UNITED STATES OF AMERICA Before the SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934 Release No. 75040 / May 26, 2015

ADMINISTRATIVE PROCEEDING File No. 3-16557

In the Matter of

DEUTSCHE BANK AG,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER AND CIVIL PENALTIES

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Deutsche Bank AG ("Deutsche Bank" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer"), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order and Civil Penalties ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

A. SUMMARY

- 1. This matter relates to Deutsche Bank's overvaluation of certain Leveraged Super Senior ("LSS") trades during the height of the global financial crisis which resulted in misstatements to Deutsche Bank's financial statements for year end 2008 and the first quarter of 2009. The LSS trades at issue had a notional value of C\$120 billion, or approximately \$98 billion¹, reflecting credit protection Deutsche Bank purchased from Canadian counterparties. Initially, the trades were leveraged approximately eleven times which meant that the Canadian counterparties posted collateral of approximately 9% of the notional value of the trades or approximately \$8.5 billion. Following a restructuring, finalized in early 2009, the trades were partially deleveraged by the addition of collateral (bringing the collateral total to \$16.6 billion, plus additional margin funding from Deutsche Bank of approximately \$2.0 billion). The fact that the trades were leveraged created the risk that Deutsche Bank's value of the full notional trade would exceed the value of the collateral and thus expose Deutsche Bank to "Gap Risk." As such, Gap Risk, a key component in the valuation of the LSS trades, required consideration.
- 2. As a protection buyer, Deutsche Bank's LSS trades increased in value as markets deteriorated during the global financial crisis. However, as the value of these trades increased, so did Deutsche Bank's Gap Risk in the LSS trades. Deutsche Bank used a variety of methods to attempt to measure the Gap Risk throughout the period. From the beginning of 2008, Deutsche Bank's changing methodologies for measuring the Gap Risk in the LSS trades all had the impact of steadily reducing the value Deutsche Bank assigned to it. And, beginning in October 2008, Deutsche Bank stopped adjusting the value of the LSS trades for Gap Risk—essentially measuring the Gap Risk at \$0. Deutsche Bank's deficient internal accounting controls contributed to Deutsche Bank's failure to adequately assess the Gap Risk, resulting in the misstatement of its financial statements.

B. RESPONDENT

3. **Deutsche Bank AG,** a German corporation based in Frankfurt, Germany, offers a wide variety of investment, financial and related products and services around the world. Deutsche Bank is a foreign private issuer whose stock is registered under Section 12(b) of the Exchange Act and trades on the New York Stock Exchange.

¹ Canadian dollar amounts in this Order have been converted to U.S. dollars based on the December 31, 2008 exchange rate.

C. FACTS

Deutsche Bank's Synthetic LSS CDOs

- 4. From 2005 to 2006, Deutsche Bank purchased credit protection from certain Canadian conduits (the "Conduits"). The credit protection took the form of bespoke synthetic collateralized debt obligations ("CDOs"), essentially swap agreements based on specified pools of corporate credit default swaps. These CDOs provided payments to the purchasers of such credit protection in the event that a set amount of credit default losses occurred in a certain pool of reference securities comprised primarily of corporate credit default swaps. Deutsche Bank purchased approximately \$98 billion of leveraged super senior tranches of over thirty CDOs (collectively, the "LSS Positions"), representing over 50% of the Canadian LSS market. Deutsche Bank was required to account for its LSS Positions as derivative instruments measured at fair value under International Financial Reporting Standards.
- 5. Owning protection on the super senior tranches meant that Deutsche Bank would receive a payout if there were significant credit default losses in the underlying reference securities. In essence, Deutsche Bank's credit protection from the LSS Positions would increase in value if the market took a downturn.

