

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20110296003-01**

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

RE: Deutsche Bank Securities Inc., Respondent
Broker-Dealer
CRD No. 2525

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Deutsche Bank Securities Inc. ("DBAB", the "Firm", or "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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. 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

DBAB has been a member of FINRA since March 16, 1940, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

1. DBAB consented to findings that it had violated NASD Rules 2110, 2860(b)(5), and 3010; and FINRA Rules 2010, 2360(b)(3), 2360(b)(3)(A)(vii)(b)(4)(B), and 2360(b)(5) by: (i) failing to report approximately 8,760 instances¹ in conventional options² to the Large Options Positions Report ("LOPR") from July 2006 through

¹ An "instance" is a single failure to report, or inaccurately report, a given option position. The number of instances is determined by multiplying a given reportable position by the number of trade dates the position had not been reported or had been reported incorrectly.

² FINRA Rule 2360(a)(9) defines a conventional option as an option that is not issued or subject to issuance by the Options Clearing Corporation ("OCC"), or as an OCC Cleared over-the-counter ("OTC") option.

December 15, 2008; (ii) failing to accurately report approximately 20,542 instances in conventional options positions to the LOPR from December 1, 2010 through October 6, 2011; (iii) having a customer that exceeded the position limit in conventional options in HK939 during March 23, 2011 and March 30, 2011; (iv) failing to submit to the OCC the Firm's Options Contract Equivalent of the Net Delta ("OCEND")³ from March 23, 2011 through May 31, 2011; (v) failing to implement and maintain an adequate system of follow-up and review designed to reasonably ensure the submission of complete and accurate reporting of options positions to the LOPR from July 2006 through December 2011. DBAB consented to a censure and fine of \$35,000 (\$25,000 for position limit, OCEND reporting, and LOPR; \$10,000 for supervision) (Matter No. 20080161674, FINRA Nov. 21, 2012).

2. DBAB consented to findings that it had violated NYSE Amex Rules 906(a) and 320 by: (i) reporting listed options positions of approximately 340 prime brokerage accounts to the listed LOPR in the aggregate, via an omnibus account, rather than at the client account level from approximately November 2003 through March 2008; and (ii) failing to reasonably supervise and implement adequate controls, including a separate system of follow-up and review, reasonably designed to achieve compliance with Amex Rule 906(a). DBAB consented to a censure and fine of \$150,000 (Matter No. 20110264667, 11-Amex-1 Apr. 1, 2011).
3. DBAB consented to findings that it had violated, inter alia, NASD Rule 2860(b)(5) by failing to timely and accurately report 5,310 instances in conventional options to the LOPR during the period between June 11, 2007 and June 15, 2007. For DBAB's LOPR violations, the Firm consented to a censure and a fine of \$5,000 (Matter No. 20060065005, FINRA Jan. 25, 2011).

SUMMARY

In connection with Matter No. 20110296003, FINRA Department of Market Regulation staff ("staff") originally conducted: (i) a review of DBAB's reporting of conventional options to the OCC LOPR for compliance with options reporting rules; and (ii) an OTC Position Limits Review of DBAB for the period from July 1, 2011 through September 31, 2011. On a quarterly basis, Staff conducted subsequent Position Limits Reviews of DBAB, and as a result, staff detected position limit overages, failures to comply with OCEND, and related supervisory deficiencies. Also, as a result of staff's initial LOPR investigation, staff conducted a more extensive investigation into the Firm's LOPR submission practices during the period from January 2010 through March 2013. Staff's investigation found that, as a result of systemic issues, DBAB failed to report, or

³ As explained in FINRA Regulatory Notice 08-04 (effective Feb. 1, 2008), a firm that is not delta neutral must be hedged to the extent that the OCEND stays with the applicable position limit. The OCEND is calculated by multiplying the net delta with the options position, then dividing the number of shares underlying the options contract.

inaccurately reported, a significant number of instances to the LOPR as required by pertinent rules. Furthermore, DBAB failed to have an adequate system of supervision to ensure compliance with LOPR reporting and had deficient written supervisory procedures during the period from January 2010 through present. In total, DBAB's failures encompassed the period from May 2008 through the present (the "Review Period").

FACTS AND VIOLATIVE CONDUCT

Position Limits

1. DBAB exceeded the relevant position limit in three different securities for five different customers (exceeding the relevant position limit in a range of between 7.9 percent and 120 percent) for between one and seven consecutive days during October 2011, January 2014, November 2014, and January 2015 through February 2015.
2. The conduct described in paragraph one above constitutes a violation of FINRA Rule 2360(b)(3).

OCEND Reporting

3. During the period between March 2008 and December 2011, DBAB reported 1,322 incorrect OCENDs.
4. During the period between May 5, 2014 and June 21, 2014, DBAB excluded certain expiring options from its end-of-day OCEND calculations in one symbol.
5. During the period between December 23, 2014 and December 31, 2014, DBAB failed to report its OCEND in one symbol.
6. The conduct described in paragraphs three through five above constitutes separate and distinct violations of NASD Rule 2360(b)(3)(A)(vii)(b)(2)(A) (for the period prior to February 17, 2009) and FINRA Rules 2360(b)(3)(A)(ii)(b)(2)(A) (for the period after February 16, 2009) and 2360(b)(3)(A)(ii)(b)(4).

Reporting of Options Positions

7. LOPR data is used extensively by FINRA and self-regulatory organizations to identify holders of large option positions who may be, among other things, attempting to manipulate the market or otherwise violate securities rules and regulations.
8. The accuracy of LOPR data is essential for the analysis of potential violations related to, among other things, insider trading, position limits, exercise limits, front-running, capping and pegging, mini-manipulation, and marking-the-close.

