

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015044296601**

TO: Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

RE: Deutsche Bank Securities Inc.
Member Firm
CRD No. 2525

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Deutsche Bank Securities Inc. (“DB” or 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, FINRA will not bring any future actions against DB alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. DB 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

DB is a registered broker-dealer with its principal office in New York City. DB serves as the investment banking and securities arm of Deutsche Bank AG in the United States. DB provides a comprehensive range of advisory, financial, securities research, and investment services to corporate and private clients. The Firm also provides investment banking services to corporate clients. DB has been a FINRA member since 1940.

RELEVANT DISCIPLINARY HISTORY

In 2010, DB was fined \$575,000 for multiple violations, including submitting inaccurate blue sheets. DB provided inaccurate information on its blue sheets by erroneously reflecting position movements between related client accounts as buy and sell transactions and, in certain instances, erroneously reporting short sales as long sales.¹

¹ *Deutsche Bank Securities Inc.*, AWC No. 2008014450501 (Feb. 16, 2010).

OVERVIEW

From 2008 through at least 2015, DB submitted to the SEC and FINRA thousands of blue sheets that inaccurately reported certain information for over a million transactions. DB is unable to determine the full extent of its blue sheet deficiencies, but at a minimum, DB submitted to the SEC at least 85 inaccurate blue sheets that misreported at least 12,572 transactions and submitted to FINRA at least 3,533 inaccurate blue sheets that misreported at least 1,077,706 transactions. DB's erroneous blue sheets were caused by at least six significant failures in its blue sheet reporting system. Moreover, between January 2014 and August 2015, approximately 40% of DB's blue sheet submissions to FINRA were untimely. In addition, DB did not have written supervisory procedures relating to blue sheets or blue sheet validation and did not have in place an adequate audit system providing for accountability of its blue sheet submissions. As a result of the foregoing conduct, DB violated Section 17(a) of the Securities and Exchange Act (the "Exchange Act") and Rules 17a-4(j), 17a-4(f)(3)(v), and 17a-25, thereunder; NASD Rules 8211, 8213, 3010(b), and 2110; and FINRA Rules 8211, 8213, 3110(b), and 2010.¹

FACTS AND VIOLATIVE CONDUCT

Federal securities laws and FINRA rules require that member firms submit trade data in an automated format when requested by the SEC or FINRA. These trade data are commonly known as "blue sheets."

The SEC, FINRA, and other regulators request blue sheets to assist them in investigations focused on equity trading, including suspicious and insider trading. Blue sheets provide regulators with critical information about suspicious transactions, including the name of the account owner, the nature of the transaction (whether it was a buy, sale, or short sale), and the price at which the transaction occurred. This information is essential to regulators' ability to discharge their enforcement and regulatory mandates.

The failure of a member firm to provide complete and accurate blue sheet information in response to a regulatory request can impact a regulator's ability to discharge its obligations, undermine the integrity of its investigations and examinations, and ultimately interfere with its ability to protect investors. It is therefore an essential and fundamental obligation of each member firm to provide complete, accurate, and timely blue sheet submissions.

Submission of Inaccurate Blue Sheets. Section 17(a) of the Exchange Act and Rules 17a-4(j) and 17a-25, thereunder, require broker-dealers to submit "legible, true, complete, and current" blue sheet data to the SEC upon request. FINRA Rules 8211 and 8213 (formerly NASD Rules 8211 and 8213) require that member firms submit trade data as prescribed in FINRA Rule 8211 to FINRA upon request.

From at least 2008 through at least 2015, DB experienced multiple problems with its blue sheet system that caused it to submit inaccurate blue sheets to the SEC and FINRA. For example,

¹ NASD Rules 8211 and 8213 were replaced by FINRA Rules 8211 and 8213 effective December 15, 2008; NASD Rule 3010(b) was replaced by FINRA Rule 3110(b) effective December 1, 2014; NASD Rule 2110 was replaced by FINRA Rule 2010 effective December 15, 2008.

during this period DB provided inaccurate opposing-broker codes on some blue sheets; did not populate the primary-party identifier and contra-party identifier on some blue sheets; included duplicate transactions on some blue sheets; omitted certain transactions from some blue sheets; did not populate the order-execution-time field on some blue sheets; and incorrectly reported as “long” on its blue sheets certain transactions that should have been reported as “short.”

These problems were caused by significant failures within DB’s blue sheet system, including programming errors in system logic and DB’s failure to implement enhancements in response to new regulatory reporting requirements. For example, programming errors caused certain data to be improperly truncated or omitted altogether from DB’s blue sheets, while another error caused DB’s blue sheet system to fail to recognize duplicate transactions.

