value within 3 days, on March 6, 2020.
28

1 a. Whether Robinhood’s technology was inadequate to provide the financial
2 services that were needed to handle reasonable consumer demand;

3 b. Whether Robinhood failed to provide contingencies to customers to execute
4 timely trades in the event of an Outage;

5 c. Whether Robinhood violated FINRA Rule 5310;

6 d. Whether Robinhood violated state consumer protection laws in failing to
7 disclose that its technology-based financial services were inadequate and unable to perform for
8 substantial periods of time;

9 e. Whether Robinhood was in breach of its legal, regulatory, and licensing
10 requirements by failing to provide adequate access to financial services in a timely manner;

11 f. Whether Robinhood was in breach of its contracts and/or the implied
12 covenant of good faith and fair dealing in connection with its failure to provide financial services
13 in a timely manner;

14 g. Whether Robinhood was negligent or grossly negligent by failing to provide
15 financial services in a timely manner due to its substandard and inadequate technology platform
16 and lack of timely response to customers requesting to place trades;

17 h. Whether Robinhood breached its fiduciary duties to customers by failing to
18 provide adequate access to financial services in a timely manner;

19 i. Whether Robinhood was unjustly enriched by its conduct;

20 j. Whether Plaintiff and the other Class members were injured by Robinhood’s
21 conduct, and if so, the appropriate class-wide measure of damages, restitution, and other
22 appropriate relief, including injunctive relief.

23 k. Whether Plaintiff and the other Class members are entitled to injunctive and
24 declaratory relief.

25 31. **Typicality:** The claims of the named Plaintiff are typical of the claims of the
26 proposed Class in that the named Plaintiff was a customer during the class period and was unable
27 to access his accounts and place time-sensitive trades and sustained damages as a result of
28 Robinhood’s wrongful conduct.

1 32. **Adequate Representation**: Plaintiff will fairly and adequately represent the
2 interests of the Class in that he has no conflicts with any other Class members. Plaintiff has retained
3 competent counsel experienced in prosecuting complex class actions, including those involving
4 financial services, and they will vigorously litigate this class action.

5 33. **Predominance and Superiority**: There is no plain, speedy, or adequate remedy
6 other than by maintenance of this class action. A class action is superior to other available means,
7 if any, for the fair and efficient adjudication of this controversy. Prosecution of separate actions by
8 individual Class members would create the risk of inconsistent or varying adjudications,
9 establishing incompatible standards of conduct for the Defendant. Additionally, given the
10 relatively modest damages sustained by most individual Class members, few, if any, proposed Class
11 members could or would sustain the economic burden of pursuing individual remedies for
12 Robinhood’s wrongful conduct. Treatment as a class action will achieve substantial economies of
13 time, effort, and expense, and provide comprehensive and uniform supervision by a single court.
14 This class action presents no material difficulties in management.

15 34. Class action certification is warranted under Fed. R. Civ P. 23(b)(1)(A) because the
16 prosecution of separate actions by individual members of the proposed Class would create a risk of
17 inconsistent or varying adjudications with respect to individual Class members, which may produce
18 incompatible standards of conduct for Defendants.

19 35. Class action certification is warranted under Fed. R. Civ P. 23(b)(1)(B) because the
20 prosecution of separate actions by individual members of the proposed Class would create a risk of
21 adjudications with respect to individual Class members which may, as a practical matter, be
22 dispositive of the interests of the other members not parties to the adjudications or substantially
23 impair or impede their ability to protect their interests.

24 36. The prerequisites to maintaining a class action for injunctive or equitable relief
25 pursuant to Fed. R. Civ. P. 23(b)(2) are met as Robinhood has acted or refused to act on grounds
26 generally applicable to the Class, thereby making final injunctive, declaratory, or equitable relief
27 appropriate with respect to the Class as a whole.
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1 to and did experience substantial Outage(s) that prohibited the Parties from performing in a timely
2 manner (or at all) under the contract; that Robinhood failed to comply with all applicable legal,
3 regulatory, and licensing requirements; and that Robinhood failed to exercise trades and actions
4 requested by customers in a complete and timely manner (also required by FINRA Rule 5310).

