

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080144505**

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

RE: Deutsche Bank Securities Inc., Respondent
CRD#2525

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, the Respondent 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 the Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Respondent 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

Deutsche Bank Securities Inc. ("DBSI" or the "Firm"), member NYSE, FINRA and SIPC, is a registered broker-dealer with its principal office 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.

RELEVANT DISCIPLINARY HISTORY

*NYSE Arca Equities, Inc. v. Deutsche Bank Securities Inc., Equities Enforcement
Dec. No. 08-AE-02, 2008 WL 4190451 (September 10, 2008)*

In a settled matter between DBSI and NYSE Arca Equities, the Firm consented to findings that it failed to comply with certain requirements of Reg SHO and NYSE

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Arca Equities Rules related to the Firm's proprietary short selling activity. Specifically, between January 2005 through approximately October 2006, the Firm effected an unquantified but significant number of short sales on at least five of its 19 proprietary trading desks in securities that were not on the Firm's Easy-To-Borrow List without having borrowed the securities or entered into bona-fide arrangements to borrow the securities, or having reasonable grounds to believe that the securities could be borrowed for delivery when due, and without the proper documentation of such. Further, at least two of the Firm's proprietary trading desks did not properly adhere to the independent trading unit aggregation requirements and one trader on each of these two proprietary trading desks did not correctly mark an unquantified but significant number of proprietary sell orders. As a result, certain proprietary short sales were incorrectly marked long, and some of these orders were improperly executed on downticks. The Firm also failed to adequately supervise certain traders on at least five of its proprietary trading desks and failed to maintain and enforce written supervisory procedures concerning proprietary short sales in a manner reasonably designed to achieve compliance with the relevant provisions of Reg SHO and NYSE Arca Equities Rules. Also, one individual worked on the Firm's proprietary trading desks and was compensated for trading securities without being registered with NYSE Arca Equities. The Firm consented to a censure and a fine of \$575,000.

OVERVIEW

Effective September 7, 2004, the SEC adopted 17 CFR Part 242 ("Reg SHO") under the Securities Exchange Act of 1934 ("Exchange Act") and designated January 3, 2005 as the commencement date for compliance. Reg SHO was, among other things, designed to control the harmful effects on market prices and the volatility caused by naked short selling. With this primary goal in mind, Reg SHO was designed to: (i) create uniform order marking requirements for sales of equity securities; (ii) reduce the number of potential failures to deliver (hereinafter referred to as a "fail" or "fail to deliver") by means of a "locate" requirement; and (iii) limit the time in which a broker-dealer can permit a fail to deliver (hereinafter referred to as a "fail" or "fail to deliver") to persist for securities on the various SRO threshold security lists ("threshold securities").¹

As set forth below, the Firm failed at times to comply with certain requirements of Reg SHO, FINRA Rules, NASD Rules and other SEC Rules during the period covering, in whole or in part, January 3, 2005 through approximately September 30, 2009 (the "Relevant Period").

¹ Threshold Securities are equity securities that have an aggregate fail to deliver position for: (i) five consecutive settlement days at a registered clearing agency (e.g., National Securities Clearing Corporation ("NSCC")); (ii) totaling 10,000 shares or more; and (iii) equal to at least 0.5% of the issuer's total shares outstanding.

As discussed further below, in certain instances the Firm:

