

**NASDAQ BX, INC.**  
**NOTICE OF ACCEPTANCE OF AWC**

**Certified, Return Receipt Requested**

**TO: Deutsche Bank Securities Inc.**  
**Mr. Steven F. Reich**  
**General Counsel**  
**60 Wall Street**  
**New York, NY 10005**

**FROM: The NASDAQ BX, Inc. (the "Exchange")**  
**c/o Financial Industry Regulatory Authority ("FINRA")**  
**Department of Market Regulation**  
**9509 Key West Avenue**  
**Rockville, MD 20850**

**DATE: July 27, 2017**

**RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20130393135-06**

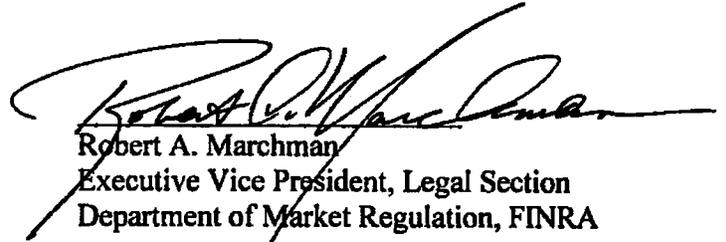
**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **June 28, 2017** by the Exchange Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Exchange Review Council, pursuant to Nasdaq BX Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or the Exchange if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions if a suspension has been imposed and by the Nasdaq's Finance Department regarding the payment of any fine if a fine has been imposed.

Deutsche Bank Securities Inc.  
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If you have any questions concerning this matter, please contact Dean A. Floyd, Principal Counsel, at (240) 386-6867.



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

Signed on behalf of Nasdaq BX, Inc.

Enclosure

FINRA District 10 – New York  
Michael Solomon  
Senior Vice President and Regional Director  
(Via email)

Deutsche Bank Securities Inc.  
Mr. Joe Salama  
Managing Director & Associate General Counsel  
60 Wall Street  
New York, NY 10005

Peter Isajiw, Esq.  
King & Spalding LLP  
1185 Avenue of the Americas  
New York, NY 10036  
Counsel for Respondent

Andrew Stemmer  
Director & Associate General Counsel  
Deutsche Bank Legal Department  
60 Wall Street  
New York, NY 10005-2836

**NASDAQ BX, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20130393135-06**

**TO: NASDAQ BX, Inc.**  
c/o Department of Market Regulation  
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of the NASDAQ BX, Inc. ("BX") Code of Procedure, Deutsche Bank Securities Inc. (the "firm") 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, BX will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. The firm 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 BX, or to which BX 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 BX:

**BACKGROUND**

The firm has been a member of BX since March 18, 2009, and its registration remains in effect.

The firm does not have any relevant disciplinary history.

**SUMMARY**

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 "first 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 "second review period").

Based on its review, the staff determined the firm engaged in the violative conduct set forth below, consisting of violations of Nasdaq BX Rules 2110 and 3010, and SEC Rule 15c3-5 of the Securities Exchange Act of 1934 ("SEC Rule 15c3-5").

### **APPLICABLE RULES**

During the 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, Nasdaq BX Rule 2110 required market access broker-dealers to observe high standards of commercial honor and just and equitable principles of trade.

During the review periods, Nasdaq BX Rule 3010 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. 20140417491, 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 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 first review period and, in doing so, failed to detect potential layering activity by its customer.<sup>1</sup> The conduct described in this paragraph constitutes a violation of Nasdaq BX Rules 2110 and 3010, and SEC Rule 15c3-5(c)(2).

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<sup>1</sup> Subsequent to the first 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.

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

2. 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 second review period.
3. 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.
4. 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 this customer equity DMA trading activity in certain post-trade market abuse surveillance during the second 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 Nasdaq BX Rules 2110 and 3010, 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.

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

**A censure; and 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 \$225,000 of that total amount shall be paid to BX.<sup>2</sup>**

The firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

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

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal 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 Exchange Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Exchange Review Council, or any member of the Exchange Review Council, 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.

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<sup>2</sup> No undertaking is imposed in connection with Matter Nos. 20140417491 and 20140435497 because the firm has already addressed the deficiencies identified during the staff's investigation.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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 firm 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 FINRA's Department of Market Regulation and the Exchange Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to BX 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 firm; 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 BX or any other regulator against the firm;
  - 2. BX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with BX Rule 8310 and IM-8310-3; and
  - 3. The firm 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 firm may not take any position in any proceeding brought by or on behalf of BX, or to which BX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which BX is not a party.
- D. The firm 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 BX, nor does it reflect the views of the Exchange or its staff.

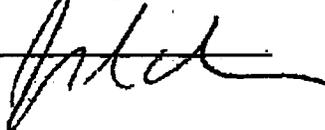
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, 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:   
Name:

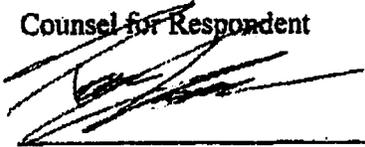
Title: **Steven F. Reich**  
**General Counsel - Americas**

By:   
Name:

Title: **Joe Salama**  
**Managing Director &**  
**Associate General Counsel**

Reviewed by:

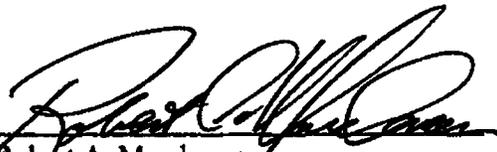
Counsel for Respondent



**Peter Isajiw, Esq.**  
**King & Spalding LLP**  
**1185 Avenue of the Americas**  
**New York, NY 10036**  
**Tel: +1.212.556.2235**

Accepted by BX:

6/28/2017  
Date

  
Robert A. Marchman  
Executive Vice President, Legal  
Department of Market Regulation

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

**ELECTION OF PAYMENT FORM**

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A firm check or bank check for the full amount; or
- Wire transfer.

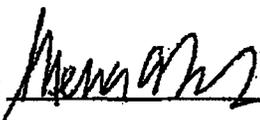
Respectfully submitted,

Deutsche Bank Securities Inc.

Respondent

APRIL 27, 2017

Date

By: 

Name: Steven F. Reich  
Title: General Counsel - Americas

**Billing and Payment Contact**

Please enter the billing contact information below. Nasdaq MarketWatch will contact you with billing options and payment instructions. ***Please DO NOT submit payment until Nasdaq has sent you an invoice.***

Billing Contact Name: \_\_\_\_\_

Billing Contact Address: \_\_\_\_\_

Billing Contact Email: \_\_\_\_\_

Billing Contact Phone Number: \_\_\_\_\_