

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080128087**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Deutsche Bank Securities Inc., ("DBSI")
CRD No. 2525

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, DBSI submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against it alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. DBSI hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

DBSI, member of FINRA, NYSE Euronext, and Securities Investor Protection Corporation ("SIPC"), is a registered broker-dealer with its principal place of business in New York, New York and serves as the investment banking and securities arm of Deutsche Bank AG in the United States. DBSI provides a comprehensive range of advisory, financial, securities research, and investment services to corporate and private clients. The Firm also provides investment banking services to corporate clients.

RECENT DISCIPLINARY HISTORY

DBSI has the following prior recent disciplinary history:

In February 2010, pursuant to a Letter of Acceptance, Waiver and Consent, No. 20080144505, FINRA found that the Firm violated, among other things, Regulation SHO's locate requirement by allowing certain client short sale orders to proceed for execution without conducting sufficient follow-up to ensure that a valid locate had been previously obtained and documented, Regulation SHO's provisions concerning certain long sale orders accepted from clients, Securities Exchange Act of 1934 Rule 17a-3(a)(1) and 3011(a) requirement to make and keep daily records of all receipts and disbursement of cash, debits and credits, and NASD Rule 3010 for its failure to establish, maintain and enforce a supervisory system with respect to the

requirements of Regulation SHO, among other rules. DBSI received a censure and a fine of \$575,000.

OVERVIEW

During 2006 and 2007, Deutsche Bank Securities, Inc. ("DBSI" or the "Firm") underwrote subprime residential mortgage backed securities ("RMBS"). DBSI employees assisted in the preparation of the offering documents, including prospectuses, and sold these securities to institutional investors.

In prospectus supplements for six subprime securitizations worth approximately \$2.2 billion that DBSI underwrote and sold in 2006, DBSI negligently underreported the delinquency rates, or the percentage of underlying loans that were delinquent at the time of the creation of the trust, for the loan pools which served as collateral for these securities. As a result, DBSI violated NASD Rule 2110.

DBSI also negligently underreported the historical delinquency data, or static pool information, in connection with 16 subprime RMBS securitizations that it underwrote and sold in 2007. The required static pool information, which is posted on DBSI's publicly accessible website (the "Reg AB website") and referenced in the prospectus supplements for like deals, illustrates the past performance of DBSI's prior securitizations that contain similar mortgage loans as collateral. After the Firm became aware that the static pool information underreported historical delinquency rates, it continued to refer customers in its prospectus materials to the erroneous data in 16 subsequent subprime securitizations. As a result, DBSI violated NASD Rule 2110.

In addition, DBSI violated NASD Rules 3010 and 2110 by failing to have adequate supervisory systems in place to ensure that its Reg AB website contained accurate static pool information.

FACTS AND VIOLATIVE CONDUCT

Background

Subprime RMBS are created when pools of subprime mortgages are collected and the cash flows are redistributed to different bond classes called tranches. The tranches, in order of seniority, typically include senior, mezzanine and subordinate levels of debt and equity, each of which represent a different beneficial ownership interest in the particular securitization and carry correspondingly different levels of risk. The tranche classification depends on its priority in receiving payments from the collateral pool.

As underwriter, DBSI prepared the offering documents for the subprime RMBS securitizations and sold these securities to institutional investors. Among the offering documents that DBSI employees assisted in preparing was a prospectus supplement, which described in detail the characteristics of the mortgage pool, including the percentage of delinquent mortgage loans in the underlying collateral of the particular offering. The prospectus supplement also referred the reader to the Reg AB website, a publically accessible website maintained by the Firm that provided investors with historical delinquency and other data, called static pool information, illustrating how assets of the same type in prior securitizations have performed.

Delinquency rates constitute material information because they assist investors in making informed investment decisions when purchasing asset-backed securities. Such data may impact the ability of an investor to evaluate the fair market value, the yields on the certificates and the anticipated holding periods of each of these securitizations. Some investors may consider this information in assessing the profitability of these securitizations and determining whether future returns would be disrupted by mortgage holders who fail to make loan payments. Prospectus supplements containing this and other information were prepared for each subprime RMBS offering and filed with the Securities and Exchange Commission as each securitization was completed.

