



DISCIPLINARY DECISION
Cboe Exchange, Inc.
File No. USRI-8700-01
Star No. 2014043121002
Deutsche Bank Securities Inc.

Pursuant to Exchange Rule 13.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rules

- Cboe Rules 4.2 – Adherence to Law and 4.24 – Supervision, and
- Rule 14e-4 under the Securities Exchange Act of 1934, as amended – Prohibited Transactions in Connection with Partial Tender Offers

Sanction

- A censure,
- Monetary fine in the amount of \$175,000; and
- Disgorgement of \$6,581.

Effective Date

August 19, 2021

/s/Greg Hoogasian

Greg Hoogasian, CRO, SVP

Cboe Exchange, Inc.
LETTER OF CONSENT
Star No. 2014043121002
File No. USRI-8700-01

In the Matter of:

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005

Subject

Pursuant to the provisions of Cboe Exchange, Inc. ("Cboe" or the "Exchange") Rule 13.3 – Expedited Proceeding, Deutsche Bank Securities Inc. ("DBSI" or the "Firm") submits this Letter of Consent for the purpose of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules or the Securities Exchange Act of 1934, as amended ("Exchange Act") rules have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, the Firm was acting as a registered Broker-Dealer and was an Exchange Trading Permit Holder registered to conduct business on the Exchange as a clearing firm and, since April 2014, as a proprietary trader. The Firm's registrations remain in effect.
2. This matter originated from several investigations by FINRA's Department of Market Regulation to determine the Firm's compliance with Exchange Act Rule 14e-4 ("Rule 14e-4") in connection with several partial tender offers from June 2013 through February 2019 (the "Review Period"), including those made by Company C Inc. ("Company C") and Company D Inc. ("Company D"). These investigations were done on behalf of Cboe, Nasdaq Phlx LLC ("Phlx"), Nasdaq ISE, LLC ("ISE"), NYSE MKT, LLC (n/k/a NYSE American LLC)("NYSE American") and FINRA.

VIOLATIVE CONDUCT

Applicable Law

3. During all relevant periods herein, the following rules were in full force and effect: Cboe Rules 4.2 – Adherence to Law and 4.24 – Supervision,¹ and Rule 14e-4 – Prohibited Transactions in Connection with Partial Tender Offers promulgated under the Exchange Act.
4. During all relevant periods herein, Cboe Rule 4.2 provided, in relevant part, that no Trading Permit Holder shall engage in conduct in violation of the Securities Exchange Act of 1934, as amended, rules or regulations thereunder.
5. During all relevant periods herein, Cboe Rule 4.24(e) provided that each Trading Permit Holder shall establish, maintain, and enforce written supervisory procedures (“WSPs”), and a system for applying such procedures, to supervise the types of business in which the Trading Permit Holder engages and to supervise the activities of all associated persons. The WSPs and the system for applying such procedures shall reasonably be designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.
6. Rule 14e-4, commonly referred to as the "short tender rule," is generally designed to preclude persons from tendering more shares than they own in order to avoid or reduce the risk of pro rata acceptance in a partial tender offer. A person may tender shares into a partial tender offer only if both at the time of tender and at the end of the proration period the person has a "net long position" in the subject security or an equivalent security equal to or greater than the amount tendered into the partial tender offer. Under Rule 14e-4, a person's "net long position" in a subject security equals the excess, if any, of such person's "long position" over a person's "short position." In addition, Rule 14e-4 defines an equivalent security as including certain options, warrants, or other rights to purchase the subject security.
7. Rule 14e-4(b)(1) prohibits a person from tendering shares for his or her own account unless at the time of tender, and at the end of the proration period or period during which securities are accepted by lot (including any extensions thereof), he or she has a net long position equal to or greater than the amount tendered in the subject security and will deliver such security in excess of his or her net long position.
8. Rule 14e-4(b)(2) prohibits a person from tendering shares for the account of another person in excess of his or her net long position unless the tendering person has a reasonable belief that the person on whose behalf the tender is made possesses or owns the subject security and will promptly deliver the subject security for tender.

¹ As of October 7, 2019, Exchange Rule 4.2 was re-numbered as Exchange Rule 8.2 – Adherence to Law, and Exchange Rule 4.24 was re-numbered as Exchange Rule 8.16 – Supervision. These rules' text remains unchanged.

