ADMINISTRATIVE PROCEEDING BEFORE TOE
SECURITIES COMMISSIONER OF SOUTH CAROLINA fn the matter of:
Deutsche Bank Securities Inc.,
Respondent.

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Bank) in the

State of South Carolina, with a Central Registry Depository ("CRD") number of2525; and WHEREAS, coordinated investigations into DBSJ's activities in connection with DBSI's marketing and sale of auction rate securities ("ARS") have been conducted by a multistate task force; and
WHEREAS, DBSI has provided documentary evidence and other materials, and provided regulators with access to information relevant to their investigations; and WHEREAS, Deutsche Bank AG (as parent entity ofDBSI) has entered into a Settlement
Tenn Sheet dated August 31, 2008 (the "Settlement") with the North American Securities Administrator's Association ("NASAA"), which recommends to NASAA members the settlement tenns intended to resolve the investigation into the marketing and sale of auction rate securities by DBSI; and
WHEREAS, DBSI and the Securities Commissioner of the State of South Carolina (the

WHEREAS, DBSI consents to the fonn and entry of this Consent Order without admitting or denying the allegations set forth herein. Accordingly, DBSI waives the following rights:
a. To be afforded an opportunity for hearing on the Securities Commissioner's
findings and conclusions of law in this Consent Order after reasonable notice
within the meaning of S.C. Code Ann.§ 35-1-604 (Supp. 2008); and
b. To seek judicial review of, or otherwise challenge or contend, the validity of this
Consent Order; and
WHEREAS, DBSI agrees that for purposes of this matter, or any future proceedings to enforce this Consent Order by the Securities Commissioner, this Consent Order shall have the same effect as if proven and ordered after a full hearing held pursuant to the South Carolina UnifOim Securities Act of2005 (the "Act"); and
WHEREAS, the provisions set forth m this Consent Order constitute the entire agreement between the Securities Commissioner and DBSI, and shall supersede any conflicting provisions contained in the Settlement;
NOW, THEREFORE, the Securities Commissioner, as administrator of the Act, hereby
enters this Consent Order:
I.
FINDINGS OF FACT

I. DBSI admits the jurisdiction of the Securities Commissioner, neither admits nor
denies the findings of fact and conclusions of law contained in this Consent Order, and consents to the entry of this Consent Order by the Securities Commissioner.

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Auction Rate Securities

2. Auction rate securities ("ARS") as a general term refers to long-term debt or
equity instruments tied to short-term interest rates that are reset periodically through an auction process.

3. An ARS auction is regarded as a •·fail" or "failed auction" if there is not a buyer
available for every ARS being offered for sale at the auction. In the event of a failed auction, the investors that wished to sell their ARS were unable to do so and would continue to hold the ARS

and wait until the next successful auction to liquidate their positions.
4. Beginning in February 2008, the ARS market experienced widespread failed
auctions (the "2008 Auction Failures").
5. Common categories of ARS instruments include: auction preferred shares of
closed-end funds ("Preferreds"); municipal auction rate certificates ("Municipal ARS"); and student loan-backed auction rate certificates ("Student Loan ARS"). The interest rates paid to ARS holders are intended to be set through a Dutch auction process.
6. The interest rate set at an ARS auction is commonly referred to as the "clearing
rate."

7. In order to determine the clearing rate, the buy bids are arranged from lowest to
highest interest rate (subject to any applicable minimum interest rate). The clearing rate is the lowest interest rate at which all ARS available for sale at the auction can be sold at par value. DBSI's Marketing and Sale of Auction Rate Securities
8. DBSI {CRD #2525) is a Delaware corporation with a primary place of business
located at 60 Wall Street, New York, New York.
9. Deutsche Bank Alex. Brown ("DBAB"), a division of DBSI, provides wealth
planning and brokerage services to private, institutional, and corporate clients.

