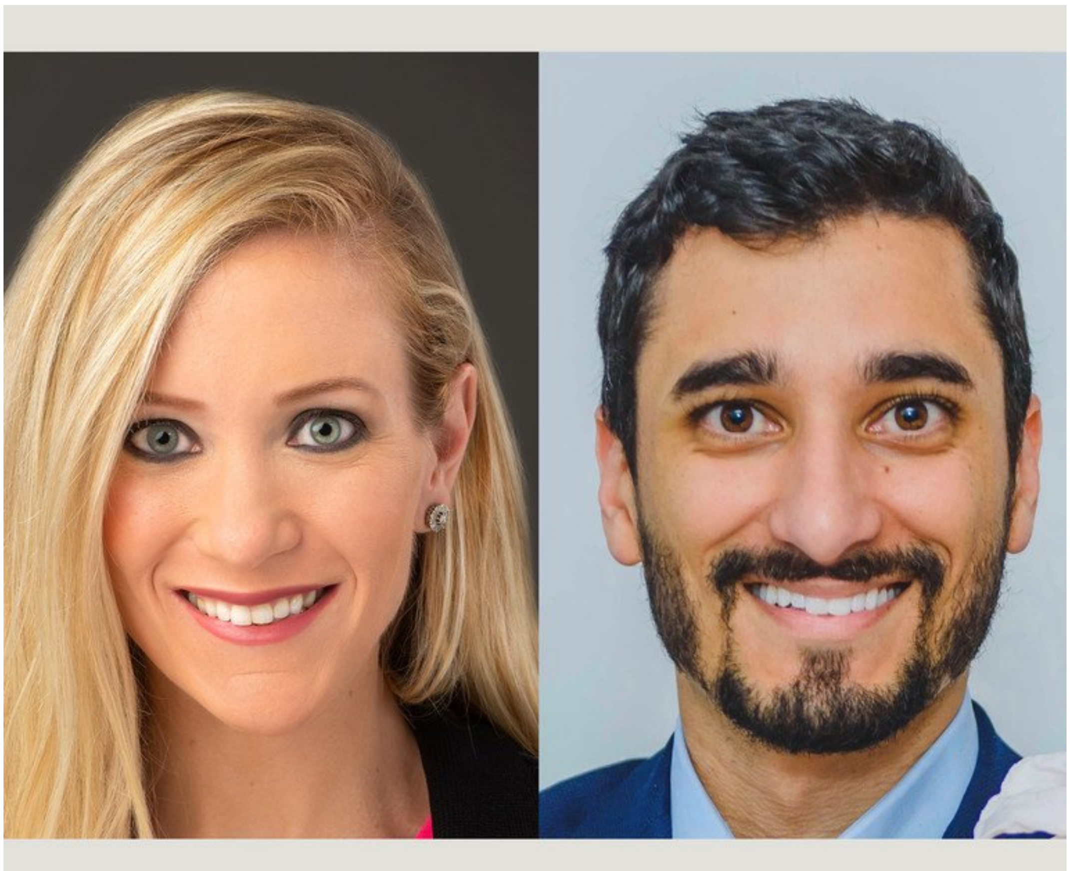


Natalia Salas (left) and Sean Burstyn. (Courtesy photos)

NEWS

'Too Far, Too Fast': Miami Lawyers File MDL Against Robinhood Days Before Multibillion-Dollar IPO

"This case serves as a reminder to startup lawyers that their clients' ambition to change the world needs to be tempered somewhat by the realities on the ground," said Sean Burstyn, a plaintiff case team attorney.

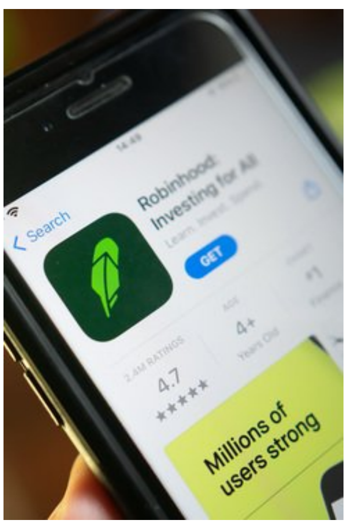
July 27, 2021 at 11:44 AM

Michael A. Mora

Financial Services and Banking

4 minute read

South Florida litigators hit financial services provider Robinhood Markets Inc. with a consolidated class action complaint Tuesday in Miami federal court—less than two days before the company seeks a valuation of upwards of $35 billion in an initial public offering.



An iPhone user downloading Robinhood App, a stock trading app, from the App Store. (Credit: Wachiwit/Shutterstock)

The litigators—Natalia M. Salas, a partner at The Ferraro Law Firm and plaintiff's lead counsel for the Robinhood Markets Inc. multidistrict litigation, and Sean Burstyn, a case team attorney—are both based in Miami.

"This case serves as a reminder to startup lawyers that their clients' ambition to change the world needs to be tempered somewhat by the realities on the ground and the risk of going too far, too fast," said Burstyn, whose law firm also serves as general counsel to Miami startups.

Salas and Burstyn are among the several attorneys in the MDL representing class members in more than 55 cases in Florida and states all across the country, including New York, Texas, California, Philadelphia and Georgia.

They are seeking billions of dollars in damages after Robinhood restricted the buying and selling of securities, such as "meme stocks" including GameStop Corp. and Nokia Corp., on Jan. 28, 2021, amid an unprecedented Reddit-fueled price hike, according to the 71-page complaint. That move eliminated more than $10 billion in the market cap of the restricted companies, the suit alleges.

