

# Congress of the United States

Washington, DC 20515

December 19, 2024

Vlad Tenev  
Chairman and Chief Executive Officer  
Robinhood Markets  
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Menlo Park, California 94025

JB Mackenzie  
Vice President and General Manager of Futures and  
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Robinhood Markets  
85 Willow Road  
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Dear Mr. Tenev and Mr. Mackenzie:

We write to seek clarity about Robinhood's recent decision to allow its customers to gamble on the results of the U.S. presidential election. Just two weeks before election day, on October 28, 2024, Robinhood launched political event contracts. These contracts enabled Robinhood customers to buy and sell 'Yes' or 'No' contracts for each candidate, the price of which varied based on the market's prediction for each candidate's odds of winning the election. Customers who own contracts with the correct outcome would receive \$1.00 per contract, while those who bet on the losing candidate would walk away with nothing.<sup>1</sup> It appears that Robinhood has capitalized on election betting to expand its profits, which could come at the expense of protecting investors.

Robinhood has characterized this latest offering as "unlocking a new asset class that democratizes access to events as they unfold."<sup>2</sup> This marketing raises concerns, especially given Robinhood's history of exploiting inexperienced traders. Earlier this year, Robinhood settled charges with a state securities regulator for treating trading as a game, employing addictive in-app features like confetti, lottery ticket scratch-offs for free stock rewards, and push notifications to lure young, inexperienced investors into placing risky trades.<sup>3</sup> In 2021, Robinhood was fined a record-setting \$70 million for harming millions of its customers, including approving thousands to buy options, which are complex and risky financial instruments. For years, Robinhood relied on automated systems to authorize customers to place these trades, which resulted in rubber-stamp approval for customers who did not meet the necessary eligibility criteria for options trading.<sup>4</sup>

The widespread harm inflicted by Robinhood on its customers cannot be undone. In 2020, 20-year-old college student Alex Kearns tragically took his own life after Robinhood approved him for options trading, allowed him to take on \$730,000 in positions and exposure that he did not have the liquidity to cover, displayed false and misleading information about margin trading, and failed to provide him with the necessary customer support and investment guidance.<sup>5</sup> It should give lawmakers, regulators, and investors immediate pause that Robinhood allows users to bet on elections with minimal requirements. To engage in such trading, Robinhood only requires

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<sup>1</sup> "Robinhood event contracts," <https://robinhood.com/us/en/support/articles/robinhood-event-contracts/>.

<sup>2</sup> "Robinhood wants a piece of the prediction markets pie: Users can now bet on who will win the presidential election," 28 Oct. 2024, <https://fortune.com/2024/10/28/robinhood-presidential-election-odds-prediction-markets-betting-donald-trump-kamala-harris/>.

<sup>3</sup> Robinhood settles Massachusetts regulators' trading case for \$7.5 million," 18 Jan. 2024, <https://www.reuters.com/legal/transactional/robinhood-settles-massachusetts-regulators-trading-case-75-million-2024-01-18/>; Consent Order, <https://www.sec.state.ma.us/divisions/securities/download/RH-Consent-Order.pdf>.

<sup>4</sup> "FINRA Orders Record Financial Penalties Against Robinhood Financial LLC," 30 Jun. 2021, <https://www.finra.org/media-center/newsreleases/2021/finra-orders-record-financial-penalties-against-robinhood-financial>.

<sup>5</sup> *Id.*; "Robinhood settles lawsuit over 20-year-old trader who died by suicide," 1 Jul. 2021, <https://www.cnn.com/2021/07/01/business/robinhood-lawsuit-suicide-settlement/index.html>.

that customers have margin investing enabled or Level 2 or 3 approval for options trading.<sup>6</sup> In 2021, Robinhood claimed it had “revised experience requirements” for customers seeking approval for riskier option trades; however, a CBS investigation later revealed just how easy it still was to obtain approval to trade options.