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10. The Corporate and Investment Bank ("CIB"), another division of DBSI, provides
capital market financial services to institutions and corporate clients.
11. DBSI engaged in the marketing and sale of ARS in the State of South Carolina.
12. Certain DBSI agents solicited sales of ARS to clients; however, certain DBSI
agents did not fully comprehend the product, auction process, or the risks.
13. DBSI did not provide its agents with adequate training concerning the complex
characteristics of ARS and risks inherent with this type of investment.
14. DBSI did not create and maintain adequate written supervisory procedures to
ensure its agents provided their c1ients with adequate disclosure of the complex characteristics of ARS and risks inherent with this type of investment.
15. Certain DBAB agents misrepresented the characteristics of ARS to clients.
Certain DBAB agents told clients that ARS were "safe and liquid," "cash equivalents," and "just like money markets."
16. Third-party marketing materials about ARS, which were available to DBAB
agents, described certain ARS issues as an "AAA-rated source of short-term income" and a "Cash aJtemative."
17. Certain DBAB clients maintained investment policies and objectives designed to
place their money in safe and liquid investments.
18. Certain DBAB agents sold ARS to these DBAB clients, despite their investment
policies and objectives which sought safe and liquid investments.
19. From approximately September 2003 until February 2008, DBAB categorized
ARS under the heading "Other - Money Market Instruments" on clients' monthly account

statements.

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20. ARS, unlike money market instruments, are not short-term investments. In fact,
ARS bonds may have maturities as long as 30 years and Preferreds have unlimited maturity.
21. Beginning in 2003, CIB began to underwrite certain Student Loan ARS issues
("CIB SL ARS"). Because CIB had not developed a sales network for those CIB SL ARS, there were instances in which several CIB SL ARS issues were not successfully sold to institutions during the initial offering. As a consequence, CIB purchased and maintained on its books I 00 percent of the outstanding ARS for several CIB SL ARS issues, which ultimately allowed the initial offerings for these issues to succeed. Despite this, CIB continued to market those CIB SL ARS to investors. Some of those CIB SL ARS remained on CIB's books as of the 2008 Auction Failures.
22. Because certain DBSI agents misrepresented the characteristics of ARS to clients
and purchased ARS for clients based upon those misrepresentations, DBSI engaged in dishonest and unethical conduct in the securities business with respect to the marketing and sale of auction rate securities.
23. By failing to: (i) provide adequate training to agents concerning ARS, (ii) create
and maintain adequate written supervisory procedures concerning ARS, and (iii) ensure accurate disclosure of ARS characteristics to clients by its agents, DBSI failed to reasonably supervise its agents with respect to the marketing and sale of auction rate securities.
Conflict of Interest
24. DBAB failed to adequately disclose to clients who purchased ARS that the firm 's
roles as underwriter and broker-dealer in certain ARS issues were a conflict of interest, and this conflict may affect the auction clearing rate. As the underwriter and lead manager on four

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Preferred issues since 19921 (the "DBAB �M�~�a�g�e�d� Preferred"), it was in the interest of the firm to keep the clearing rates low for issuers of the DBAB Managed Preferred. As broker-dealerthe , firm had a duty to provide the highest available ARS clearing rates to its clients.
25. DBAB issued a "price talk" document prior to each ARS auction in which it acted
as a broker-dealer. This document detailed the interest rate at which DBAB believed the ARS would clear at auction. DBAB determined this rate by utilizing different factors, including the competing interests of both investors and issuers.
26. By failing to fuiJy inform clients about the effect of DBAB 's conflicting roles, as
underwriter and broker-dealer of ARS issues, on auction clearing rates, DBSI engaged in dishonest and unethical conduct in the securities busines with respect to the marketing and sale of auction rate securities.
27. By failing to ensure adequate disclosure of conflicts of interest concerning ARS to
clients by its agents, DBSI failed to reasonably supervise its agents with respect to the marketing and sale of auction rate securities.
Supporting Bids
28. In every auction for the DBAB Managed Preferred, the firm submitted
"supporting bids" for its own account that were sufficient to cover the entire allotment of each DBAB Managed Preferred issue. These supporting bids were customary among lead managers to prevent failed auctions and to maintain liquidity for investors. In certain instances, the supporting bids prevented failed auctions, and in others, the supporting bids were unnecessary. However, regardless of the auction outcome, these supporting bids were consistently placed by DBAB, ensuring that successful auctions occurred and liquidity was maintained.