5 42. As such, Robinhood breached its Customer Agreement with Plaintiff and Class
6 members.

7 43. Robinhood's failure to perform and its breaches of the Customer Agreement resulted
8 in damages and losses to Plaintiff and Class members and continues to expose them to harm because
9 Robinhood continues to fail to perform under the Customer Agreement. These losses reflect
10 damages to Plaintiff and Class members in an amount to be determined at trial or separate
11 proceedings as necessary.

12 **COUNT II**

13 **Breach of the Implied Covenant of Good Faith and Fair Dealing**
14 **(Alleged solely against Robinhood Financial and Robinhood Securities)**

15 44. Plaintiff hereby incorporates by reference the factual allegations contained herein.

16 45. Plaintiff and Class members entered into the contract identified as the Customer
17 Agreement with Robinhood. Ex. A.

18 46. Plaintiff and Class members fulfilled their obligations under the Customer
19 Agreement by adhering to its terms and using Robinhood's services for the provision of financial
20 services.

21 47. Robinhood was obligated under the Customer Agreement to timely provide the
22 financial services required under the Customer Agreement at all times, including but not limited to
23 when Plaintiff and Class members attempted to use the service during the Outage.

24 48. Robinhood unfairly interfered with Plaintiff's and Class members' rights to receive
25 the benefits of the Customer Agreement by, among other things, failing to disclose that its platform
26 was inadequately built and maintained to handle consumer demand; that Robinhood failed to
27 provide adequate technological systems necessary to perform under the contract; that Robinhood
28 failed to provide services when an Outage occurred due to a lack of infrastructure and alternate

1 means for customers to place timely trades; that Robinhood failed to provide access to its financial
2 services in a timely manner; that Robinhood's platform was subject to and did experience
3 substantial Outage(s) that prohibited the Parties from performing in a timely manner (or at all)
4 under the contract; that Robinhood failed to comply with all applicable legal, regulatory, and
5 licensing requirements; and that Robinhood failed to exercise trades and actions requested by
6 customers in a complete and timely manner (also required by FINRA Rule 5310).

7 49. Robinhood's conduct has caused Plaintiff and Class members' harm, losses, and
8 damages and continues to expose them to harm because Robinhood continues to fail to perform
9 under the Customer Agreement. These losses reflect damages to Plaintiff and Class members in an
10 amount to be determined at trial or separate proceedings as necessary.

11 **COUNT III**

12 **Breach of Fiduciary Duty**

13 50. Plaintiff hereby incorporates by reference the factual allegations contained herein.

14 51. As a licensed provider of financial services, Robinhood at all times relevant herein
15 was a fiduciary to Plaintiff and Class members and owed them the highest good faith and integrity
16 in performing its financial services on their behalf. Robinhood also acted as a fiduciary to each and
17 every customer who agreed to the Customer Agreement.

18 52. Robinhood breached its fiduciary duties to Plaintiff and Class members by, among
19 other things, failing to disclose that its platform was inadequately built and maintained to handle
20 consumer demand; that Robinhood failed to provide adequate technological systems necessary to
21 perform under the contract; that Robinhood failed to provide services when an Outage occurred
22 due to a lack of infrastructure and alternate means for customers to place timely trades; that
23 Robinhood failed to provide access to its financial services in a timely manner; that Robinhood's
24 platform was subject to and did experience substantial Outage(s) that prohibited the Parties from
25 performing in a timely manner (or at all) under the contract; that Robinhood failed to comply with
26 all applicable legal, regulatory, and licensing requirements; and that Robinhood failed to exercise
27 trades and actions requested by customers in a complete and timely manner (also required by
28 FINRA Rule 5310).

1 practices. To this end, the CLRA sets forth a list of unfair and deceptive acts and practices in Civil
2 Code section 1770.

3 65. The CLRA applies to Robinhood’s actions and conduct described herein because it
4 extends to the transactions involving the sale of goods or services for personal, family, or household
5 use within the meaning of Civil Code section 1761.