9. During a sampled period between January 2010 and March 2015, DBAB failed to report, or failed to accurately report, an unknown but significant number of conventional options positions to the OCC LOPR. As a result of Staff's extensive review and information provided by the Firm, it was estimated that:
- a. In as many as approximately two million instances, DBAB had failed to report conventional options positions to the LOPR due to the Firm's failure to aggregate certain positions for acting in concert ("AIC") purposes and the Firm's erroneous deletion of positions that fell below the 200-contract reporting threshold without first reporting the below-the-threshold amount to the OCC;
 - b. In as many as 1.5 million instances, DBAB had over-reported conventional options to the LOPR due to the Firm's erroneous aggregation method; and
 - c. In tens of millions of instances, DBAB had failed to accurately report conventional options positions to the LOPR as a result of errors in various required LOPR data fields (e.g., Account Name, Tax Identification, and Account Address) and its failure to report AIC identifiers in certain instances.
10. The conduct described in paragraph nine above constitutes a violation of FINRA Rule 2360(b)(5).

Supervision

11. Pursuant to the former NASD Rule 3010, now FINRA Rule 3110,⁴ broker-dealers must provide for appropriate supervisory control of the organization, including a separate system of follow-up and review, to achieve compliance with FINRA and NASD rules, and with securities laws and regulations. Broker-dealers are required to provide for appropriate written procedures of supervision and control that are reasonably designed to achieve compliance with FINRA and NASD rules and compliance with securities laws and regulations. FINRA Rule 2010 requires a broker-dealer to observe high standards of commercial honor and just and equitable principles of trade in the conduct of its business.
12. During the Review Period, DBAB failed to maintain an adequate system of supervision, including systems of follow-up and review, which were reasonably designed to achieve compliance with the rules governing the reporting of positions to the LOPR system and compliance with position limits. DBAB also lacked sufficient written supervisory procedures requiring reviews: (i) to ensure compliance with position limits; (ii) to determine that LOPR submissions were accurate; (iii) to review rejects; (iv) to ensure that all reportable positions had actually been reported; and (v) to identify and report options positions appropriately as AIC.

⁴ FINRA Rule 3110 replaced NASD Rule 3010 effective December 1, 2014.

13. The conduct described in paragraph twelve above constitutes a violation of NASD Rule 3010 (for the period prior to December 1, 2014) and FINRA Rules 2010 and 3110 (for the period after November 30, 2014).

Other Considerations

In accepting this AWC, FINRA considered the significant remedial actions already implemented and planned by DBAB, including: (i) the provision of extraordinary cooperation with this investigation by retaining outside counsel to conduct an extensive review of the Firm's options reporting systems, practices, and procedures, and to report these findings to FINRA; (ii) the hiring of an independent consultant to conduct a complete review of the Firm's LOPR systems and to identify deficiencies, and correcting the deficiencies identified by the independent consultant; and (iii) the enhancements made to the Firm's LOPR reporting systems and Firm-wide systems impacting the Firm's LOPR reporting, and the Firm's relevant revised supervisory practices and procedures.

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

A censure, a total fine of \$4,070,000 (\$4,000,000, of which \$1,333,334 shall be paid to FINRA, for its LOPR and supervision violations;⁵ \$70,000 for Position Limit, OCEND, and related supervision violations⁶), and an undertaking:

Ninety days after this AWC becomes final, and again 180 days after this AWC becomes final, DBAB shall make a written submission to FINRA regarding its options positions reporting to the LOPR. The written submission shall address, at a minimum, the following:

1. An assessment of the degree to which the Firm has taken steps to confirm that the data DBAB submits to the LOPR system is accurate and that the Firm has reported all reportable positions to the LOPR system; and
2. The adequacy of the Firm's policies, systems, procedures, and training relating to achieving complete and accurate reporting to the LOPR system.

Additionally, acceptance of this AWC is conditioned upon acceptance of parallel settlement agreements in related matters between the Firm and the following options exchanges: NASDAQ OMX PHLX LLC and the International Securities Exchange, LLC.

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. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

⁵ The balance of the Firm's fine will be paid to NASDAQ OMX PHLX LLC and the International Securities Exchange, LLC pursuant to separate settlement agreements.

⁶ The entirety of this portion of the fine (\$70,000) will be paid to FINRA.

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

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 Firm;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

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

Respondent understands that:

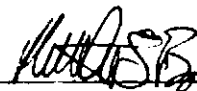
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will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

1. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;
 2. This AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. 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. 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 Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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 it has agreed to the AWC's 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.

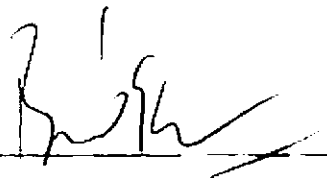
3/3/16
Date

Respondent
Deutsche Bank Securities Inc.

By: 

Name: Matthew Bowen
Managing Director

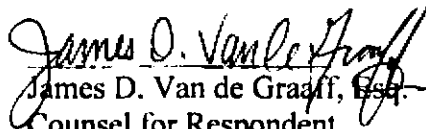
Title: _____

By: 

Name: Brad Kurtzman
Managing Director

Title: _____

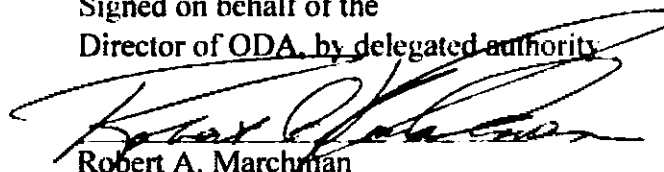
Reviewed by:


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Accepted by FINRA:

3/28/16
Date

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


Robert A. Marchman
Executive Vice President
FINRA Department of Market Regulation