DBSI employees in the mortgage securitization unit of the subprime RMBS trading desk assisted in the underwriting and securitization process. This group of employees gathered all the pertinent information regarding each subprime RMBS securitization, including the loan tapes,¹ characteristics of the mortgage loans and the percentage of delinquent loans to be included in each subprime RMBS securitization. DBSI employees then coordinated with outside counsel to draft the prospectus materials and provided outside accountants with the delinquency rates they calculated to verify the statistical or numeric data contained in the prospectus supplement. DBSI employees, thereafter, reviewed all offering materials, including the prospectus supplement, for completeness and accuracy prior to its issuance to institutional investors.

A Depositor, which is a separate legal entity from DBSI, but in certain instances was an affiliate of DBSI, maintained the underlying asset pool which consisted of the underlying mortgages comprising the collateral for the securitization. The Depositor created a Trust, which was administered by a Trustee that structured the asset pool into classes of certificates that comprise the different tranches of the securitization.

As underwriter, DBSI purchased the certificates issued by the Trust and sold them to institutional investors who were provided a prospectus supplement.

The Trustee administers the collection of cash, and distributes the interest and principal to the investors. The Trustee administers the Trust through a Servicer, who is responsible for collecting the loan payments from the borrowers. Based on information received from the Servicer, the Master Servicer issues monthly reports to the certificate holders that provide performance information about the underlying collateral, such as payments, delinquencies and foreclosures.

A Credit Risk Manager selected by the Trust monitors the Servicer to ensure that it is accurately reporting the performance of the collateral and reports to the Depositor on the performance of the mortgage loans.

¹ Loan tapes are electronic spreadsheets which contain a loan-by-loan description of each mortgage in the collateral pool including, among other things, delinquencies, location of mortgaged property, and additional financial information about the borrower.

DBSI Negligently Underreports Delinquencies in Six Subprime Securitizations

In March 2006, DBSI offered various classes of certificates for sale in the ACE Securities Corp. Home Equity Loan Trust, Series 2006-ASAP1 ("ASAP1"), 2006-ASAP2 ("ASAP2"), 2006-SL1 ("SL1"), 2006-SL2 ("SL2"), 2006-SD 1 ("SD1"), and 2006-SD2 ("SD2"). These six securitizations represented approximately \$2.2 billion in subprime RMBS.

Given DBSI's role as underwriter and seller of these securities, its employees coordinated with outside counsel and accountants and assisted in the preparation and review of the prospectus supplements that were issued for each of the six securitizations. For the purposes of calculating delinquency percentages that were incorporated in the six prospectus supplements, the Firm used a methodology promulgated by the Office of Thrift Supervision ("OTS") commonly used for subprime RMBS. Under the OTS method, a mortgage loan is considered to be delinquent when the monthly payment is not received by the loan's due date in the following month.

However, the definition of the delinquency calculation methodology included in the six prospectuses, drafted by outside counsel and reviewed by DBSI, erroneously provided that "[a] Mortgage Loan is considered to be delinquent when a payment due on any due date remains unpaid as of the close of business on the last business day *immediately prior* to the next monthly due date [emphasis added]." The use of the phrase "immediately prior to the next monthly due date" erroneously described the Mortgage Bankers Association ("MBA") method for calculating delinquency rates.

Under the MBA method, a mortgage loan is considered to be delinquent when a payment due on any due date remains unpaid as of the close of business by the end of the day *immediately preceding the loan's next* due date. The MBA method, therefore, begins to count delinquency as soon as a payment is not received. In contrast to the MBA method, the OTS method begins to *count delinquency one month after the first payment is missed* by the mortgagee. Thus, the number of delinquent loans in a subprime securitization were generally lower under the OTS method than under the MBA method.

Since the delinquency figures referenced in the prospectus supplements were calculated using the OTS, rather than MBA, method, the prospectus supplements at issue reported fewer delinquencies contained in the mortgage pool than would have been reported had the MBA method actually been employed. Those reporting discrepancies are illustrated in the chart below.