1 These Preferred issues were Nuveen Maryland Premium Income Municipal Fund 2 (CUSIP No. W6706IQ305), and Van Kampen Invest Grade (CUSIP Nos. E92092960 I, F920929700, and G920929809).

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29. DBAB failed to disclose to clients that, in each auction of auction rate preferred
issues for which DBAB acted as lead manager, the firm placed supporting bids for the entire allotment of auction rate preferred to ensure a successful auction.
30. DBAB agents were not aware that DBAB placed supporting bids in the auction
rate preferred auctions for which DBAB was the lead manager; nor were they aware of the effect of DBAB's supporting bids on those auctions.
31. In or around August 2007, CIB declined to place supporting bids for certain ARS
issued by three special purpose vehicles previously created by Deutsche Bank (the ·•sPVs") (called Pivots, Capstans, and Cambers). CIB's decision to stop submitting supporting bids resulted in failed auctions for these ARS issues.
32. On or around February 13, 2008, the head traders of DBAB's fixed-income
trading desk and CIB's asset-backed trading desk, each of which handled the firm's trading in ARS, declined to submit supporting bids for ARS issues in which DBSI was the lead manager. This decision resulted in failed auctions for the ARS issues in which DBSI was a lead underwriter, and a lack of liquidity for clients invested in these issues. Neither DBAB nor CIB has placed a supporting bid since that decision.
33. By engaging in the practice of placing supporting bids to prevent failed ARS
auctions and failing to disclose the practice to clients, DBAB engaged in dishonest and unethical conduct in the securities business with respect to the marketing and sale of auction rate securities.
34. By failing to ensure adequate disclosure to c1ients of DBAB's practice of placing
supporting bids to artificially prevent failed ARS auctions, DBSI failed to reasonably supervise its agents with respect to the marketing and sale of auction rate securities.

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II.
CONCLUSIONS OF LAW

Solely for the purpose of this Consent Order, and without admitting or denying the allegations set forth herein, DBSl consents to the Securities Commissioner's making the following conclusions of law:
l. In connection with: (i) the misrepresentation of ARS to clients, (ii) the failure to adequately disclose to clients the effect of the firm 's role as underwriter and broker-dealer for ARS issues, and (iii) the use of supporting bids to artificially prevent failed ARS auctions and failing to adequately disclose the practice to clients, DBSI engaged in dishonest and unethical conduct in the securities business, in violation of the Act.
2. In connection with the failure to (i) provide adequate training to agents
concerning ARS, (ii) create and maintain adequate written supervisory procedures concerning ARS, (iii) ensure accurate disclosure of ARS characteristics to clients by its agents, and (iv) ensure adequate disclosure of conflicts of interest concerning ARS to clients by its agents, DBSI failed to reasonably supervise, and establish and enforce procedures necessary to detect and prevent such conduct, in violation of its duties under the Act.
3. The activities set forth herein are grounds, pursuanto S.C. Code Ann.§ 35-l-412 (Supp. 2008), for the initiation of administrative proceedings; and further, pursuant to S.C. Code Ann. § 35-1-604 (Supp. 2008), to impose such other appropriate remedial measures as may be necessary in the public interest.
III.
ORDER

On the basis of the Findings of Fact, Conclusions of Law, and DBSI's consent to the entry of this Consent Order,

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IT IS HEREBY ORDERED:

