

**BATS EDGA EXCHANGE, INC.**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20130393135-10**

TO: Bats EDGA Exchange, 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 8.3 of the Rules of Bats EDGA Exchange, Inc. ("EDGA"), 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, EDGA 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 EDGA, or to which EDGA 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 EDGA:

**BACKGROUND**

The firm has been a member of EDGA since May 21, 2010, 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 EDGA Rules 3.1 and 5.1, 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, EDGA Rule 3.1 required market access broker-dealers to observe high standards of commercial honor and just and equitable principles of trade.

During the review periods, EDGA Rule 5.1 required market access broker-dealers to establish, maintain, and enforce written procedures to assure their compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, and with EDGA 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 this business activity in connection with 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 EDGA Rules 3.1 and 5.1, and SEC Rule 15c3-5(c)(2).

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

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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.

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 EDGA Rules 3.1 and 5.1, 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 \$168,750 of that total amount shall be paid to EDGA.<sup>2</sup>**

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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 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 EDGA.

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under EDGA 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 EDGA'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 prejudgment 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 EDGA 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 EDGA 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:

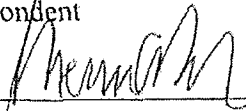
1. This AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by EDGA or any other regulator against the firm;
2. This AWC will be published on a website maintained by EDGA in accordance with EDGA Rule 8.18. In addition, this AWC will be 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 EDGA, or to which EDGA 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 EDGA 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 EDGA, nor does it reflect the views of EDGA or its staff.

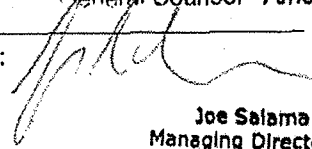
The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat,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

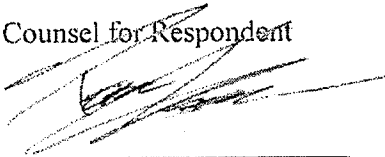
**Steven F. Reich**  
General Counsel - Americas

By:   
Name:  
Title:

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

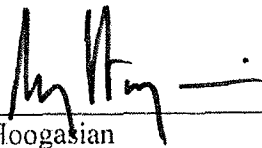
Reviewed by:

Counsel for Respondent



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

May 18, 2017  
Date



Greg Hoogasian  
Senior Vice President & Chief Regulatory Officer  
Bats EDGA Exchange, Inc.

**ELECTION OF PAYMENT FORM**

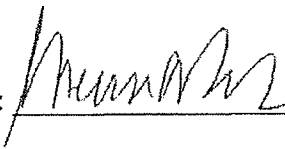
The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

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

Respectfully submitted,

Deutsche Bank Securities Inc.  
Respondent

APRIL 27, 2017  
Date

By: 

Name: Steven F. Reich  
General Counsel - Americas

Title: \_\_\_\_\_