Robinhood Victims Appeal Premature Dismissal of January 2021 "Short Squeeze" Lawsuit

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The Robinhood appeal comes as a House Report finds Robinhood exhibited troubling business practices, inadequate risk management, and a culture that prioritized growth above stability.

A putative class of individual investors seeking billions of dollars from Robinhood is appealing a lower court's dismissal of their case to the U.S. Court of Appeals for the Eleventh Circuit. The underlying lawsuit seeks to hold Robinhood accountable and to recover losses Plaintiffs suffered because of Robinhood's unprecedented trading restrictions designed to tank the market price of 13 stocks during the January 2021 "Short Squeeze."

"Far from honoring its namesake, Robinhood stole from novice investors it had spent years soliciting so that the company and wealthy institutional players could benefit from their losses," wrote Jesse Panuccio in a brief to the Eleventh Circuit. Panuccio, co-chair of Boies Schiller Flexner's appellate practice, represents the Robinhood Plaintiffs on appeal. "The question presented in this appeal is whether Big Tech companies can shield themselves from the duties and rules that apply to everyone else in the financial industry. That is not, and should not be, the law. Big Tech is not a law unto itself."

The attorney team filed the brief shortly after the release of an exhaustive Congressional Report by the House Financial Services Committee, exposing Robinhood's "troubling business practices, inadequate risk management, and a culture that prioritized growth above stability during the Meme Stock Market Event." According to the Report, Robinhood's internal documents show a much more dire situation than what was communicated to its clients, as employees scrambled to keep Robinhood afloat in the January 2021 Short Squeeze. The Report concludes that Robinhood most likely imposed trading restrictions because of inadequate liquidity and risk management. Likewise, the appeal cites Robinhood's own internal documents and admissions in seeking to hold Robinhood liable for its failure to maintain adequate safeguards against market volatility and imposition of trading restrictions known to harm its clients.

"The lower court erred when it ruled that one of the country's largest stockbrokers is immune from all common-law duties that apply to conventional stockbrokers," said Natalia Salas, Lead Counsel for the Robinhood Tranche of Plaintiffs. "If this decision is permitted to stand, every online brokerage has free reign to protect its own profits, manipulate the market for itself or favored clients, and face no common-law liability," Salas said.

The brief filed in the Eleventh Circuit argues that Robinhood violated its fiduciary duties by elevating its self-interest over the interests of its clients, noting that Robinhood's CEO publicly admitted the stockbroker imposed trading restrictions to benefit in firm even though it "knew this was a bad outcome for customers." The brief explains that Robinhood is paradoxically trying to hide behind its status as a "nondiscretionary broker" (that is, a broker of client-directed trades) while also claiming its Customer Agreement gives it total discretion over client accounts. The brief also argues that by failing to maintain a risk-monitoring system and adequate capital reserves, while simultaneously promoting massive growth of its client base and trading volume on its platform, Robinhood acted negligently.

Salas is a partner at the Miami-based Ferraro Law Firm and was appointed in 2021 as Plaintiffs' Lead Counsel for the Robinhood Tranche of the "Short Squeeze" Multidistrict Litigation pending in the Southern District of Florida. Panuccio is a partner at Boies Schiller Flexner LLP, a firm of internationally recognized trial lawyers, crisis managers, and strategic advisers known for creative, aggressive, and efficient pursuit of success for clients.

The appeal can be found here.

Boies Schiller Flexner LLP - Jesse Panuccio