RMBS	Approx \$ Value of UPB ²	OTS 30-59 days	App. OTS \$Value of UPB	MBA 30-59 days	App. MBS \$Value of UPB	OTS 60-89 days	App. OTS \$Value of UPB	MBA 60-89 days	App. MBA \$Value of UPB
ASAP1	\$486M	0%	0	0%	0	0%	0	1.58%	\$7.7M
ASAP2	\$554M	2.00%	\$11.1M	5.33%	\$29.6M	0%	0	0.75%	\$4.2M
SL1	\$349M	3.14%	\$11M	5.66%	\$22.3M	0%	0	3.14%	\$11M
SL2	\$538M	0.55%	\$2.9M	2.11%	\$11.3M	0%	0	0.55%	\$2.9M
SD1	\$160M	8.75%	\$14M	24.02%	\$38.5M	0.29%	\$2.4M	8.56%	\$13.7M
SD2	\$139M	11.17%	\$15.5M	24.46%	\$33.9M	1.72%	\$2.4M	10.98%	\$15.2M

² "UPB" refers to unpaid principle balance of all the mortgages pooled for a particular securitization.

As the underwriter and seller of ASAP 1, ASAP 2, SL1, SL2, SD1 and SD2, DBSI was responsible for reviewing the offering materials to ensure that they did not contain any inaccurate information. However, in the prospectus supplements for each of these subprime securitizations, DBSI negligently misrepresented how the delinquency rates were calculated.

Delinquency rates constitute material information because they assist investors in evaluating asset-backed securities. Some investors may use this information in assessing the future profitability of these securitizations and determining whether future returns would be disrupted by mortgage holders who fail to make loan payments. The effect of DBSI's negligent misrepresentation of the method used to calculate the delinquency rates was to underreport the amount of loans that should have been characterized as delinquent in each of these securitizations. As a result, investors may have been impaired in their ability to evaluate the fair market value, the yields on the certificates and the anticipated holding periods of each of these securitizations.

DBSI's negligent misrepresentations concerning the methodology for calculating delinquency rates in six subprime RMBS securitizations constituted a violation of NASD Rule 2110.

DBSI Referred Investors to Inaccurate Static Pool Information in Connection with its Offer and Sale of 16 Subprime Securitizations Issued in 2007

On December 5, 2005, Regulation AB, which is the source of various disclosure items and requirements for 'asset-backed securities' filings under the Securities and Exchange Act of 1933, became effective.

Under Regulation AB, issuers of subprime RMBS are required to disclose historical performance information, called static pool information, including delinquency rates, for prior securitizations that contain similar mortgage loans as collateral. Several items in Regulation AB require the presentation of historical information and data on delinquencies and loss information, including the total amount of delinquent assets as a percentage of the aggregate asset pool, the present loss and cumulative loss information and any other material information regarding delinquencies and losses particular to the pool asset types. Thus, in order to sell a new securitization, DBSI was required to post data on how similar securitizations that it had underwritten had performed in the past. The disclosure requirement for static pool information can be satisfied by posting the historical delinquency data on a website with a specific Internet address, which for past deals issued after Regulation AB's effective date, will be deemed to be a part of the prospectus.

Following the effective date of Regulation AB, DBSI prospectus supplements for new subprime RMBS offerings informed investors that they could view static pool information for prior securitizations that was "material to ... the offering" in question, on its Reg AB website maintained at <http://regab.db.com/>.

Investors could visit the DBSI Reg AB website, click onto the hyperlink for a particular deal, and see static pool information for similar deals previously underwritten by the Firm. The static pool information showed the number of loans serving as collateral for prior securitizations that were 30 days, 60 days, 90 days, 120 days, 150 days, and 180+ days delinquent, and, among other data, the number of loans in bankruptcy and foreclosure at the end of each month.

DBSI retained a third party vendor (the "vendor") to maintain its Reg AB website. The vendor obtained all relevant static pool information from the monthly reports issued by the Master Servicer of the trust for each subprime securitization. The Master Servicer obtained the payment and delinquency information contained in the reports from the Servicers of the securitizations.

In January 2007, DBSI received a delinquency audit report (the "Report") from the Credit Risk Manager who was monitoring certain Servicers for RMBS deals underwritten by DBSI. The Report indicated that four Servicers of certain securitizations underwritten by DBSI had been tracking delinquencies improperly, resulting in monthly reports that underreported delinquency rates. Given that these affected securitizations would be included along with 41 other unaffected securitizations as part of the static pool information for deals underwritten and sold by DBSI in 2007, DBSI conducted an analysis to determine the extent to which delinquency rates were underreported. DBSI was able to determine the correct historical delinquency rates for 13 prior securitizations and provided the corrected delinquency data to the vendor to use as static pool information going forward. Results of this analysis conducted in 2007 revealed average monthly errors in the Master Servicer data ranging from 0.01 to 1.4%. However, the vendor failed to use the corrected data and the Firm, which never ensured that the vendor posted the corrected static pool information, continued to refer public investors through its prospectus materials to the inaccurate information about these 13 securitizations posted on the Reg AB website in 16 subsequent securitizations underwritten by the Firm in 2007.

