

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20130379938-01

TO: Department of Enforcement
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., (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

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

RELEVANT DISCIPLINARY HISTORY

On January 9, 2014, FINRA accepted an AWC in which the firm was censured and fined a total of \$110,000, \$50,000 of which pertained to violations of Securities Exchange Act of 1934 ("Exchange Act") SEC Rule 611(a) and (c) of Regulation NMS during the period between August 27, 2007 and September 30, 2011 (Matter No. 20100237658).

SUMMARY

This matter involves reviews of the firm's compliance with Rules 611 and 602 of Regulation NMS under the Exchange Act, and related exchange rules pertaining to the handling of intermarket sweep orders ("ISOs"), as well as related supervisory requirements conducted by FINRA's Department of Market Regulation staff (the "staff") on behalf of FINRA and/or various exchanges, spanning the period between August 2007 and December 31, 2017 (the "review period").

OVERVIEW

During the review period, due to various proprietary system flaws and deficiencies, the firm on numerous occasions routed ISOs through protected quotations. Limitations in the firm's systems also led to time stamps on orders being improperly recorded. Lastly, on several occasions the firm failed to report transactions as trade-through exempt, and the firm failed to comply with SEC Rule 602 in more than 1,700 instances between January 2013 and December 2016 and had deficient procedures with respect to that rule.

As further described below, the firm violated SEC Rules 602, 611(a), Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rules 3010, 3110, and 2110 (for the period prior to December 15, 2008), and FINRA Rules 3110, 4511, 6380A(a)(5)(I), and 2010 (for the period on and after December 15, 2008).

FACTS AND VIOLATIVE CONDUCT

1. SEC Rule 611(a) requires trading centers to establish, maintain, and enforce written policies and procedures that are reasonably designed to prevent trade-throughs on that trading center of protected quotations in NMS stocks. The rule also requires that if a trading center relies on an exception, that it has written supervisory procedures ("WSPs") that are reasonably designed to assure compliance with the terms of the exception. One of those exceptions is set forth in SEC Rule 611(b)(6), which exempts a transaction that was effected by a trading center that simultaneously routed an intermarket sweep order ("ISO") to execute against the full displayed size of a protected quotation in the NMS stock that was traded through.
2. During the period between August 2007 and December 2015, in some instances, the firm failed to simultaneously send ISOs to execute against the full displayed size of certain protected quotations, which led to trade-throughs of such protected quotations. The firm attributed this to various flaws and deficiencies in its systems.
3. First, from the inception of Regulation NMS to November 2015, in ISO sweep orders where the quantity to be swept across all exchanges with protected quotations exceeded the ticketed order quantity, in more than 4,000 instances the firm's execution system only swept up to the ticketed quantity, rather than of the full size of the protected quotations.
4. Second, in other instances, the firm's market snapshot did not capture the protected quotes of all exchanges where, due to latency issues, a firm trader had entered a trade before the firm's systems captured a complete market snapshot. This system flaw, which impacted approximately 48 orders during 2015 alone, existed during the period between mid-2013 and December 2015.
5. Third, in other instances the firm's failure to simultaneously send ISOs to execute against the full displayed size of certain protected quotations resulted from the firm's "splitting logic," which splits a single order into two orders, neither of which would

be sent to execute against the full display size of protected quotations. This system flaw existed during the period between February 2011 and October 2015, and impacted approximately 311 orders.

6. Fourth, in other instances, the firm's outbound ISOs routed to exchanges were rejected, and as a result the firm executed trades at a price that traded through protected quotations. This system flaw existed during the period between January 2012 and June 2017, and impacted approximately 5,300 orders.
7. Fifth, in other instances, there was a latency of more than one second in sending ISOs, and thus the firm did not immediately route ISOs for the full displayed size of protected quotations. This system flaw existed during the period between October 2015 and the present, and impacted approximately 23,344 orders through October 2017.
8. As a consequence of the above conduct, the firm's trading center failed to establish, maintain, and enforce written policies and procedures that were reasonably designed to prevent trade-throughs of protected quotations in NMS stocks that do not fall within any applicable exception, and if relying on an exception, are reasonably designed to assure compliance with the terms of the exception. The conduct described in this paragraph constitutes a violation of SEC Rule 611(a), NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct as of December 1, 2014), NASD Rule 2110 (for conduct prior to December 15, 2008), and FINRA Rule 2010 (for conduct on and after December 15, 2008).
9. Furthermore, in a sample of transactions from the first quarter of 2014 through the second quarter of 2015, in 90 instances, the firm's time stamps reported that ISOs had been routed two to six seconds after the trades were executed. These time stamping inaccuracies occurred because they were not being properly recorded for ISO sweep orders. This system flaw existed during the period between August 2007 and June 2015, and impacted 1,165 transactions in June 2015 alone. The conduct described in this paragraph constitutes violations of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, NASD Rule 3110 (for conduct prior to December 5, 2011), FINRA Rule 4511 (for conduct on and after December 5, 2011), and NASD Rule 2110 (for conduct prior to December 15, 2008) and FINRA Rule 2010 (for conduct on and after December 15, 2008).
10. During the third quarter of 2014, in five instances the firm recorded an incorrect trade modifier, and thus failed to report that transactions were trade-through exempt. The conduct described in this paragraph constitutes violations of FINRA Rule 6380A(a)(5)(I).
11. SEC Rule 602(b) requires firms to promptly communicate its best bids and offers and quotation sizes for any "subject security." SEC Rule 600(b)(73) defines a "subject security" as an exchange-traded security for which the firm acts in the