Deutsche Bank's Gap Risk

- 6. Deutsche Bank's ultimate counterparties on these transactions were asset-backed commercial paper ("ABCP") investors, essentially protection sellers, whose investments were used to purchase the collateral underlying the LSS Positions. The fact that the transactions were leveraged meant that the collateral posted for these positions by the sellers of protection was only a fraction of the total \$98 billion of sold protection, typically around 9%. Deutsche Bank paid a premium for this credit protection.
- 7. The leverage in the transactions exposed Deutsche Bank to the risk that the market value of its protection, which Deutsche Bank recognized in its financial statements as the market value rose, could at some point exceed the available collateral (the "Gap Risk"). In essence, Gap Risk was the risk that the value of the LSS Positions would increase to a point where it exceeded the value of the collateral and no new collateral was posted by the protection sellers. In such instance, the LSS Position would provide protection to Deutsche Bank only up to the collateral level, rather than the full amount of the market value of its credit protection.
- 8. To protect itself against the Gap Risk, Deutsche Bank had the ability to request that additional collateral be posted at certain specified "trigger" points. The original triggers at which Deutsche Bank could call for additional collateral occurred when the value of the LSS Position increased to a set percentage of the posted collateral, typically around 50% ("Original Triggers"). For example, if one LSS Position had a notional amount of \$1 billion, and was 10 times leveraged with \$100 million in collateral, Deutsche Bank could call for additional collateral to be provided by the protection sellers when the value of Deutsche Bank's LSS Position reached \$50 million. At that point the protection sellers could choose to post additional collateral or not. If the protection

sellers posted additional collateral, which would allow them to avoid an unwind, the LSS Position would remain in effect. If the protection sellers decided not to post additional collateral then the transactions would unwind, and Deutsche Bank would keep the lesser of the posted collateral or the fair value equivalent of a fully-collateralized LSS Position.

- 9. The decision to post additional collateral or unwind the trade belonged solely to the protection seller. This meant that Deutsche Bank had no control over whether additional collateral was posted or whether the protection seller chose to walk away.
- 10. The structure of the Original Triggers minimized the Gap Risk, because Deutsche Bank could call for additional collateral early enough that there was a cushion between the value of the LSS Position and the amount of existing collateral.

The ABCP market freezes in August 2007

11. During the week of August 13, 2007, there was a freeze in the Canadian ABCP market. This occurred as investors stopped buying new ABCP, and ABCP holders ceased rolling their existing ABCP. As a result, as the ABCP became due, the Conduits were unable to fund repayments to the ABCP investors through new issuances or replacement notes.

The Montreal Accord introduces new terms to the LSS Positions

- 12. The August 2007 market freeze was addressed with a proposed restructuring of the LSS Positions known as the Montreal Accord. The Conduits holding the collateral entered into informal standstill agreements where the Conduits agreed not to exercise their right to call for liquidity funding from Deutsche Bank and other protection buyers², and the protection buyers, including Deutsche Bank, agreed not to enforce collateral calls when the Original Triggers were hit. There were a series of standstill agreements which were continually renewed during the negotiations. In December 2007, the tentative Montreal Accord framework agreement was signed by the parties.
- 13. Under the December 2007 agreement, all of the ABCP issued by the Conduits were to be replaced by new notes with maturity dates that matched the longer duration of the underlying assets in the Conduits. The Montreal Accord benefitted Deutsche Bank by making available additional collateral. Specifically, the total collateral for Deutsche Bank's LSS Positions increased from approximately \$8.5 billion to approximately \$16.6 billion, plus additional margin funding from Deutsche Bank of approximately \$2.0 billion. However, conversely, the triggers for making additional collateral calls were moved to more remote levels and their structure was changed ("New Triggers"). The New Triggers allowed Deutsche Bank to call for additional collateral when certain credit index spreads and losses in the underlying reference portfolio occurred.

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It is not unusual in these types of structures to have banks such as Deutsche Bank, even as protection buyers, provide a standby credit facility to meet the cash needs of their counterparties if the Conduit is not able to issue ABCP on any given day.