9. A partial tender offer involves "proration risk," that is, a risk to shareholders of the subject security that less than all of the securities tendered will be accepted. Accordingly, short tendering is proscribed by Rule 14e-4 because the practice unfairly decreases the short tendering person's proration risk at the expense of other tenderers, who will have proportionately fewer shares accepted.

Failure to Have a Reasonable Supervisory System for Compliance with Rule 14e-4

10. Prior to February 2016, the Firm did not have any supervisory system, including WSPs, related to or designed to achieve compliance with Rule 14e-4.
11. In February 2016, the Firm incorporated into its WSPs a two-page operational procedures document related to compliance with Rule 14e-4. These operational procedures, however, were essentially an outline for how the Firm should handle voluntary corporate actions and were limited to ensuring that the Firm processed tender instructions accurately. As such, the WSPs failed to provide any guidance for how the Firm should calculate net long positions and what actions, if any, should be taken to ensure that the Firm was not tendering shares for its own account, or for the account of a customer, in excess of the Firm's, or its customer's, net long position.
12. The Firm merely reviewed the account for which the shares were being tendered to ensure the shares were held in the tendering account; the review did not factor options positions, securities or shares held by the same person but in other accounts when calculating the position in the security being tendered. This failure led to two violations of Rule 14e-4, in that the Firm tendered more shares than it or its customers owned, as described below.
13. Accordingly, during the review period, the Firm failed to reasonably supervise its participation, and the participation of its customers, in two partial tender offers to achieve compliance with Rule 14e-4. The Firm's supervisory system allowed violations of Rule 14e-4 to continue without detection for the entirety of the Review Period.
14. The acts, practices and conduct described in Paragraphs 10 through 13 constitute a violation of Cboe Rule 4.24 by DBSI, in that DBSI failed to establish, maintain, and enforce WSPs, and a system for applying such procedures, reasonably designed to prevent and detect violations of Rule 14e-4.

Shares Tendered in Violation of Rule 14e-4

15. As described, the Firm used flawed methodology in calculating net long positions in tender offers, resulting in the tendering of more shares than that permitted, as demonstrated by the following instances.

Company C Partial Tender Offer

16. In May and June 2017, DBSI failed to account for relevant short positions in Company C held in its accounts when determining its net long position in Company C. DBSI over-tendered 67,229 shares in Company C's partial tender offer. DBSI reaped ill-gotten gains of \$6,581 in connection with the over-tendering of Company C shares.
17. The acts, practices and conduct described in Paragraph 16 constitute a violation of Cboe Rule 4.2 and Rule 14e-4(b)(1) by DBSI, in that DBSI tendered shares for the partial tender offer in Company C in excess of its net long position.

Company D Partial Tender Offer

18. From February to March 2018, DBSI failed to account for relevant short positions in Company D held in the accounts of its parent company's London bank branch ("London Bank") when determining London Bank's net long position in Company D. DBSI over-tendered 399,187 shares on behalf of London Bank in Company D's partial tender offer. DBSI was solely responsible for London Bank's transactions in Company D's partial tender offer and lacked a reasonable belief that London Bank owned all the Company D shares tendered.
19. The acts, practices and conduct described in Paragraph 18 constitute a violation of Cboe Rule 4.2 and Rule 14e-4(b)(2) by DBSI, in that DBSI tendered shares for London Bank in Company D's partial tender offer in excess of London Bank's net long position.

SANCTIONS

20. The Firm has no relevant prior relevant formal disciplinary history.
21. In light of the alleged rule violations described above, the Firm consents to the imposition of the following sanctions:
- a. A censure;
 - b. A monetary fine of \$175,000;² and
 - c. Disgorgement of \$6,581.

² The Firm has additional disciplinary matters part of FINRA Star No. 20140431210 with Phlx, ISE, NYSE American and FINRA.

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 13.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm 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 Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent.

The Firm agrees to pay the monetary sanction upon notice that this Letter of Consent has been accepted and that such payment is due and payable. 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 Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 13.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by Cboe or any other regulator against the Firm.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, 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 Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.

Date: August 16, 2021 _____

Deutsche Bank Securities Inc.

By: _____

Andrew Stemmer
Name: _____

Managing Director
Title: _____

Date: August 17, 2021 _____

Deutsche Bank Securities Inc.

By: _____

Anthony Stucchio
Name: _____

Managing Director
Title: _____