capacity of an OTC market maker, and accounts for more than 1% of the trading volume during the most recent quarter. At the end of each calendar quarter, a market maker must determine whether its total trading volume exceeded 1% and, if so, within ten business days thereafter, it must begin quoting regular and continuous two-sided markets in that issue.

12. During the period between January 2013 and December 2016, in more than 1,700 instances, the firm failed to publicly disseminate its best bids, best offers, and quotation sizes with respect to certain NMS securities, for which the firm acted in the capacity of an OTC market maker and accounted for more than 1% of the trading volume during the most recent quarter. The conduct described in this paragraph constitutes violations of SEC Rule 602 of Regulation NMS and FINRA Rule 2010.
13. During the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to SEC Rules 611(a). Specifically, the firm's supervisory systems were not adequately configured to detect and prevent the previously referenced systemic issues that caused the aforementioned violations of SEC Rule 611(a) which, in total, lasted for more than eight years. Additionally, the firm's written supervisory procedures ("WSPs") did not: (i) specify what reports are reviewed to establish that the ISOs it routed met the definitional requirements set forth in Rule 600(b)(30) of Regulation NMS; (ii) specify the sample size for its review of ISOs; or (iii) specify the identity of the person(s) responsible for supervising for compliance with SEC Rule 611, either by name or title. The conduct described in this paragraph constitutes violations of NASD Rule 3010 (for conduct before December 1, 2014), FINRA Rule 3110 (for conduct as of December 1, 2014), NASD Rule 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct as of December 15, 2008).
14. During the review period the firm's supervisory system also did not provide for supervision reasonably designed to achieve compliance with respect to SEC Rule 602. Specifically, the firm did not maintain a supervisory system to surveil for when it reached the 1% threshold which would require the firm to begin quoting regular and continuous two-sided markets in an issue. Furthermore, the firm's written supervisory procedures did not: (a) identify of the person(s) responsible for supervision for compliance with SEC Rule 602; (b) the supervisory steps and reviews to be taken by the appropriate supervisor; (c) the frequency of such reviews; and (d) how such reviews shall be documented. The conduct described in this paragraph constitutes violations of NASD Rule 3010 (for conduct before December 1, 2014) and FINRA Rules 3110 (for conduct as of December 1, 2014) and 2010.

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

1. A censure;
2. A total fine in the amount of \$475,000, of which \$100,000 is payable to FINRA¹ (comprised of \$75,000 for the violations of SEC Rule 611(a), and 17a-3, NASD Rules 2110, 3010 and 3110, and FINRA Rules 4511, 6380A(a)(5)(I), 3110 and 2010; and \$25,000 for the SEC Rule 602 violations); and
3. An undertaking to revise the firm's WSPs with respect to the area described in paragraph A.13, and to correct the systems issue described in paragraph A7. Within 60 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the firm shall submit to the COMPLIANCE ASSISTANT, DEPARTMENT OF ENFORCEMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its WSPs and systems to address the above-described deficiencies, and the steps taken to address such deficiency; and (3) the date the revised procedures and systems were implemented.

Additionally, acceptance of this AWC is conditioned upon acceptance of settlement agreements in related matters between the firm and the following self-regulatory organizations: (i) Cboe BZX Exchange, Inc.; (ii) Cboe BYX Exchange, Inc.; (iii) Cboe EDGA Exchange, Inc.; (iv) Cboe EDGX, Inc.; and (v) NYSE Arca, Inc.

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.

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.

¹ The balance of the sanction will be paid to the self-regulatory organizations referenced in the following paragraph.

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.

4-25-18
Date

Respondent
Deutsche Bank Securities Inc.

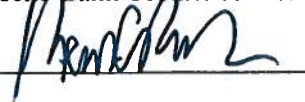
By: 

Name: _____

Title: Andrew Stemmer
Director &
Associate General Counsel

4-25-18
Date

Respondent
Deutsche Bank Securities Inc.

By: 

Name: _____

Title: Steven F. Reich
General Counsel - Americas

Reviewed by:

Counsel for Respondent

Accepted by FINRA:

5/1/2018
Date

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



Eric S. Brown
Senior Director
FINRA Department of Enforcement