- 1) accepted short sale orders from its clients and subsequently released them for execution through its direct market access ("DMA") platform without having borrowed the securities or entered into bona-fide arrangements to borrow the securities, or having reasonable grounds to believe that the securities could be borrowed for delivery when due, and without the proper documented compliance of such;
- 2) marked client sell orders as "long" when it did not have the reasonable grounds to believe that these clients owned the security and would deliver it by settlement date in that the Firm did not monitor client long sales to determine whether they required borrowed shares for delivery or resulted in fails. Furthermore, the Firm effected "long" sales and used borrowed shares to make delivery and/or failed to deliver the securities on the date delivery was due;
- 3) had unfulfilled close-out obligations in threshold securities, failed to utilize the Archipelago Exchange threshold security list to monitor its close-out obligations, effected short sales in threshold securities while a close-out obligation was pending without borrowing the security or entering into a bona-fide arrangement to borrow the security, and did not apply the method as prescribed in Frequently Asked Question ("FAQ") 5.8² to close-out aged threshold fails;
- 4) provided inaccurate information on the Firm's blue sheet reports by erroneously reflecting position movements between related client accounts as buy and sell transactions and, in certain instances erroneously reported short sales as long sales;
- 5) did not monitor, effect buy-ins or file extensions for client long sale orders in non-RVP/DVP prime brokerage accounts where the Firm had not obtained possession of the securities from the client within 10 business days after the settlement date;
- 6) in connection with the points above, failed to implement procedures and systems reasonably designed to ensure compliance with the relevant sections of Reg SHO, the Rules of the NASD and FINRA, and other securities laws and regulations; and
- 7) failed to maintain accurate books and records by booking long sales to short

² To clarify the process for aging and closing-out threshold fails that had been in existence since the inception of Reg SHO, the SEC issued FAQ 5.8 on March 17, 2006 to provide further details on the accounting methodology to be utilized by a firm in aging and closing-out threshold fails. After the issuance of FAQ 5.8 on March 17, 2006, there was no basis a firm could assert for aging and closing-out its fails in threshold securities other than as set forth in FAQ 5.8.

accounts and failing to maintain certain trade data for orders entered by a client through the BRUT Electronic Communication Network ("ECN").

FACTS AND VIOLATIVE CONDUCT

I. The Firm Violated Reg 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

Rule 203(b)(1) of Reg SHO states that, subject to certain exceptions, a "broker or dealer may not accept a short sale order in an equity security from another person, or effect a short sale in an equity security for its own account, unless the broker or dealer has: (i) Borrowed the security, or entered into a bona-fide arrangement to borrow the security; or (ii) Reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due; and (iii) Documented compliance with this paragraph (b)(1)."

Reg SHO requires a broker-dealer to have reasonable grounds to believe the security can be borrowed so that it can be delivered in time for settlement before effecting a short sale in that security. Identifying a source from which to borrow such security is generally referred to as obtaining a "locate." Reg SHO requires that such locate be obtained and documented prior to effecting the short sale.

The Firm Disabled a System That Verified Locate Information, Prior to Execution, For Client Short Sale Orders Entered Through a Direct Market Access Platform

During the Relevant Period, the Firm provided its clients with access to the Firm's DMA platform. The DMA platform's order/executions system ("OES") was directly linked to the Firm's availability and locate system ("Locate System") through which clients made locate requests for shares of securities and received approvals. Locate approvals recorded in the Firm's Locate System were transmitted back to the client and linked to the OES.

The OES and DMA platforms were configured so that when a customer entered a short sale order through the DMA platform, the OES would perform an automated check of the Firm's Locate System. If the OES recognized a locate code previously authorized by the Firm for that particular customer and security in the Locate System (i.e., a valid locate code), OES would release the order for execution. However, if the OES did not find a valid locate code, the order would be automatically blocked (the "Automated Block").

During the Relevant Period, however, the Firm's systems sometimes experienced outages that prevented the OES from importing locate data from the Locate System. As a result, while these system outages were ongoing, client short sale

orders placed through DMA for execution in OES were automatically rejected and could not be executed, even where the client might have previously obtained a valid locate and that locate was properly documented in the Locate System.

In response to these instances of system outages and the rejected client short sale orders, the Firm disabled the Automated Block, thereby allowing client short sale orders to automatically proceed for execution without first confirming the presence of an associated locate. The Firm's procedures required that clients obtain a locate prior to submitting a short sale order through the DMA platform. Nonetheless, by disabling the Automated Block, the Firm created the possibility that a short sale order entered through DMA could be released for execution without a valid locate having first been obtained.

