

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130393135-04**

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. (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, and its predecessor NASD, since March 16, 1940, and its registration remains in effect.

The Firm does not have any relevant disciplinary history.

SUMMARY

In connection with Matter No. 20140399393, the Trading and Market Making Surveillance Group ("TMMS") of the Department of Market Regulation (the "staff") conducted the Firm's 2014 TMMS Examination in which the staff reviewed the trading activity for the trade date April 23, 2014 (the "first review period").

In connection with Matter No. 20140417491, the Market Manipulation Investigations Team of the Department of Market Regulation (the "staff") reviewed the Firm's compliance with risk management controls and supervisory procedures concerning the

failure to include a customer's order activity in the Firm's post-trade surveillance during the period March 1, 2014 through April 30, 2014 (the "second review period").

In connection with Matter No. 20140435497, the Trading Analysis Team of the Department of Market Regulation (the "staff") reviewed the Firm's compliance with post-trade market abuse surveillance on its equity customers' direct market access ("DMA") and other firm trading activity during the period March 1, 2012 through December 31, 2014 (the "third review period").

Based on its reviews, the staff determined the Firm engaged in the violative conduct set forth below, consisting of violations of FINRA Rules 2010 and 3110 (for conduct on or after December 1, 2014), NASD Rule 3010 (for conduct before December 1, 2014), and SEC Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEC Rule 15c3-5").

APPLICABLE RULES

During the first review period, SEC Rule 15c3-5(b) required broker-dealers that provide market access to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of their market access business.¹

During the first review period, SEC Rule 15c3-5(c)(1)(i) specifically required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds.

During the first review period, SEC Rule 15c3-5(c)(1)(ii) specifically required market access broker-dealers to have financial risk management controls and supervisory procedures reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.

During the first review period, SEC Rule 15c3-5(c)(2)(iii) specifically required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to restrict access to trading systems and technology that

¹ SEC Rule 15c3-5 requires that, as gatekeepers to the financial markets, broker-dealers providing market access must "appropriately control the risks associated with market access so as not to jeopardize their own financial condition, that of other market participants, the integrity of trading on the securities markets, and the stability of the financial system." 17 C.F.R. § 240.15c3-5, 75 Fed. Reg. 69792, 69792 (Nov. 15, 2010).

provide market access to persons and accounts pre-approved and authorized by the broker or dealer.

During the second and third review periods, SEC Rule 15c3-5(c)(2) specifically required market access broker-dealers to have regulatory risk management controls and supervisory procedures reasonably designed to ensure compliance with all regulatory requirements, including post-trade obligations to monitor for manipulation, fraud and other illegal activity.

During the review periods, in the conduct of its business, FINRA Rule 2010 required market access broker-dealers to observe high standards of commercial honor and just and equitable principles of trade.

During the review periods, FINRA Rule 3110 (for conduct on or after December 1, 2014), and NASD Rule 3010 (for conduct before December 1, 2014), required market access broker-dealers to establish, maintain, and enforce written procedures to supervise the types of business in which it engages that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA and NASD rules.

FACTS AND VIOLATIVE CONDUCT

In connection with Matter No. 20140399393,² the staff found that:

1. During the first review period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the regulatory risks in connection with market access, as follows:
 - (i) Risk management controls and supervisory procedures that are reasonably designed to manage the financial, regulatory, and other risks of this business activity, a violation of SEC Rule 15c3-5(b) and FINRA Rule 2010;³
 - (ii) Risk management controls and supervisory procedures to systematically limit the financial exposure of the broker or dealer that could arise as a result of

² The 2014 TMMS Examination violations against the Firm pertaining to the Order Audit Trail System ("OATS") under FINRA Rules 2010 and 7450 and NASD Rule 3010, are deferred pending consideration of potentially the same or similar violations against the Firm contained in the 2015 Trading and Financial Compliance Examination ("TFCE") and other OATS Reporting/Compliance Team matters.

³ The Firm did not have: (i) adequate procedures for the escalation of potential market access issues for its "High Touch" order flow because it does not articulate what action(s) should be taken when presented with unusually sized orders or how the firm ensures its supervisors know its employees understand what constitutes an unusually large order and what action(s) should be taken; or (ii) adequate means of evidencing and escalating issues identified through its market access supervisory reviews.

market access, including to prevent the entry of orders that exceed appropriate pre-set credit or capital thresholds in the aggregate for each customer and the broker or dealer and, where appropriate, more finely-tuned by sector, security, or otherwise by rejecting orders if such orders would exceed the applicable credit or capital thresholds, a violation of SEC Rule 15c3-5(c)(1)(i) and FINRA Rule 2010;⁴

- (iii) Risk management controls and supervisory procedures to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders, a violation of SEC Rule 15c3-5(c)(1)(ii) and FINRA Rule 2010;⁵ and
- (iv) Risk management controls and supervisory procedures to ensure compliance with all regulatory requirements, including to restrict access to trading systems and technology that provide market access to persons and accounts pre-approved and authorized by the broker or dealer, a violation of SEC Rule 15c3-5(c)(2)(iii) and FINRA Rule 2010.⁶

In connection with Matter No. 20140417491, the staff found that:

- 2. During the second review period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of its DMA business. Specifically, the Firm failed to include a customer's DMA trading activity in its post-trade market abuse surveillance during the second review period and, in doing so, failed to detect potential layering activity by its customer.⁷ The conduct described in

⁴ The Firm did not: (i) have a formal process to monitor adequately intra-day changes to financial limits; (ii) have a codified process for ensuring financial limits, raised temporarily to respond to extreme market volatility, are reset; (iii) establish financial (credit) limits at the client level; (iv) employ hard blocks for its capital usage; (v) monitor capital usage on a pre-trade basis; or (vi) have an adequate procedure for monitoring financial limits for NYSE trading.