They added that Robinhood designed its business model to attract a demographic most likely to trade in "hot stocks" and boost order flow in "hot stocks" the company knew were volatile. But "as a true amateur among institutional brokers, [Robinhood] failed to protect itself, the financial markets, and its customers from the systemic risks that came with fueling volatile trading," according to the court-ordered redacted complaint.

Antony L. Ryan, a partner at Cravath Swaine & Moore in New York and lead attorney for Robinhood, did not immediately respond to a request seeking comment.

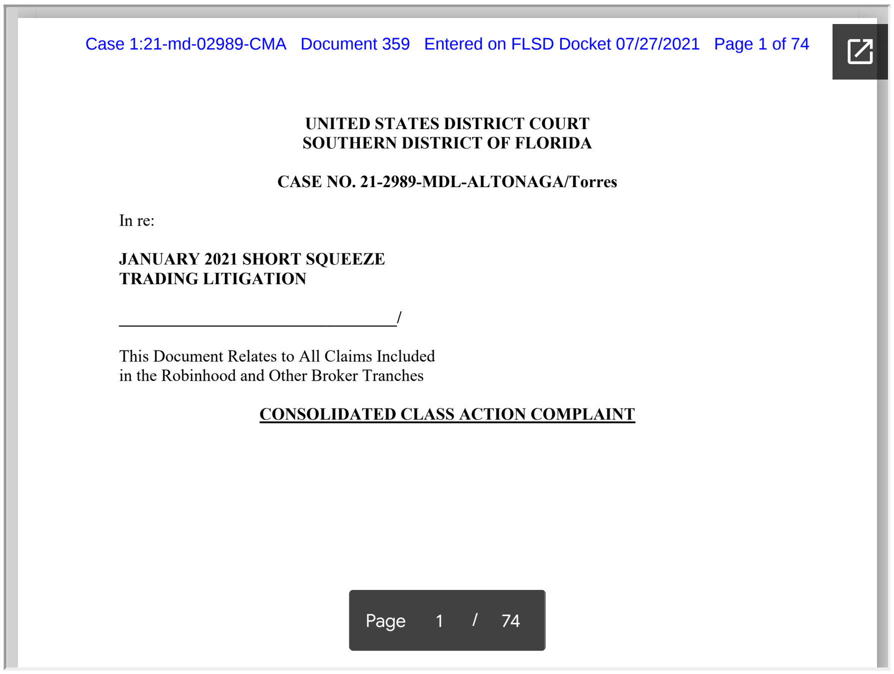
In a blog post a day after Robinhood restricted trading on several companies, the company explained it was required to maintain a substantial amount of cash on hand to process the trades through its clearinghouse.

"It was not because we wanted to stop people from buying these stocks," Robinhood stated in the blog post. "We did this because the required amount we had to deposit with the clearinghouse was so large—with individual volatile securities accounting for hundreds of millions of dollars in deposit requirements—that we had to take steps to limit buying in those volatile securities to ensure we could comfortably meet our requirements."

At the time, there were varied allegations in lawsuits as to why online trading platforms like Robinhood halted trading in meme stocks, including that the companies sought to protect hedge funds, who were betting on the price of the stocks to fall, from realizing additional losses.

Now, the consolidated class action will go before U.S. District Court Chief Judge Cecilia M. Altonaga, who sits in the Southern District of Florida.

Read the complaint:



Case 1:21-md-02989-CMA Document 359 Entered on FLSD Docket 07/27/2021 Page 1 of 74

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 21-2989-MDL-ALTONAGA/Torres

In re:

JANUARY 2021 SHORT SQUEEZE
TRADING LITIGATION

_______________________________/

This Document Relates to All Claims Included
in the Robinhood and Other Broker Tranches

CONSOLIDATED CLASS ACTION COMPLAINT

Page 1 / 74

In February, Robinhood CEO Vlad Tenev went before the U.S. House Committee on Financial Services and apologized for the confusion caused by his platform to restrict the trade of certain meme stocks without indicating any mistakes, according to the complaint.

And even though Robinhood is a startup of recent vintage, the plaintiff lawyers noted the company's "all-time record-breaking penalties, including the largest financial penalty ever ordered" by the Financial Industry Regulatory Authority. Among the reasons Robinhood paid the $135 million penalty on June 30 was to settle accusations that it misled customers about its use of payment for order flow.

The company, set to list on the public market Thursday, trading as "HOOD," also indicated in its S1 filing to the Securities and Exchange Commission that it "cannot assure that similar events will not occur in the future"—an indication that the basis of the MDL might not be the last legal problem the young company could face in the future.

"The startup mentality of 'move fast and break things' has spawned incredible innovation in the last decade," said Salas, the plaintiff's lead counsel. "What Robinhood failed to appreciate is that that mentality is wholly inappropriate when the thing you are breaking is the stock market."

Read more:

[Robinhood Takes From Poor to Give to Rich? Miami Firm Leads Florida Class Action]

['Miami Is Ready' for National Cases: MDL Panel Picks Florida for Robinhood Litigation]

[Lawsuits Over GameStop Trading Expand Beyond Robinhood, Alleging an Antitrust Conspiracy]

You Might Like

January 27, 2021

Case to Watch: International Litigation Over Cryptocurrency Could Set Federal Precedent

By Michael A. Mora

1 minute read