The Firm disabled the Automated Block for an individual client, a number of clients, or for all of its clients, depending on the severity of the system outages on a particular day. Further, until January 2008, the Firm maintained incomplete logs of the instances in which the Automated Block was disabled, and therefore it cannot be determined how often or for how long these outages occurred. Nonetheless, based on the information contained in those logs, it is clear that between March 2006 and January 2008, the Automated Block was lifted at least several times, on average, per month. For example, during the period of 30 trading days between May 17th and June 28th, 2007, the Automated Block was disabled a total of 24 of those days for all clients and for the entire day. While the disabling of the Automated Block occurred less frequently over time, there are still occurrences, even today, when the Firm disables the Automated Block because of technological outages.

The Firm failed to conduct a meaningful post-trade date ("T+1") review to ascertain whether client short sale orders it accepted through DMA and released for execution while the Automated Block was disabled had an associated locate. While the Firm's post-trade date review improved over time, the Firm did not implement a supervisory system that required the comparison of short sale orders entered through DMA during those times with the entries in its Locate System on a T+1 basis until September 2009.

The primary function of the Automated Block was to ensure that client short sale orders entered through DMA had an associated valid locate documented in the Firm's Locate System. Nonetheless, even though the Firm was aware that this system was periodically disabled over a period of more than four years, the Firm failed to devise or implement a replacement procedure to fulfill its regulatory obligation. As a result, the Firm created the possibility that short sales could be entered and executed through DMA even if no locate had been obtained and/or documented in the Firm's Locate System.

A review of a limited sample of short sale orders revealed that some short sales entered through DMA during times that the Automated Block was disabled were,

in fact, released for execution without any evidence in the Firm's Locate System that a locate had actually been obtained. Specifically, out of nine stocks reviewed for time periods ranging from four to six weeks, approximately five short sale orders (out of a total of approximately 240) were executed even though no locate was recorded in the Locate System. Given that during the Relevant Period, hundreds of thousands of short sale orders were released on a daily basis through the Firm's DMA platform, the actual number of short sale orders that were or may have been released without required locates having first been obtained is unquantified.

The Firm's Easy-to-Borrow List Was Not Properly Constructed

As permitted under Reg SHO, the Firm maintained a daily list of securities that were easy to borrow (the "ETB List"). If a security was on the ETB List, it was not necessary for a customer to procure a specific locate prior to the entry of a short sale in that security. Rather, the customer was not required to enter a locate code and the DMA platform interfaced with the Firm's Locate System and recognized that the security was on the Firm's ETB List.

During the period January 2005 to approximately April 2007, the Firm's procedures for the compilation of its ETB List were deficient and, as a result, in certain instances securities appeared on the ETB List even though they were hard to borrow and/or threshold securities. The Firm changed its procedures for the compilation of its ETB List in approximately April 2007, thereby eliminating the possibility that a security could wrongly appear on the ETB List due to the same deficiency.

Summary of Rule 203(b)(1) Violations

Based upon the foregoing conduct, the Firm violated Rule 203(b)(1) of Reg SHO during the Relevant Period by, in certain instances, accepting short sale orders from clients through its DMA platform without ensuring that a valid locate had been previously obtained. For the period January 3, 2005 to December 14, 2008, this violative conduct also constitutes a violation of NASD Conduct Rule 2110, and for the period December 15, 2008 to September 30, 2009, this violative conduct also constitutes a violation of FINRA Rule 2010, both of which require that a firm, in the conduct of its business, observe high standards of commercial honor and just and equitable principles of trade.³

³ See FINRA Regulatory Notice 08-57, which describes certain changes to FINRA's rules including the change of NASD Rule 2110 to FINRA Rule 2010, effective December 15, 2008.

II. The Firm Violated Reg SHO's Provisions Concerning Certain Long Sale Orders Accepted From its Clients

Rule 200(g) of Reg SHO provides, in pertinent part:

A broker or dealer must mark all sell orders of any security as "long," "short," or "short exempt."⁴ (1) An order to sell shall be marked "long" only if the seller is deemed to own the security being sold pursuant to paragraphs (a) through (f) of this section and either: (i) The security to be delivered is in the physical possession or control of the broker or dealer; or (ii) it is reasonably expected that the security will be in the physical possession or control of the broker or dealer no later than the settlement of the transaction.