⁵ The Firm did not have: (i) procedures to monitor erroneous orders on a pre-trade basis; or (ii) an adequate procedure for testing new technology regarding market access requirements in relation to implementing financial thresholds and preventing erroneous and/or duplicative orders.

⁶ The Firm did not have an adequate procedure for monitoring system access because it is not clear in what context system access is reviewed, how the review is carried out, or how it is documented.

⁷ Subsequent to the second review period, the Firm discovered and self-reported to FINRA that technical modifications to its surveillance system responsible for monitoring DMA activity had been configured such that it was only monitoring executed trades, not order information. See Matter No. 20140435497. Because the surveillance system was configured to only feed data on executed trades, the Firm's spoofing and layering market manipulation surveillance was not effective for certain DMA activity.

this paragraph constitutes a violation of FINRA Rule 2010, NASD Rule 3010 and SEC Rule 15c3-5(o)(2).

In connection with Matter No. 20140435497, the staff found that:

3. Due to an error during a change in the Firm's internal systems, certain post-trade market abuse surveillance was not run on the Firm's customer equity DMA business when utilizing two separate systems. In transitioning to one system (a customer DMA platform with smart order routing), the Firm failed to feed its DMA order data into the surveillance models. With only executed trades considered by the Firm's post-trade surveillance, potential manipulative order activity was not captured as part of the Firm's obligation to monitor for manipulation, fraud and other illegal activity. The gap in post-trade market abuse surveillance occurred for more than two years (July 1, 2012 through November 30, 2014), which represented approximately 21% of the Firm's total trading activity. This resulted in the exclusion of 239,945,894 orders involving 34,453,516,262 shares from post-trade market abuse surveillance during the third review period.
4. In the same manner, certain post-trade market abuse surveillance was not run on the Firm's DMA order activity originating from a second system from July 1, 2013 through December 31, 2014. This activity represented approximately 9% of the Firm's total trading activity. This resulted in the exclusion of 66,277,137 orders involving 8,764,283,906 shares from certain post-trade market abuse surveillance.
5. During the third review period, the Firm failed to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of its DMA business. Specifically, the Firm failed to include this customer equity DMA trading activity in certain post-trade market abuse surveillance during the third review period, and failed to detect this gap in surveillance for more than two years. The conduct described in this paragraph constitutes a violation of FINRA Rules 2010 and 3110 (for conduct on or after December 1, 2014), NASD Rule 3010 (for conduct before December 1, 2014), and SEC Rule 15c3-5(c)(2).

OTHER FACTORS

With respect to Matter No. 20140435497, on November 19, 2014, the Firm identified and self-reported the gap in its post-trade surveillance. Based upon the Firm's self-reporting, FINRA commenced an investigation with the cooperation of the Firm. By self-reporting its failure to perform market abuse surveillance on trading activity originating from two separate systems from July 1, 2012 through November 30, 2014, and July 1, 2013 through December 31, 2014, respectively, and providing extraordinary cooperation, the

Firm provided substantial assistance to FINRA's investigation. Accordingly, the sanction reflects significant consideration given to the actions taken by the Firm.⁸

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

A censure; a fine in the total amount of \$2,500,000 to be paid jointly to Bats BYX Exchange, Inc., Bats BZX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., The NASDAQ Stock Market LLC, NASDAQ BX, Inc., NASDAQ PHLX LLC, New York Stock Exchange LLC, NYSE MKT LLC, NYSE Arca, Inc., and FINRA, of which \$575,000 of that total amount shall be paid to FINRA.⁹

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.

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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.**

⁸ See Principal Consideration No. 12 of the FINRA Sanction Guidelines and Regulatory Notice 08-70.

⁹ No undertaking is imposed in connection with Matter Nos. 20140417491 and 20140435497 because the Firm has already addressed the deficiencies identified during FINRA's investigation. No undertaking is imposed in this AWC in connection with matter 20140399393 because the firm addressed some of the identified deficiencies following the 2014 TMMS examination and the remaining deficiencies will be addressed through the 2016 Trading and Financial Compliance Examination (formerly TMMS).

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 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.

APRIL 27, 2017
Date

Deutsche Bank Securities Inc.
Respondent:

By: [Signature]
Name: _____
Title: Steven F. Raich
General Counsel - Americas
By: [Signature]
Name: _____
Title: _____

Reviewed by [Signature]

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Counsel for Respondent

Joe Salama
Managing Director &
Associate General Counsel

Accepted by FINRA:

6/28/2017
Date

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

[Signature]
Robert A. Marchman
Executive Vice President, Legal
FINRA Department of Market Regulation