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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Investors Say Robinhood Restrictions Caused \$10B In Losses

By **Carolina Bolado**

Law360 (July 27, 2021, 4:35 PM EDT) -- Investors who were thwarted from buying shares of GameStop and other volatile stocks earlier this year are arguing that stock-trading app Robinhood failed to properly capitalize its business and implement adequate risk controls, leading to trading restrictions that the investors say caused more than \$10 billion in market capitalization losses.

In the first consolidated proposed class complaints filed in the multidistrict litigation over the trading restrictions, the investors on Monday called Robinhood Markets Inc. a "true amateur among institutional brokers" that failed to protect itself and had no plan to protect customers from the systemic risks that come with pumping up volatile stocks.

The company, which is set to go public later in what is expected to be a \$35 billion initial public offering, did not have appropriate cash reserves to meet the margin requirements to support the market activities it was promoting, namely trading of popular "hot stocks" like GameStop, according to the suit.

"By imposing restrictions on only one side of the transaction — the buy side — and depriving plaintiffs and other members of the class of the ability to purchase the suspended stocks, the majority of which were traded on its platform, while allowing selling to continue, Robinhood artificially depressed prices of the suspended stocks," the investors said.

The complaints consolidate claims of more than 55 lawsuits filed against the stock-trading app into two tracks: a group of claims against Robinhood and other brokers and another set of antitrust claims alleging an anti-competitive scheme to restrict investors' access to the stock market.

"The startup mentality of 'move fast and break things' has spawned incredible innovation in the last decade," Natalia Salas, who is among the attorneys for the lead plaintiffs, said in a statement. "What Robinhood failed to appreciate is that that mentality is wholly inappropriate when the thing you are breaking is the stock market."

A representative for Robinhood declined to comment.

The U.S. Judicial Panel on Multidistrict Litigation centralized the cases in May in the Southern District of Florida.

While several online trading platforms were named in the individual lawsuits, Robinhood is at the center of the controversy, as it is named in almost all the actions. The suits make nearly the same claims: breach of contract, breach of fiduciary duty, breach of the implied covenant of good faith and fair dealing, and negligence.

The investors are represented by Natalia M. Salas, James L. Ferraro, James Ferraro Jr., Bruce S. Rogow, Sean A. Burstyn and Daniel J. DiMatteo of The Ferraro Law Firm PA, Peter Safirstein of Safirstein Metcalf LLP, Joseph R. Saveri, Steven N. Williams, Christopher K.L. Young and Anupama K. Reddy of Joseph Saveri Law Firm and Frank R. Schirripa, Kathryn Hettler, Seth Pavsner and Eugene Zaydfudim of Hach Rose Schirripa & Cheverie LLP.

Robinhood is represented by Andrew D. Huynh, Antony L. Ryan, Brittany L. Sukiennik and Kevin J. Orsini of Cravath Swaine & Moore LLP, Benjamin H. Diessel and John H. Doroghazi of Wiggin and

Dana LLP, Carl Brandon Wisoff and Eric D. Monek Anderson of Farella Braun & Martel, Craig C. Reilly of Law Office of Craig C. Reilly, Craig Steven Rutenberg and Naeun Rim of Manatt Phelps & Phillips LLP, Dennis P. Waggoner and Joshua C. Webb of Hill Ward Henderson, Elizabeth Robben Murray and Kevin A. Crass of Friday Eldredge & Clark LLP, Grace Kang of Bird Marella Boxer Wolpert Nessim Drooks Lincenberg & Rhow PC, Gustavo J. Membiela, Maria Castellanos Alvarado and Samuel A. Danon of Hunton Andrews Kurth LLP and Odean L. Volker of Haynes and Boone LLP.

The case is In re: January 2021 Short Squeeze Trading Litigation, case number 1:21-md-02989, in the U.S. District Court for the Southern District of Florida.

--Editing by Jill Coffey.

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