Rule 203(a)(1) of Reg SHO provides, in pertinent part:

Long sales. (1) If a broker or dealer knows or has reasonable grounds to believe that the sale of an equity security was or will be effected pursuant to an order marked "long," such broker or dealer shall not lend or arrange for the loan of any security for delivery to the purchaser's broker after the sale, or fail to deliver a security on the date delivery is due.

Pursuant to Reg SHO Rules 200(g) and 203(a), a firm must have "reasonable grounds" to both believe that a customer who marks a sale order as "long" owns the shares of that security at the time the order is accepted and that it is reasonably expected that the customer will deliver them to the firm in time for settlement of the sale transaction. A firm may not rely exclusively on customer representations that they are selling securities "long" when they do not have the securities in their accounts at the time of sale, without taking further steps to detect whether those representations are reliable. Furthermore, Reg SHO generally prohibits a firm from settling its delivery obligations arising from such long sales by using borrowed shares.

Together, Rules 200(g) and 203(a)(1) of Reg SHO require that a firm must: (i) properly mark orders as either short or long, (ii) make reasonableness determinations as to whether any fails to deliver resulted from long sales, and (iii) refrain from utilizing borrowed shares to settle its delivery obligations arising from long sales, unless the broker or dealer knows or has been reasonably informed by the seller that the seller owns the security and will deliver it to the broker or dealer prior to the scheduled settlement of the transaction and the seller fails to make such delivery.

During the period January 3, 2005 to approximately December 2008, in those instances when clients sold a security and marked the orders as "long" but did not

⁴ Effective October 5, 2007, broker-dealers are no longer permitted to mark sales "short exempt." Instead, all short sales must now be marked "short."

hold that security in an account at the Firm, the Firm's systems and procedures failed to ascertain whether the customer properly marked such sell orders as "long." Instead, in the specific instances when the Firm accepted sell orders marked "long" from clients who did not hold the long position at the Firm but were long elsewhere, the Firm's systems automatically booked such long sales to a short account (the "Tech Short Issue").

Thus, in instances in which the Tech Short Issue occurred, the Firm impermissibly utilized borrowed shares⁵ to effect delivery on long sales in that the long sales were automatically booked to a short account. For example, during a sample month of July 2007, the Firm impermissibly utilized borrowed shares to settle approximately 2,500 long sales (out of approximately six million long sale transactions). Given that the Tech Short Issue persisted for several years, the Firm impermissibly used or may have used borrowed shares to effect delivery on an unquantified number of long sales.

The Firm resolved the Tech Short Issue with a programming adjustment beginning in late 2008 (and that issue was completely resolved in February 2009) and implemented a process by which customer representatives follow-up on a T+1 basis with each customer that executes a long sale in a security in which the customer does not hold the position at the Firm, and the long sales are monitored as part of the Firm's long-sale monitoring process.

Further, in the absence of a procedure to ascertain whether customers properly marked long sale orders, the Firm lacked the reasonable grounds required by Reg SHO in order to mark such client sell orders as "long," in violation of Rule 200(g).

Based upon the foregoing conduct, the Firm violated Rules 200(g) and 203(a)(1) of Reg SHO during the period January 3, 2005 to approximately December 2008 by failing to have the reasonable grounds in order to mark client sell orders as "long." The Firm also utilized borrowed shares for delivery and/or failed to deliver securities relating to such client long sales. This violative conduct also constitutes a violation of NASD Conduct Rule 2110 during the period January 3, 2005 to December 14, 2008, and FINRA Rule 2010 on or after December 15, 2008.