6 66. At all relevant times, Plaintiff and members of the Class were “consumers” as that
7 term is defined in Civil Code section 1761(d).

8 67. Robinhood practices in connection with the marketing and sale of its financial
9 services violate the CLRA in at least (but not limited to) the following respects:

10 a. In violation of section 1770(a)(5), Robinhood knowingly misrepresented
11 services;

12 b. In violation of section 1770(a)(7), Robinhood represented its financial
13 services to be of a particular standard, quality, or grade, but were not; and

14 c. In violation of section 1770(a)(9), Robinhood’s knowingly advertised its
15 financial services with the intent not to sell and perform the services as advertised.

16 68. As set forth above, Robinhood’s services are deceptive and misleading to reasonable
17 consumers in violation of the CLRA because it failed to disclose that its platform was inadequately
18 built and maintained to handle consumer demand; because Robinhood failed to provide adequate
19 technological systems necessary to perform under the contract; because Robinhood failed to
20 provide services when an Outage occurred due to a lack of infrastructure and alternate means for
21 customers to place timely trades; because Robinhood failed to provide access to its financial
22 services in a timely manner; because Robinhood’s platform was subject to and did experience
23 substantial Outage(s) that prohibited the Parties from performing in a timely manner (or at all)
24 under the contract; because Robinhood failed to comply with all applicable legal, regulatory, and
25 licensing requirements; and because Robinhood failed to exercise trades and actions requested by
26 customers in a complete and timely manner (also required by FINRA Rule 5310).

27 69. Robinhood’s conduct described herein was undertaken in transactions intended to
28 result in, and which did result in, the purchase of its financial services by consumers, which caused

1 harm to Plaintiff and Class members who would not have used Robinhood's services had they
2 known the truth. Plaintiff was in fact injured by losses incurred because of Robinhood's deceptive
3 conduct.

4 70. The CLRA is, by its express terms, a cumulative remedy, such that remedies under
5 its provisions can be awarded in addition to those provided under separate statutory schemes and/or
6 common law remedies, such as those alleged in the other Counts of this Complaint. *See* Cal. Civ.
7 Code § 1752.

8 71. In accordance with Civil Code section 1780, Plaintiff and Class members seek
9 injunctive and equitable relief for Robinhood's violations of the CLRA necessary to bring it in
10 compliance with the CLRA by, among other things, disclosing that its services are substandard and
11 unable to fulfill reasonable consumer demand, by correcting its services so that its platform can
12 perform as necessary to comply with its legal, regulatory and contractual obligations, and making
13 customers whole for their losses.

14 72. In accordance with Civil Code section 1780, the Plaintiff served a notice pursuant
15 to Civil Code section 1782, via a certified letter, return receipt requested, requesting appropriate
16 relief on or about March 6, 2020. Should Robinhood fail to respond to Plaintiff's CLRA demand in
17 a satisfactory manner, Plaintiff will amend this Complaint to seek damages after the expiration of
18 the notice period.

19 **COUNT VII**

20 **Violation of California Unfair Competition Law, Cal. Bus. & Prof. Code §§ 17200, *et seq.***

21 73. Plaintiff hereby incorporates by reference the factual allegations contained herein.

22 74. Robinhood has engaged in unfair competition within the meaning of California
23 Business & Professions Code section 17200, *et seq.*, because Robinhood's conduct is unlawful,
24 unfair, and fraudulent as herein alleged.

25 75. Plaintiff, the members of the Class, and Robinhood are a "person" or "persons,"
26 within the meaning of Section 17201 of the California Unfair Competition Law ("UCL").
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1 76. The UCL prohibits any unlawful, unfair, or fraudulent business practices or acts.
2 Robinhood's conduct, as alleged herein, constitutes an unlawful, unfair and fraudulent business
3 practice that occurred in connection with the marketing, advertisement and sale of its services.

4 77. Robinhood's misleading and deceptive misrepresentations and omissions,
5 concealment and suppression of material fact, as described within, violated the UCL's unlawful,
6 unfair, and fraudulent prongs.