- As previously mentioned, the Original Triggers, hit when the value of the LSS Positions was at approximately 50% of the collateral, provided protection to Deutsche Bank by allowing for the posting of additional collateral or an unwind at a point when there likely was sufficient collateral to cover the value of the LSS Positions. The New Triggers, referencing market credit indices and underlying losses in the reference LSS portfolios, however, were riskier to Deutsche Bank than the Original Triggers. Moving the triggers out, although decreasing the likelihood of a trigger being reached, increased the risk that the collateral posted would be insufficient to pay Deutsche Bank the full fair value of the LSS position in the event the trades were unwound.
- 15. Indeed, in a March 2008 report on the restructuring, a major investment bank, acting as an advisor to the Pan-Canadian Investor Committee for Third-Party Structured Asset-Back Commercial Paper on the restructuring, emphasized the negative impact that changing the triggers would have on Deutsche Bank and other protection buyers. The report noted that moving the triggers further out, "increase[s] the likelihood of both having a larger Collateral Call, and not having the collateral to meet it when called," and "increases the portion of risk borne by Asset Providers³, as it increases the probability of losses in an unwind scenario."
- 16. The investment bank advisor's report made clear that changing the triggers increased the Gap Risk for Deutsche Bank and other protection buyers. Specifically, the report stated that "[t]he introduction of Spread-Loss Triggers only further add to the 'Gap Risk' Asset Providers are assuming." The report also noted that "Asset Providers have taken on more Gap Risk at a future point in time when credit spreads may be significantly wider."
- 17. A Deutsche Bank employee involved in the restructuring analyzed the New Triggers and recognized the potential problem if the triggers were reached, concluding that "in most circumstances D[eutsche] B[ank] would expect that if the index triggers are breached, the [value] of DB's [LSS Position] will exceed the total amount of collateral posted to DB." Thus, moving the trigger out meant that if a trigger was hit, the existing collateral could easily have been exceeded by the value of the LSS Position before Deutsche Bank could call for more collateral – meaning there would exist an actual "gap," not just the risk of a gap.
- By April 2008, 96% of the ABCP investors had approved of the Montreal Accord, but the remaining ABCP investors challenged the Montreal Accord in Canadian courts. On June 5, 2008, the Ontario Superior Court approved of the Montreal Accord restructuring. The decision was appealed to the Ontario Court of Appeal, which turned down the appeal in August 2008. The remaining ABCP investors further appealed the decision to the Supreme Court of Canada.
- In September 2008, the Supreme Court of Canada declined to hear the ABCP investors' appeal. However, during this same period, market conditions further deteriorated beginning with the collapse of Lehman Brothers. While the Supreme Court's decision ended the appellate process, the market turmoil led to additional negotiations relating to the Montreal Accord.

Here the "Asset Providers" are Deutsche Bank and the other protection buyers.

20. On December 24, 2008, after further negotiations, Deutsche Bank and the other protection buyers secured an additional approximately \$3.6 billion in collateral for the LSS Positions from the federal and certain provincial Canadian governments. Notably, however, the final Montreal Accord also included an 18-month moratorium on any collateral calls. During the moratorium, Deutsche Bank and other protection buyers were unable to call for additional collateral even if the New Triggers were hit. As such, if credit spreads widened during the period of the moratorium, and if the value of the LSS Positions approached or exceeded the collateral levels, Deutsche Bank was exposed to significant Gap Risk because of the leveraged nature of the LSS Positions. The renegotiated agreement was signed in early January 2009.

Relevant accounting standard

- 21. Deutsche Bank was required to record its investment in the LSS Positions at fair value in accordance with International Accounting Standard 39 ("IAS 39"). Under IAS 39 during the relevant periods, fair value was defined as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction." IAS 39 required Deutsche Bank to consider all relevant available market information and to assess the factors that market participants would view as important in assigning a value to its LSS Positions.
- 22. For assets like the LSS Positions, for which there was not an active market, valuation techniques or models may be used to measure fair value. However paragraphs AG75 and AG76 of IAS 39 provide that such techniques should maximize the use of observable market inputs and models, and, if used, should be periodically calibrated to observable market information, in part, to ensure that the model reflects current market conditions. Further a valuation technique should incorporate all factors that a market participant would consider in setting the price.