III. The Firm's Threshold Securities Violations

Rule 203(b)(3) of Reg SHO requires that a firm, which is a participant of a registered clearing agency, with any outstanding fail to deliver position in a threshold security of thirteen consecutive settlement days immediately close out such fail by purchasing securities of like kind and quantity. Rule 203(b)(3)(iii) further provides that during the time in which such firm has a fail to deliver

⁵ The limited exceptions under which borrowed shares could be used to meet a net settlement obligation arising from long sales was not applicable here.

position in a threshold security for thirteen consecutive settlement days or more, such firm shall not accept a short sale order in the threshold security from another person, or effect a short sale in the threshold security in its own account, without having borrowed the security or entered into a bona-fide arrangement to borrow the security, until the firm closes out the fail to deliver by purchasing securities of like kind and quantity.

During the Relevant Period, the various self regulatory organizations ("SRO") published a daily list of the threshold securities that were listed on their markets, or for which the SRO bore the primary surveillance responsibility. Reg SHO required that a firm monitor its fails in these threshold securities that had been open for 13 consecutive settlement days ("aged" threshold fails). Further, Reg SHO required that if an aged threshold fail position was not closed out through the purchase of securities of like kind and quantity by the morning of the 14th settlement day, firms were prohibited from effecting further short sales in that security without first borrowing the security or entering into a bona-fide arrangement to borrow the security.

During the period January 3, 2005 to December 30, 2007, the Firm's system to monitor fails to deliver in threshold securities inadvertently failed to account for the threshold list provided by the Archipelago Exchange. Consequently, the Firm's fails in securities appearing on the Archipelago Exchange threshold list were not monitored for aging and close-out purposes. As a result, certain aged fails in securities on the Archipelago Exchange's threshold list were not closed out as required and/or the Firm executed short sales in these threshold securities while it had an aged threshold fail without first borrowing or arranging to borrow the securities as required.

Furthermore, during the period beginning March 18, 2006 through at least the beginning of 2007, the Firm did not apply the method as prescribed in FAQ 5.8 to close-out aged threshold fails.

Based upon the foregoing conduct, the Firm violated Rule 203(b)(3) of Reg SHO during the period January 3, 2005 to December 30, 2007 by failing to monitor its fails in threshold securities listed on the Archipelago Exchange, and consequently, the Firm failed to close out such fails as required and/or executed short sales in these securities while an aged threshold fail was pending without having first borrowed or arranged to borrow the security as required. The Firm also did not apply the method as prescribed in FAQ 5.8 to age and close-out fails in threshold securities during the period March 18, 2006 through at least the beginning of 2007. The foregoing violative conduct also constitutes a violation of NASD Conduct Rule 2110.

IV. Inaccurate Blue Sheet Submissions

NASD Rule 8211 requires that a firm submit certain trade data in an automated format to the regulators with certain designated information included. These submissions are called "blue sheets" and are generated by firms at the request of regulators in connection with investigations of questionable trading. It is the responsibility of firms to reasonably ensure that the information submitted to regulators via blue sheets is accurate, and the firm's reliance on a third party vendor to assist with the preparation of the firm's blue sheets does not alter the firm's duty to comply.

During the period January 3, 2005 to approximately September 2008, the Firm erroneously reported position movements between related client accounts as buy and sell transactions for blue sheet reporting purposes. Furthermore, during the period January 3, 2005 to approximately September 2008, for short sales executed in the accounts of customers with multiple prime brokers that executed at the Firm but instructed the Firm to send the position to another prime broker, the Firm failed to ensure that the short sale indicators properly flowed to Automatic Data Processing, Inc. ("ADP"), the Firm's blue sheet vendor, thereby inaccurately reporting these short sales on its blue sheet submissions as long sales.

Based upon the foregoing conduct, the Firm violated NASD Rule 8211 in making inaccurate blue sheet submissions during the period January 3, 2005 to approximately September 2008 by reporting position movements between related client accounts as buy and sell trades, and reporting short sales executed for certain clients as long sales. The foregoing violative conduct also constitutes a violation of NASD Conduct Rule 2110.