DB was unable to determine currently the full extent of these problems and their impact on its blue sheet submissions. However, at a minimum, these problems caused DB to submit to the SEC at least 85 inaccurate blue sheets that misreported at least 12,572 transactions and submit to FINRA at least 3,533 inaccurate blue sheets that misreported at least 1,077,706 transactions.

Additionally, a significant number of DB’s blue sheet submissions were untimely. Firms typically have ten business days to respond to a blue sheet request. Between January 2014 and August 2015, approximately 40% of DB’s blue sheets were untimely. And during the two-month period from July to August 2015, more than 90% of DB’s blue sheets were untimely.

DB’s failure to timely submit accurate blue sheets had a negative impact on regulatory investigations into possible violations of securities laws.

As a result of the foregoing, DB violated Section 17(a) of the Exchange Act; Rules 17a-4(j) and 17a-25, thereunder; NASD Rules 8211, 8213, and 2110 (for inaccurate blue sheets submitted before December 15, 2008); and FINRA Rules 8211, 8213, and 2010.

Inadequate Supervision. FINRA Rule 3110(b) (formerly NASD Rule 3010 (b)) requires broker-dealers to establish, maintain, and enforce written procedures that are reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable FINRA Rules.

From 2008 through at least 2015, DB did not have any written procedures relating to blue sheets or blue sheet validation.

As a result, DB violated NASD Rules 3010(b) (for conduct occurring before December 1, 2014) and 2110 (for conduct occurring before December 15, 2008) and FINRA Rules 3110(b) and 2010.

Inadequate Audit System. Section 17(a) of the Exchange Act and Rule 17a-4(f)(3)(v), thereunder, require broker-dealers to have “in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Rules 17a-3 and 17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.”

From 2008 through at least 2015, DB did not have in place an audit system providing for accountability of its blue sheets.

As a result, DB violated Section 17(a) of the Exchange Act and Rule 17a-4(f)(3)(v), thereunder; NASD Rule 2110 (for conduct occurring before December 15, 2008); and FINRA Rule 2010.

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

(1) a censure;

(2) a fine of \$6,000,000; and

(3) the following undertakings:

(a) DB shall:

(i) Retain, within 60 days of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the Firm's policies, systems, procedures (written and otherwise), and training relating to blue sheets.

(ii) Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant.

(iii) Cooperate with the Independent Consultant in all respects, including by providing staff support. DB shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, DB shall not terminate its relationship with the Independent Consultant without FINRA staff's written approval. The Firm shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports, or documents to FINRA.

- (iv) At the conclusion of the review, which shall be no more than 120 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and FINRA staff an Initial Report. The Initial Report shall address, at a minimum, (i) the adequacy of the Firm's policies, systems, procedures, and training relating to blue sheets; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training.
- (v) Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing, or other professional relationship with DB, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with DB or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.
- (b) Within 60 days after delivery of the Initial Report, DB shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm with a written decision reflecting his or her determination.

The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.

- (c) Within 30 days after the issuance of the later of the Independent Consultant's Initial Report or written determination regarding alternative procedures (if any), DB shall provide FINRA staff with a written implementation report, certified by an officer of DB, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
- (d) DB shall further retain the Independent Consultant to conduct a follow-up review and submit a Final Report to the Firm and to FINRA staff no later than one year from the date of the Notice of Acceptance of this AWC. In the Final Report, the Independent Consultant shall address the Firm's implementation of the systems, policies, procedures, and training and make any further recommendations he or she deems necessary. Within 30 days of receipt of the Independent Consultant's Final Report, DB shall adopt and implement the recommendations contained in the Final Report.
- (e) Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

DB agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. DB has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

DB specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

DB specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- (A) to have a Complaint issued specifying the allegations against it;

- (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 National Adjudicatory Council (“NAC”) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, DB specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

DB 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

DB 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 the Office of Disciplinary Affairs (“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 it; 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 it;
 - (2) this AWC will be made available through FINRA’s public disclosure program in response to public inquiries about the Firm’s disciplinary record;

- (3) FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - (4) 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. DB 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) DB 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 DB, 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 DB has agreed to its 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 DB to submit it.

6-24-16
(mm/dd/yyyy)

Respondent
Deutsche Bank Securities Inc.

By: 
Name: _____

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

6-24-16
(mm/dd/yyyy)

By: 
Name: _____

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

Reviewed by:

Thomas J. McGonigle

Thomas J. McGonigle
Counsel for Respondent
Murphy & McGonigle P.C.
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(202) 661-7000

Accepted by FINRA:

6/22/16
Date

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

James E. Day

James E. Day
Vice President and Chief Counsel
FINRA Department of Enforcement
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