

STATE OF SOUTH CAROLINA

In the Matter of)

DEUTSCHE BANK SECURITIES, INC,)

Respondent.)

ADMINISTRATIVE CONSENT ORDER

File No. 06025

WHEREAS DEUTSCHE BANK SECURITIES INC. ("Deutsche Bank") is a broker-dealer

Code Ann. § 35-1-101 *et. seq.* (the "South Carolina Act") with respect to this Administrative Consent Order

WHEREAS, The Attorney General of the State of South Carolina as Securities Commissioner has

immediately upon this date, [REDACTED]

WHEREAS, The Securities Commissioner finds the following relief appropriate and in the public

designed to manage these conflicts of interest

requested by the staff during the investigation. Despite repeated inquiries from the staff and state investigators, Deutsche Bank insisted during the investigation that its production of the e-mail was complete. In fact, Deutsche Bank had produced less than one percent of the e-mails requested.

covered companies, evaluate their business prospects, and provide analysis and projections regarding the future prospects of the company. They also provide a rating or recommendation as to whether the company presents a good investment opportunity, and often provide a price target (the market price at which the analyst expects the stock to trade within a given time).

9. During the relevant period, Deutsche Bank analysts made themselves available via telephone.

industry sectors and companies covered by the analyst. In addition, analysts provided periodic research updates to the sales forces through "morning calls" held before the start of trading.

10. During the relevant period, Deutsche Bank had a four-point rating system: "Strong Buy"; "Buy"; "Market Performer"; and "Market Underperformer".

mailing lists. Analysts' recommendation were also reported in the IIS financial news media

information, reports, and recommendations upon which investors could rely in making informed investment decisions.

B. Investment Banking at Deutsche Bank

14. Deutsche Bank's investment banking division assists companies with raising capital through initial public offerings ("IPOs"), "follow-on" offerings (subsequent offerings of stock to the public), and private placements of stock. It also assists companies with negotiating and handling

funded 43%, and the retail department funded 7%.

18. Investment banking considerations were an important factor in deciding what research to provide and how much research analysts were paid. As stated below, Deutsche Bank's compensation structure rewarded analysts for investment banking deals consummated in their sectors. Investment

banking interests also played a role in determining which

analysts and which would be dropped.

A. Analysts' Compensation Was Determined In Part By The Analysts' Contribution to Investment Banking Revenues

19. In order to "align" the interests of the analysts with the interests of the other departments at the firm, whose revenues funded the research department, Deutsche Bank created an "analyst performance

Majority Of Investment Banking Revenue. Without The Analyst, Our Revenue Would Have Been More Than 50% Below What We Generated.”) to 5 (“Analyst Had A Negative Impact On Investment Banking Revenue.”). Analysts at the top of the matrix – and thus who received the largest bonuses – typically received all 1’s or 2’s from investment bankers, as well as scored highly in other areas of the matrix.

firm's investment banking business.

27. In sum, research analysts at Deutsche Bank were compensated millions of dollars in part for their contribution in winning the business of investment banking clients for whom they issued reports.

B. Investment Banking Interests Influenced Coverage Decisions

28. The research department at Deutsche Bank made decisions about the stocks on which its analysts would initiate and maintain coverage based in part upon investment banking concerns. Analysts

US. been [sic] a big fee paying customer of ours that we have promised US coverage that past US research management agreed to.”

32. In addition to initiating positive coverage on investment banking clients, Deutsche Bank research analysts at times maintained favorable ratings on investment banking clients’ stocks, even in the face of precipitous declines in the stocks’ prices.

33. F

research analysts would cover the company if the company gave it investment banking business. Deutsche Bank pitchbooks spoke of the firm's "commitment to research" and to the company, stating that Deutsche Bank's "commitment doesn't end with the IPO" and that Deutsche Bank would "be [the company's]

leading advocate." Analysts prepared one section of the pitchbooks, entitled "Research Positioning." Deutsche Bank analysts typically prepared this section after completing some due diligence on the company and discussed in the section how the analyst would market the company to investors in research reports. Generally, the research positioning section of the pitchbook made a variety of positive statements about the company. For example, the pitchbook would sometimes state that Deutsche Bank analysts

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future business, [they] had to have research coverage and it had to be from a U.S. analyst □ the lack of coverage continues to be a major problem in our relationship. and we have been categorically assured

that none of deal flow will come our way until we make good on our promise". Thus, in at least some cases, companies often demanded research coverage before selecting an investor. □

an order with Deutsche Bank to sell more than a million shares of its position in the stock. Immediately after the sale, the Deutsche Bank institutional salesperson responsible for the account sent an e-mail to the director of research, commending the analyst's performance and stating that the client would be sending its *Institutional Investor* votes to the analyst. (Subscribers vote for analysts that have

provided information in an annual call of the most influential

51. In a January 2000 e-mail discussing the "norm" on Wall Street, a banker stated that for

research coverage in the management fee."

A. Deutsche Bank Received Payments for Research

52. During the relevant time period, Deutsche Bank received payments on at least four deals for which it was not the lead or co-lead manager. Internal documents at the firm in fact stated that

cannot be attributed to the selling efforts of any one firm, the commissions for the sales are placed into an "institutional pot." The credits are then divided among the firms as selling concessions). Deutsche

Bank initiated research coverage of Emisphere with a Buy recommendation on November 17, 2000

after the end of the quiet period. The research report did not disclose the \$87,500 payment.

55. Deutsche Bank also received a payment of \$150,000 in March 2000 for research on United Therapeutics, Inc. and a payment of \$375,764 in December 2001 for covering Trimeris, Inc.