V. Firm Failed to Obtain Possession and Control of Securities Relating to Client Sales Marked as "Long"

Rule 15c3-3(m) of the Exchange Act provides, in pertinent part:

Completion of sell orders on behalf of customers. If a broker or dealer executes a sell order of a customer (other than an order to execute a sale of securities which the seller does not own) and if for any reason whatever the broker or dealer has not obtained possession of the securities from the customer within 10 business days after the settlement date, the broker or dealer shall immediately thereafter close the transaction with the customer by purchasing securities of like kind and quantity. . .

Rule 15c3-3(m) is concerned with whether a firm obtains possession of securities in connection with long sales executed by clients who do not have a long position in the security in their account at the Firm to cover the trade. Rule 15c3-3(n) provides that a firm may make an application for an extension of time to the 10 business day period of time to buy-in a security. A firm must either buy-in such

security pursuant to Rule 15c3-3(m) or file an extension pursuant to Rule 15c3-3(n).

With respect to the aforementioned Tech Short Issue, where Firm clients held a long position in a security outside of the Firm, the Firm booked such client long sales into short accounts and failed to recognize these trades as long sales, instead perceiving them as short. Consequently, during the period January 3, 2005 to approximately December 2008, the Firm failed to monitor or manage fails on these long sale orders for Rule 15c3-3 purposes. As a result, the Firm did not immediately close out these transactions by effecting buy-in purchases in securities of like kind and quantity or filing extensions for customer long sale orders in these accounts where the Firm had not obtained possession of the securities from the customer within 10 business days after the settlement date, as required by Rule 15c3-3.

Based upon the foregoing conduct, the Firm violated Rule 15c3-3(m) and (n) during the period January 3, 2005 to approximately December 2008 in that the Firm did not monitor, effect buy-ins or file extensions for client long sale orders where the Firm had not obtained possession of the securities from the customer within 10 business days after the settlement date. This violative conduct also constitutes a violation of NASD Conduct Rule 2110 during the period January 3, 2005 to December 14, 2008, and FINRA Rule 2010 on or after December 15, 2008.

VI. Firm's Books and Records Violations

Under Exchange Act Rule 17a-3(a)(1), firms are required to make and keep current daily records of all receipts and disbursements of cash and all other debits and credits. NASD Rule 3110(a) requires that firms make and preserve books, accounts, records, memoranda, and correspondence in conformity with applicable laws, rules, regulations, and statements of policy promulgated thereunder, and with the Rules of the NASD, and as prescribed by Exchange Act Rule 17a-3.

As a result of the Tech Short Issue, the Firm made an inaccurate entry in its books and records each time the Firm accepted a sell order marked "long" from a client but booked such long sale to a short account during the period January 3, 2005 to approximately December 2008.

Furthermore, beginning in approximately January 3, 2005 through at least the beginning of 2007, the Firm allowed one of its institutional clients to execute trades through the BRUT ECN for direct access trading to the markets. However, the Firm failed to ensure that it maintained the required data for trades executed by this particular client through the BRUT ECN. Specifically, because the client executed trades directly to the market on a platform outside of DBSI, DBSI did not receive execution data for those trades. The Firm discovered this issue during the summer of 2006 and then sought and obtained written copies of the daily

executions from the client. By early 2007, the Firm disabled the client's access to the BRUT ECN so that all of the client's trades occurred within DBSI.

Based upon the foregoing conduct, the Firm violated Exchange Act Rule 17a-3 and NASD Rule 3110(a) during the period January 3, 2005 to approximately December 2008 in that it incorrectly booked customer long sale orders to short accounts when the customer did not maintain a long position at the Firm. Also, during the period January 3, 2005 to at least the beginning of 2007, the Firm failed to maintain trade data relating to a customer for whom it allowed direct market access through the BRUT ECN. This violative conduct also constitutes a violation of NASD Conduct Rule 2110 during the period January 3, 2005 to December 14, 2008, and FINRA Rule 2010 on or after December 15, 2008.