I. Pursuanto the Act, DBSJ is assessed and shall pay a civil monetary penalty in the
amount of $33,252.25 (the State of South Carolina's pro rata share of the $15,000,000 total penalty that DBSI agreed to pay pursuant to the Settlement), due and payable within ten (1 0) days of the entry of this Consent Order to the Securities Commissioner.
2. DBSI shall take certain measures, enumerated below, with respect to all current
and former clients of DBSJ that purchased "Eligible ARS", defined below, from DBSI on or before February 13, 2008 (the "Relevant Class"). For purposes of this Consent Order, "Eligible ARS" shall be defined as ARS purchased from DBSI that were subject to auctions that were not continuously succeeding between February 13, 2008, and August 31, 2008.
3. DBSI shall have offered to purchase at par Eligible ARS, that were purchased
from DBSI prior to February 13, 2008, held by: (i) all individuals; (ii) legal entities forming an investment vehicle for family members including but not limited to IRA accounts, Trusts, Family Limited Partnerships and other legal entities performing a similar function; (iii) all charities and non-profits; and (iv) small to medium sized businesses with assets of $10 million dollars or less with Deutsche Bank as of July 31, 2008 (collectively, "Individual Investors").
a. DBSI shall have completed all purchases from Individual Investors who
accepted the offer (i) prior to November 19, 2008, by November 19, 2008, and (ii)
prior to December 31, 2008, by December 31, 2008. For any Individual Investor who accepted the offer between December 31,2008, and June 30, 2009, DBSI shall have completed the purchase within seven business days of DBSI's receipt of his or her acceptance. However, Individual Investors may have requested that DBSI purchase the Eligible ARS on the next scheduled auction date after DBSI's receipt of its

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acceptance, in which event DBSI shall have completed the purchase within seven business days of that auction; and
b. DBSI shall have provided notice to customers of the settlement terms and
DBSI shall have established a dedicated telephone assistance line, with appropriate
staff, to respond to questions from customers concerning the terms of this Consent
Order.
4. No later than November 19, 2008, any DBSI Individual Investor that DBSI has reasonably identified who sold auction rate securities below par between February 13, 2008, and August 31, 2008, shall have been paid the difference between par and the price at which the investor sold the auction rate securities.
5. DBSI shall consent to participate, at the Eligible Customer's election, in the special arbitration procedures as briefly described below. Under these procedures, the Special Arbitration Process that applies to firms that have entered into settlements with state regulators (the ''State SAP"), under the auspices of Financial Industry Regulatory Authority ("FINRA"), will be available for the exclusive purpose of arbitrating any Individual Investor's consequential damages claim:
a. No later than November 19, 2008, DBSI shall have notified those DBSl
Individual Investors who own auction rate securities, pursuant to the tenns of the Settlement, that a public arbitrator (as defined by section 12100(u) ofthe NASD Code
of Arbitration Procedures for Customer Disputes, eff. April J 6, 2007), under the
auspices of FINRA, would be available for the exclusive purpose of arbitrating any DBSI Individual Investor's consequential-damages claim;
b. Arbitration shall be conducted by public arbitrators and DBSI will pay all applicable forum and filing fees;

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c. Any DBSJ Individual Investors who choose to pursue such claims shall
bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' auction rate securities holdings at DBSI;
d. DBSI shall be able to defend itself against such claims; provided, however, that DBSI shall not contest in these arbitrations liability related to the sale of auction rate securities; and provided further that DBSI shal not be able to use as part of its defense a DBSI Individual Investor's decision not to borrow money from DBSI;
e. Individual Investors who elect to use the State SAP provided for in this Order shall not be eligible for punitive damages, or any other type of damages other than consequential damages. The State SAP will govern the availability of attorneys' fees; and
f. All customers, including but not limited to Individual Investors who avail themselves of the relief provided pursuant to this Consent Order, may pursue any remedies against DBSI available under the law .. However, Individual Investors who
elect to utilize the special arbitration process set forth above are limited to the
remedies available in that process and may not bring or pursue a claim relating to
Eligible ARS in another forum.
6. DBSI shall endeavor to work with issuers and other interested parties, including regulatory and govenunental entities, to expeditiously provide liquidity solutions for institutional investors not covered by paragraph 3 immediately above. Beginning November 19, 2008, and then quarterly after that, DBSI shal submit a written report to the representative specified by NASAA ("NASAA Representative") outlining the efforts in which DBSI has engaged and the

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results of those efforts with respect to DBSI institutional investors' holdings in auction rate securities. DBSI shall confer with the NASAA Representative no less frequently than quarterly to discuss DBSI's progress to date. Such quarterly reports shall continue until no later than December 31, 2009. Following every quarterly report, the NASAA Representative shall advise DBSI of any concerns and, in response, DBSI shall discuss how DBSI plans to address such

concerns.