DBSI also found that the historical data for three additional affected securitizations was referenced on the Firm's Reg AB website as part of the static pool information for subsequent securitizations underwritten by the Firm in 2007. The Servicer for those securitizations refused to cooperate with the Firm's efforts to reconcile the incorrect servicing data which underreported the delinquencies for those past deals. Accordingly, DBSI did not determine the extent to which delinquency rates were underreported in those securitizations. Yet, despite its awareness that the delinquency information was incorrect, DBSI continued to use the inaccurate delinquency data for those three securitizations as part of the static pool information for nine of the above 16 securitizations issued in 2007, without indicating on its Reg AB website that the reported delinquency figures were inaccurate.

In short, the Firm has never corrected or disclosed the inaccurate delinquency calculations on its Reg AB website in connection with the following 16 securitizations issued in 2007 in which the inaccurate delinquency data was referenced: ACE Securities Corp. Home Equity Loan Trust, Series 2007-ASL1, 2007-SL1, 2007-SL2, 2007-SL3, 2007-HE1, 2007-HE2, 2007-HE3, 2007-HE4, 2007-HE5, 2007-ASAP1, 2007-ASAP2 and Deutsche Alt A. Securities Inc. ("DBALT"), Series 2007-AB1, 2007-BAR1, 2007-AR1, 2007-AR2, 2007-AR3.

As such, investors in these 16 subsequent RMBS securitizations were, and continue to be, unaware that some of the static pool information published on the Reg AB website and referenced in prospectus materials contains inaccurate historical data which underreported delinquencies.

Historical delinquency rates for static pool information constitute material information for investors of subprime securitizations under Regulation AB. The effect of inaccurate static pool information for some of the referenced deals as erroneously reported on DBSI's publically

accessible website referenced in prospectus supplements was to underreport the amount of delinquent loans in each of those referenced securitizations. As a result, the fair market value, the yields on the certificates and the anticipated holding periods of each of those securitizations issued in 2007 could have been improperly evaluated by potential investors. By virtue of the foregoing, DBSI violated NASD Rule 2110.

DBSI's Failure to Supervise

NASD Conduct Rule 3010(a) requires that each member "establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with the Rules of this Association."

As part of the Firm's underwriting obligations, it was required to include static pool information for new subprime securitizations it was offering. Although DBSI was aware in January 2007 that delinquency rates were underreported in certain securitizations, DBSI continued to reference the inaccurate delinquency figures of 16 of those securitizations as part of the static pool information for 16 subsequent securitizations underwritten and sold by the Firm in 2007.

DBSI failed to take reasonable steps to verify that inaccurate static pool information contained on its Reg AB website and incorporated by reference in prospectus supplements for 16 securitizations was corrected and/or disclosed.

In addition, DBSI did not have a system in place to identify and correct these inaccuracies in the static pool information or to prevent the use of this inaccurate information in subsequent offerings.

These facts establish that DBSI failed to establish an adequate system to supervise its business of underwriting and sales of subprime RMBS securitizations in violation of NASD Conduct Rules 3010 and 2110.

B. DBSI consents to the imposition of the following sanctions:

1. A censure and
2. A fine of \$7.5 million.

DBSI agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. DBSI has submitted an Election of Payment Form showing the method by which it proposes to pay the fine imposed.

DBSI specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time thereafter, the monetary sanction imposed in this matter.

The sanction imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

DBSI specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, DBSI specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

DBSI further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

DBSI understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against DBSI; and

C. If accepted:

1. this AWC will become part of DBSI's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about its disciplinary record;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. DBSI may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. DBSI may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects its right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. DBSI may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. DBSI understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of DBSI, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that DBSI has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce DBSI to submit it.

July 7, 2010
Date

Deutsche Bank Securities Inc.

By: Joseph Polizzotto
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Accepted by FINRA:

July 16, 2010
Date

Signed on behalf of the
Director of ODA, by delegated authority

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