7 78. **Unlawful prong:** Robinhood's conduct, as described within, violated the UCL's
8 unlawful prong because: (1) it violates the CLRA in connection with the sale of goods and services;
9 (2) constitutes a breach of contract and/or a breach of the implied covenant of good faith and fair
10 dealing, (3) constitutes a breach of fiduciary duty; (4) constitutes negligence and/or gross
11 negligence; (5) it violates FINRA Rule 5310 which requires best execution of orders fully and
12 promptly; and (6) has unlawfully and unjustly enriched Robinhood.

13 79. **Unfair prong:** Robinhood's conduct, as described within, violated the UCL's
14 unfair prong because its conduct violates established public policy intended to regulate the fair and
15 ethical sale of goods and services to consumers as set forth in the CLRA and by FINRA, and
16 because it is immoral, unethical, oppressive, or unscrupulous and has caused injuries to the Plaintiff
17 and the Class that outweigh any purported benefit. At all times relevant herein, Robinhood's
18 conduct of misrepresenting and concealing material facts regarding its faulty infrastructure and
19 refusal to timely perform from the Plaintiff and consumers caused them injury by inducing them to
20 use Robinhood's services they would not have otherwise, causing losses to them. The utility of
21 Robinhood's conduct in misrepresenting and concealing material facts from the Plaintiff and the
22 Class is far outweighed by the gravity of harm to consumers who have now incurred losses they
23 would not have otherwise.

24 80. **Fraudulent prong:** Robinhood's conduct, as described within, violated the UCL's
25 fraudulent prong by misrepresenting and concealing material information that caused, or would
26 likely cause, Plaintiff and the Class to be deceived into using Robinhood's services they would not
27 have otherwise. At all times Robinhood has had exclusive knowledge of its substandard
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1 infrastructure that led to the Outage. Plaintiff and the Class have been harmed and sustained injury
2 as a result of Robinhood's fraudulent conduct in violation of the UCL as explained herein.

3 81. Plaintiff has standing to pursue this claim because he has been injured by virtue of
4 suffering a loss of money and/or property as a result of the wrongful conduct alleged herein.
5 Plaintiff would not have used Robinhood's services and/or placed trades and made financial
6 transactions through those services had he known the truth, though he has an interest in continuing
7 to use the service in the future should Robinhood fix the problems set forth in this Complaint. As
8 a direct result of Robinhood's actions and omissions of material facts, Plaintiff and Class members
9 were unlawfully, unfairly, and fraudulently induced to make purchases and financial transactions
10 that they otherwise would not have made; and lost their ability to make informed and reasoned
11 purchasing decisions.

12 82. The UCL is, by its express terms, a cumulative remedy, such that remedies under its
13 provisions can be awarded in addition to those provided under separate statutory schemes and/or
14 common law remedies, such as those alleged in the other Counts of this Complaint. *See* Cal. Bus. &
15 Prof. Code § 17205.

16 83. As a direct and proximate cause of Robinhood's conduct, which constitutes
17 unlawful, unfair, and fraudulent business practices, as herein alleged, Plaintiff and Class members
18 have been damaged and suffered ascertainable losses, thereby entitling them to recover restitution
19 and equitable relief, including disgorgement or ill-gotten gains, refunds of moneys, interest,
20 reasonable attorneys' fees, filing fees, and the costs of prosecuting this class action, as well as any
21 and all other relief that may be available at law or equity.

22 **COUNT VIII**

23 **Unjust Enrichment**

24 84. Plaintiff hereby incorporates by reference the factual allegations contained herein.

25 85. By its wrongful acts and omissions described herein, Robinhood has obtained a
26 benefit by unduly taking advantage of Plaintiff and Class members.
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JURY TRIAL DEMAND

Plaintiff demand a trial by jury on all issues so triable.

Respectfully submitted,

DATED: April 7, 2020

MAURIELLO LAW FIRM, APC

By: /s/ Thomas D. Mauriello
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