VII. The Firm Failed to Reasonably Supervise

NASD Rule 3010 requires that firms establish, maintain and enforce a supervisory system, including written supervisory procedures related to a firm's business, that are reasonably designed to ensure compliance with the applicable securities laws and regulations, and with the applicable Rules of the NASD.

In light of the foregoing, the Firm failed to reasonably supervise during the Relevant Period in that it failed to establish, maintain and enforce a supervisory system, including written supervisory procedures, with respect to the requirements of Reg SHO, NASD and FINRA Rules, and SEC Rules discussed herein.

As discussed herein, the Firm experienced a systemic operational deficiency that persisted for a significant period of time: specifically, the Firm experienced outages that prevented the OES from importing locate data from the Locate System; and the Firm disabled the Automated Block in response to those outages without implementing a replacement system or having in place a meaningful post-trade review to verify the existence of a locate in connection with short sale orders entered and released through the Firm's DMA platform. As a result, the Firm failed to adequately supervise its compliance with Reg SHO's "reasonable grounds" locate requirement. Furthermore, the Firm had no written procedures for instances when the Firm experienced issues that necessitated the disabling of the Automated Block, nor did the Firm document each instance and the identities of the customers for whom the Automated Block was lifted.

The Firm failed to implement written supervisory procedures as well as an adequate system of follow-up and review in connection with its compilation of its ETB list. As a result of this supervisory deficiency, short sales in hard to borrow and/or threshold securities were executed in reliance upon inaccurate information from the ETB list.

DBSI also failed to supervise compliance with certain other aspects of Reg SHO.

Rules 200(g) and 203(a)(1) require that the Firm have a reasonable basis to believe that shares are actually owned by the customer at the time of the entry of a long sale order. In instances where the Firm accepted long sale orders from customers and the securities were not custodied at the Firm, thus implicating the Tech Short Issue, those transactions were re-characterized as short sales so that borrowed shares could be used to make delivery for those orders. Similarly, as described in detail above, the Firm failed to properly supervise its implementation of procedures relating to the close-out of aged fails in securities residing on the Archipelago Exchange threshold list.

Based upon the foregoing conduct, the Firm violated NASD Rule 3010 during the Relevant Period by failing to have an adequate supervisory system, including written supervisory procedures, to ensure reasonable compliance with Rule 15c3-3(m), Rule 17-a3, Rule 200(g), Rule 203(a)(1), Rule 203(b)(1), Rule 203(b)(3) and NASD Rules 3110 and 8211. This violative conduct also constitutes a violation of NASD Conduct Rule 2110 during the period January 3, 2005 to December 14, 2008, and FINRA Rule 2010 during the period December 15, 2008 to September 30, 2009.

FINRA considered that, throughout the Relevant Period, DBSI undertook numerous improvements to its Reg SHO compliance systems, including information technology improvements that currently minimize the need to lift the Automated Block and improvements to the Firm's ETB process.

B. The Respondent also consents to the imposition of the following sanctions:

A Censure and a fine of \$575,000.

The Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the Respondent;
- 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, the Respondent 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.

The Respondent 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

The Respondent 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 the Respondent; and
- C. If accepted:
 - 1. This AWC will become part of the Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Respondent;

2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about my 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. The Respondent 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. The Respondent 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 the Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. The Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Respondent 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 the Firm, 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 he/she 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 the Firm to submit it.

01/12/2010
Date (mm/dd/yyyy)

Deutsche Bank Securities, Inc.

By: Joseph Polyzotto
[Name] JOSEPH POLYZOTTO
[Title] Managing Director

By: Robert E. Rice
[Name] ROBERT E. RICE
[Title] Managing Director

Reviewed by:

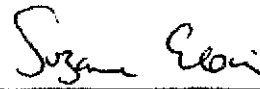
A handwritten signature in dark ink, appearing to read 'Barry Rashkover', is written over a horizontal line.

Barry Rashkover, Esq.
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Accepted by FINRA:

2-16-10
Date

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



Suzanne Elovic
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