56. In each of the four instances where Deutsche Bank received a payment for research, Deutsche Bank was not a member of the underwriting syndicate. (In several of the instances, Deutsche

Bank was considered a member of the "selling group;" however, the selling group members do not

provide research coverage. In at least one instance, Deutsche Bank advised its client that it would be possible to “attract specific additional Research Analysts” by offering them free retention shares.

60. During the relevant period, Deutsche Bank made these payments in at least 25 offerings where it was the lead or co-lead manager. The payments, which came from the underwriting proceeds, were made to at least 35 other broker-dealers who either were not part of the underwriting syndicate or who received a payment significantly in excess of their underwriting fee on the transaction. In many of these instances, Deutsche Bank’s internal e-mail and other internal documents recorded these payments as “research payments.”

of 5.475 million shares of stock in August 1999. The dealer book (the document used by Deutsche Bank to track firms’ involvement in the deal) noted under one firm’s name: “RESEARCH FOR \$\$ ADDL 100M SHARES OF CREDIT.” The dealer book made similar notations for other firms.

payments were not disclosed in the prospectus or other publicly available documents disclosing the

terms of the underwriting deal. Deutsche Bank did not take steps to ensure that these firms disclosed in their research reports that they had been paid to issue research. Further, where applicable, Deutsche

Bank did not disclose payments to brokers in its research reports.

noticed apparent discrepancies in the volume of e-mail that was being produced for various individuals. The regulators also believed that anticipated responses to certain e-mails were missing and the production appeared to be incomplete. These discrepancies were immediately brought to the attention of Deutsche Bank. Deutsche Bank repeatedly assured the regulators that its e-mail production was complete. Responding to the issues raised by the regulators, the firm stated that the variance in the volume of e-mails for individual individuals was due to the fact that different entities that now comprised Deutsche Bank had differing historical e-mail retention practices, or c) Deutsche Bank's failure to maintain all of its e-mail for the required three-year time period, for which the firm had been fined \$1.65 million in joint actions by the SEC, the NASD, and the NYSE in December 2002.

69. The regulators continued to examine the production discrepancies. One discrepancy

recoverable e-mail. Internal or external third parties with forensic data retrieval expertise were not consulted to confirm that the tapes were corrupted and to assess whether restoration was possible using different technology.

71. In certain instances, Deutsche Bank neglected to restore backup tapes to determine whether they contained responsive e-mail. In other instances, Deutsche Bank incorrectly identified as "unavailable" backup tapes that were, in fact, available or in offsite storage facilities, and also stated

that certain tapes had been overwritten when that turned out not to be the case.

73. Over the course of the following year Deutsche Post [redacted]

mail -- more than three times the volume that it produced during the investigation as of December 2002.

74. By failing to timely [redacted]

The Securities Commissioner finds that Deutsche Bank violated § 35-1-412(d)(9) (formerly 35-

1-520(2)(i) of the Act by:

(a) failing to establish and maintain adequate policies, systems and procedures for supervision and control of the research and investment banking departments reasonably designed to detect and prevent the foregoing investment banking influences and manage the conflicts of interest to assure compliance with applicable securities laws.

The Securities Commissioner finds Deutsche Bank violated § 35-1-411(d) (formerly 35-1-

600) by the actions described in VI. above.

The Securities Commissioner finds the following relief appropriate and in the public interest.

Judgment”) as follows:

a) \$28,750,000 to the states (50 states, plus the District of Columbia)

4. Deutsche Bank agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to payment made pursuant to any insurance policy, with regard to all penalty amounts that Deutsche Bank shall pay pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC Final Judgment or otherwise used for the benefit of investors. Deutsche Bank further 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 penalty amounts that Deutsche Bank shall

regardless of whether such penalty amounts or any part thereof are added to the Distribution Fund Account referred to in the SEC Final Judgment or otherwise used for the benefit of investors

(collectively, "State"), including, without limitation, any disqualifications from relying upon the State registration exemptions or State safe harbor provisions. "Covered Person" means Deutsche Bank, or any of its officers, directors, affiliates, current or former employees, or other persons that would

otherwise be disqualified as a result of the Orders (as defined below.).

8. The SEC Final Judgment, the NYSE Stipulation and Consent, the NASD Letter of Acceptance, Waiver and Consent, this Order and the order of any other State in related proceedings against Deutsche Bank (collectively, the "Orders") shall not disqualify any Covered Person from any

business that they otherwise could lawfully conduct.

13. This Order shall be binding upon Deutsche Bank and its successors and assigns. Further, with respect to all conduct subject to Paragraph 2 above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions, the terms "Deutsche Bank" and "Deutsche Bank's" as used herein shall include Deutsche Bank's successors and assigns which, for these purposes, shall include a successor or assign to Deutsche Bank's investment banking and research operations, and in the case of an affiliate of Deutsche Bank, a successor or assign to Deutsche Bank's investment banking or research operations.

Dated this 16 day of June 2006.

BY ORDER OF THE SECURITIES COMMISSIONER



Henry McMaster

**CONSENT TO ENTRY OF ADMINISTRATIVE ORDER
BY DEUTSCHE BANK SECURITIES, INC.**

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

DEUTSCHE BANK SECURITIES, INC. admits the jurisdiction of the Securities Division, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the Securities Commissioner as settlement of the issues contained in this Order.

DEUTSCHE BANK SECURITIES, INC. states that no promise of confidentiality

SUBSCRIBED AND SWORN TO before me this 8 day of June, 2006.

Nyree A. McAllister

Notary Public

My Commission expires: July 31, 2007

NYREE A. McALLISTER
Notary Public, State of New York
No. 01MC8045554
Qualified in Queens County
Certificate Filed in New York