7. DBSI shall have refunded refinancing fees DBSI has received from municipal auction rate issuers that issued such securities through DBSI in the initial primary market between August 1, 2007, and February 13, 2008, and refinanced those securities after February 13, 2008.
8. DBSI shall have made its best efforts to identity Individual Investors who took
out loans from DBSI, between February 13, 2008, and June 30, 2009, that were secured by Eligible ARS that were not successfully auctioning at the time the loan was taken out from DBSI. DBSI shall have refunded to those Individual Investors any interest associated with the auction rate securities-based portion of those loans in excess of the total interest and dividends received on the auction rate securities during the duration of the Joan. Such refunds shall have occurred no later than July 31, 2009.
GENERAL PROVISIONS

9. This Consent Order concludes the investigation by the Securities Commissioner and
any other action that the Securities Commissioner could commence under applicable South Carolina law on behalf of the State of South Carolina as it relates to DBSI's marketing and sale of ARS to DBSI's ''Individual Investors," as defined above.
I 0. The Securities Commissioner shall refrain from taking legal action, if necessary, against DBSI with respect to its institutional investors until November 19, 2008.

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1 I. The Securities Commissioner will not seek additional monetary penalties from
Deutsche Bank relating to DBSl's marketing and sale of auction rate securities.
12. If payment is not made by DBSI, or if DBSI defaults in any of its obligations set
forth in this Consent Order, the Securities Commissioner may vacate this Consent Order, at its sole discretion, upon ten (1 0) days notice to DBSI and without opportunity for administrative hearing.
13. This Consent Order is not intended to indicate that Deutsche Bank or any of its
affiliates or current or former employees shall be subject to any disqualifications contained in the federal securities law, the rules and regulations thereunder, the ruJes and regulations of self regulatory organizations or various states' securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Consent Order is not intended to form the basis for any such disqualifications.
14. For any person or entity not a party to this Consent Order, this Consent Order does
not limit or create any private rights or remedies against Deutsche Bank, limit or create liability of Deutsche Bank, or limit or create defenses of Deutsche Bank to any claims.
15. Nothing herein sha11 preclude the State of South Carolina, its departments, agencies,
boards, commissions, authorities, political subdivisions and corporations (collectively, "State Entities"), other than the Securities Commissioner and only to the extent set forth in paragraph 9 immediately above, and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civi l, criminal, or injw1ctive relief against Deutsche Bank in connection with the marketing and sale of ARS at DBSI.
16. This Consent Order shall not disqualifY Deutsche Bank or any of its affiliates or current or former employees from any business that they otherwise are qualified or li censed to

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perform under applicable state law and this Consent Order is not intended to form the basis for

any disqualification.

BY ORDER OF THE SECURITIES COMMISSIONER

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HENRY D. McMASTER
SECURITIES COMMISSIONER STATE OF SOUTH CAROLINA

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CONSENT TO ENTRY OF CONSENT ORDER BY DBSI

DBSl hereby acknowledges that it has been served with a copy of this Consent Order, has
read the foregoing Consent Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

DBSI admits the jurisdiction of the Securities Commissioner, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Consent Order, and consents to entry of this Consent Order by the Securities Commissioner as settlement of the issues contained in this Consent Order.
DBSI states that no promise of any kind or nature whatsoever was made to it to induce it to
enter into this Consent Order and that it has entered into this Consent Order voluntarily: /_,/_/

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that, as such, has been authorized by DBSI to enter into this Consent Order for and on behalf of DBSI.

DBSI agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that DBSI shall pay pursuant to this Consent Order.

Dated this£ day of ;JlP rz4 '20 f(J.
DEUTSCHE BANK SECURITIES INC.

By: �r�f�~ �:�, �~�
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Dated this 'ik- day of �I�V�\�.�~� '20 /0
DEUTSCHE BANK SECURITIES INC.

By: �;�~ �f�' �~�
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Notary Public

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