When asked about investing experience, choosing “none” rejects users from trading options. However, the app then prompted the user to update their experience level and changing the response to “not much” results in approval.<sup>7</sup> Currently, Robinhood’s website vaguely states that they evaluate information about a customer’s “trading experience, investment objectives, and financial situation” for options approval, while emphasizing that each brokerage retains the discretion to set the specific parameters.<sup>8</sup>

Political event contracts are high-risk, speculative, and volatile products designed to attract retail traders and keep them trading. The nature of political polls shifting rapidly ahead of a high-profile election exacerbates incentives built into Robinhood’s platform. Robinhood has a reason to motivate retail investors to trade more frequently so that Robinhood can make money on the back end by routing orders to market makers through a practice called payment for order flow (PFOF). Political betting is attractive because these trades are fully collateralized from the start, where losses are capped at what has been put up as collateral. However, this could encourage risky behavior and lead traders to take larger or more frequent positions and accumulate losses over time. Moreover, political event contracts are structured as binary options that settle depending on whether an event occurs or not<sup>9</sup>—there’s an all-or-nothing payout, where traders stand to and often lose the entirety of their investment. For instance, an Australian Securities and Investments Commission study found that 80% of retail customers lost money trading binary options.<sup>10</sup> The UK’s Financial Conduct Authority has identified several other risks associated with speculative binary options products, including conflicts of interest, where the firm benefits when customers lose.<sup>11</sup>

Furthermore, these markets can be easily manipulated by large bettors. For example, one French trader skewed the odds on Polymarket, an offshore betting platform, by putting nearly \$30 million on Donald Trump.<sup>12</sup> This is notable because options are sensitive to the volatility of the underlying asset—or in this case, the underlying event being the presidential election—and unexpected price swings can magnify potential losses.

Lastly, we are concerned by Mr. Tenev’s misguided comments suggesting that election betting markets are the “fastest way to get information about what’s happening” and address the “shortcomings” of traditional news media, citing that they delivered clear results hours before news networks called the election.<sup>13</sup>

<sup>6</sup> “Robinhood event contracts,” <https://robinhood.com/us/en/support/articles/robinhood-event-contracts/>.

<sup>7</sup> “Alex Kearns died thinking he owed hundreds of thousands for stock market losses on Robinhood. His parents have sued over his suicide,” 8 Feb. 2021, <https://www.cbsnews.com/news/alex-kearns-robinhood-trader-suicide-wrongful-death-suit/>.

<sup>8</sup> “Placing an options trade,” <https://robinhood.com/us/en/support/articles/placing-an-options-trade/>.

<sup>9</sup> “CFTC Jurisdiction Should Not Extend to Event Contracts,” 23 Sep. 2024, <https://clsbluesky.law.columbia.edu/2024/09/23/cftc-jurisdiction-should-not-extend-to-event-contracts/>.

<sup>10</sup> “ASIC bans the sale of binary options to retail clients,” 1 Apr. 2021, <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-064mr-asic-bans-the-sale-of-binary-options-to-retail-clients/>.

<sup>11</sup> “Consumer warning about the risks of investing in binary options,” 14 Nov. 2017, <https://www.fca.org.uk/news/news-stories/consumer-warning-about-risks-investing-binary-options>.

<sup>12</sup> “The French Connection to Online Bets on Trump,” 24 Oct. 2024, <https://www.nytimes.com/2024/10/24/business/dealbook/polymarket-trump-trader.html>.

<sup>13</sup> “Why Robinhood’s CEO thinks prediction markets are here to stay,” 8 Nov. 2024, <https://www.theverge.com/2024/11/8/24291588/robinhoods-ceo-election-prediction-market>.

However, the New York Times election needle and other forecasting tools were similarly quick to indicate President-elect Donald Trump’s advantage as results came in. It is likely that the prediction markets were responding to the same publicly available vote counts and analyses that informed the media’s forecasting tools, as opposed to providing unique insights.<sup>14</sup> Comments like these, including Elon Musk’s claims that these markets are “more accurate than polls,”<sup>15</sup> are dangerous and can fuel distrust in the election process.

