

**CBOE BZX EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20130379938-02**

TO: CBOE BZX Exchange, Inc.  
c/o Department of Enforcement  
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 8.3 of the Rules of CBOE BZX Exchange, Inc. ("BZX"), 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, BZX 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 BZX, or to which BZX 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 BZX:

**BACKGROUND**

The firm has been a member of BZX since October 15, 2008, and its registration remains in effect.

**RELEVANT PRIOR 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 Rule 611 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. During the period between October 2008 and January 2015 (the “review period”), the firm sent ISOs that traded through protected quotations.

### OVERVIEW

During the review period, due to various proprietary system flaws and deficiencies, the firm on numerous occasions routed ISOs through protected quotations. As further described below, the firm violated SEC Rule 611(c) and BZX Rules 11.9(d), 11.13(b)(3)(F), 3.1, 3.2, 5.1 and 5.2.

### FACTS AND VIOLATIVE CONDUCT

1. SEC Rule 611(c) requires trading centers and broker-dealers to take reasonable steps to establish that ISOs meet the requirements as set forth in the definition of an ISO in SEC Rule 600(b)(30). Rule 600(b)(30) requires that simultaneously with the routing of a limit order identified as an ISO, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the NMS stock with a price that is superior to the limit price of the limit order identified as an ISO. In structuring their ISO routing arrangements, trading centers and broker-dealers should reasonably address the potential for systemic problems.
2. During the period between October 2008 and January 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 and route-throughs of such protected quotations. The firm attributed this to flaws and deficiencies in its systems.
3. During the period between June 2008 (prior to the time that the Firm was a BZX member) and January 2015, in certain instances, the firm’s systems set a limit price on its ISOs of \$0.05 or more outside of the national best bid and offer before routing the ISO. This resulted in the firm’s failure to route ISOs to all markets which had quotations superior to the limit price of the Firm’s ISOs. This impacted more than 600,000 orders during 2013 and 2014 alone.
4. During the period between September 2012 and February 2013, in more than 10,000 instances, the firm’s systems incorrectly reported that the displayed quote size was zero, resulting in the firm’s failure to send ISOs to all markets with quotations superior to the limit price of the firm’s ISO.
5. As a consequence of the above conduct, the firm failed to take reasonable steps to establish that the ISOs it had routed met the definitional requirements set forth in Rule 600(b)(30) of Regulation NMS during the review period. The conduct described in this paragraph constitutes violations of SEC Rule 611(c) of Regulation NMS and BZX Rules 11.9(d), 11.13(b)(3)(F), 3.1, 3.2, 5.1 and 5.2.

6. During the review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to SEC Rule 611(c). Specifically, the firm's supervisory systems were not adequately configured to detect and prevent the two systemic issues that caused the aforementioned violations of SEC Rule 611(c), which lasted more than six 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 BZX Rules 3.1, 3.2, 5.1 and 5.2.

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

1. A censure;
2. A total fine in the amount of \$475,000, of which \$75,000 is payable to BZX;<sup>1</sup> and
3. An undertaking to revise the firm's WSPs with respect to the area described in paragraph A.6. Within 60 business days of acceptance of this AWC by the Chief Regulatory Officer ("CRO") of BZX, 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](mailto:MarketRegulationComp@finra.org) providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its WSPs to address the above-described deficiencies, and the steps taken to address such deficiency; and (3) the date the revised procedures 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 BYX Exchange, Inc.; (ii) CBOE EDGA Exchange, Inc.; (iii) CBOE EDGX Exchange, Inc.; (iv) NYSE Arca, Inc.; and (v) FINRA.

The firm 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.

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 BZX.

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

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under BZX Rules:

- A. To have a Statement of Charges issued specifying the allegations against the firm;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the BZX's Board of Directors 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 prejudice of the Chief Regulatory Officer ("CRO"), in connection with the CRO'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 firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of BZX Rule 8.16, 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 the CRO, pursuant to BZX Rule 8.3;
- 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 BZX or any other regulator against the firm;
  2. this AWC will be published on a website maintained by BZX in

accordance with BZX Rule 8.18. In addition, this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record; 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 BZX, or to which BZX 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 BZX 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 BZX, nor does it reflect the views of BZX 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.

3-14-18  
Date

Deutsche Bank Securities Inc.  
Respondent

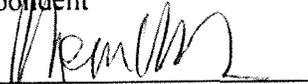
By: 

Name: Andrew Starnes

Title: Associate General Counsel

3/14/18  
Date

Deutsche Bank Securities Inc.  
Respondent

By: 

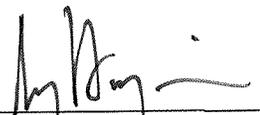
Name:

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

Reviewed by:

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Counsel for Respondent

4/13/2018  
Date



Greg Hoogasian  
Senior Vice President & Chief Regulatory Officer  
CBOE BZX Exchange, Inc.

**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.

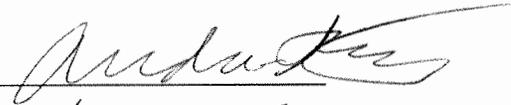
Respectfully submitted,

3-14-18

Date

Respondent

Deutsche Bank Securities Inc.

By: 

Name: Andrew Stawicki

Title: Associate General Counsel

3/14/18

Date

Respondent

Deutsche Bank Securities Inc.

By: 

Name: Steven F. Reich

Title: General Counsel - Americas