In reality, election betting markets are relatively small and far from the scale of U.S. debt and equities markets, which involve a diverse range of participants and convey messages that are taken seriously.<sup>16</sup> Additionally, election betting markets have limited historical data available for accuracy,<sup>17</sup> and tend to attract specific user demographics, mainly younger individuals and males.<sup>18</sup> For instance, the average Robinhood customer is 31 years old<sup>19</sup> and the majority of its users are men, which does not accurately represent the broader electorate.<sup>20</sup>

Robinhood’s expansion into political gambling normalizes risky and speculative betting on critical events, which could cause significant harm to investors. To that end, we request answers to the following questions in writing by January 2, 2025.

1. Please detail the specific user information that Robinhood evaluates for Level 2 and 3 options trading approval.
2. What steps did Robinhood take during the 2024 election cycle to protect less sophisticated bettors from high-risk political gambles?
3. What safeguards are in place to prevent market manipulation in Robinhood’s political event contracts?
4. Why are users only allowed to trade political event contracts in-app<sup>21</sup> and not on Robinhood’s website?
5. How does Robinhood differentiate between responsible investing opportunities and speculative gambling in its marketing and user experience?
6. How does Robinhood address concerns that political betting markets could undermine trust in democratic institutions and contribute to misinformation?

Thank you for your attention to this important matter.

Sincerely,

<sup>14</sup> “Prediction Markets did NOT Nail the 2024 Election,” 13 Nov. 2024, <https://bettermarkets.org/newsroom/prediction-markets-did-not-nail-the-2024-election/>.

<sup>15</sup> Elon Musk (@elonmusk), 6 Oct. 2024, <https://x.com/elonmusk/status/1843132050242777187>.

<sup>16</sup> “Could Political Betting Swing the US Election?” 29 Oct. 2024, <https://www.bloomberg.com/news/articles/2024-10-29/could-political-betting-swing-the-2024-us-presidential-election>.

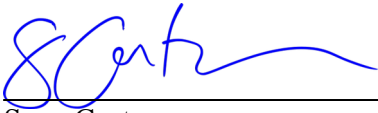
<sup>17</sup> “Nate Silver: Don’t trust the Trump swing in 2024 presidential election polls, betting markets data,” 30 Oct. 2024, <https://www.cnbc.com/2024/10/30/nate-silver-dont-trust-trump-swing-in-polling-prediction-markets.html>.

<sup>18</sup> “It’s not just election betting: Why one expert thinks prediction markets will become bigger than stocks,” 14 Nov. 2024, <https://www.morningstar.com/news/marketwatch/20241114200/its-not-just-election-betting-why-one-expert-thinks-prediction-markets-will-become-bigger-than-stocks>.

<sup>19</sup> “Robinhood Has Lured Young Traders, Sometimes With Devastating Results,” 8 Jul. 2020, <https://www.nytimes.com/2020/07/08/technology/robinhood-risky-trading.html>.

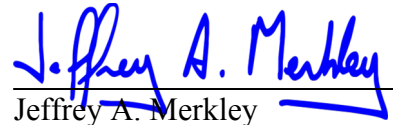
<sup>20</sup> “Robinhood Wants More Female Investors. So Does Everyone Else,” 7 Jan. 2021, <https://www.wsj.com/articles/robinhood-wants-more-female-investors-so-does-everyone-else-11610015400>.

<sup>21</sup> “Robinhood event contracts,” <https://robinhood.com/us/en/support/articles/robinhood-event-contracts/>.



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Sean Casten  
Member of Congress



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Jeffrey A. Merkley  
United States Senator



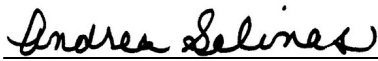
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Brad Sherman  
Member of Congress  
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Andrea Salinas  
Member of Congress