Deutsche Bank's changing valuation methodologies

- 23. From the end of 2007 through 2008, in a time frame slightly over one year, Deutsche Bank employed five different approaches to measuring the Gap Risk in valuing the LSS Positions. These methodologies included taking a percentage haircut on the value of the LSS Positions, applying a static valuation adjustment, and using a model. However, each change in methodology had the effect of decreasing the amount that Deutsche Bank assigned to the Gap Risk in its LSS Positions during this time period.
- 24. Initially when Deutsche Bank entered into the trades, Deutsche Bank measured the Gap Risk by taking a 15% haircut from the value of the LSS Positions. For the first quarter of 2008, Deutsche Bank froze the haircut at its December 31, 2007 amount and used a static valuation adjustment of \$200 million for the Gap Risk.
- 25. Beginning in January 2008, Deutsche Bank's Market Risk Management group ("MRM") worked to develop a dynamic model that could value the Gap Risk more accurately than the static haircut approach. As part of their effort, in March 2008, MRM developed an initial version of a model, the MRM Model, to measure the Gap Risk on the LSS Positions. At the time

MRM's proposal was submitted for consideration in March, the MRM Model had been tested on a few LSS Positions and calibrated to observable market data. MRM found the model to show promising results and recommended it for use in measuring the Gap Risk.

- 26. At the same time, the trading desk developed a model, the Desk Model. Because Deutsche Bank determined to pursue development of the Desk Model, the MRM Model was never fully developed or adopted for use. Accordingly, for the second quarter of 2008, Deutsche Bank used the Desk Model, which measured the Gap Risk at \$20 million. The Desk Model was not calibrated to market data.
- 27. In mid-September 2008, following the collapse of Lehman Brothers, the Desk Model valuation for the Gap Risk was \$78 million. At that point, Deutsche Bank reevaluated whether to continue to use the Desk Model for risk management and valuation. While Deutsche Bank reevaluated its approach for the Gap Risk, it froze the Gap Risk measurement calculated by the Desk Model. Accordingly, for the third quarter of 2008, Deutsche Bank used a static valuation adjustment of \$78 million for the Gap Risk.
- 28. In the fourth quarter of 2008, Deutsche Bank turned off the Desk Model and took no further valuation adjustment for the Gap Risk, effectively valuing the Gap Risk at \$0. For risk purposes, Deutsche Bank implemented a macro hedging strategy by purchasing S&P put options.
- 29. Significantly, while credit spreads widened throughout 2008 and the likelihood of defaults rose, Deutsche Bank's valuation of its LSS Positions increased. However, Deutsche Bank's valuation of the Gap Risk in the LSS Positions, which if valued accurately would have generally increased directionally with the LSS Positions, in fact, decreased from \$200 million at the end of 2007 to \$0 at the end of 2008.

Deutsche Bank stops measuring the Gap Risk in valuing the LSS Positions

- 30. In the fall of 2008, as the credit markets started to deteriorate and spreads widened, the calculations for Deutsche Bank's Gap Risk generated by the Desk Model increased significantly from \$20 million to \$78 million in the middle of September 2008. Effective October 1, 2008, Deutsche Bank stopped using the Desk Model. Rather than completing work on models that may have been able to measure the Gap Risk or considering other alternative methodologies, Deutsche Bank instead measured its Gap Risk at \$0 as of October 2008, for year-end reporting as of December 31, 2008, and for the quarter ended March 31, 2009.
- 31. Although after September 30, 2008, Deutsche Bank ceased measuring the Gap Risk in its LSS Positions for financial reporting purposes, it estimated Gap Risk for other purposes in December 2008 in connection with the ongoing Montreal Accord negotiations.
- 32. On December 14, 2008, Deutsche Bank ran the Desk Model to quantify its Gap Risk. Deutsche Bank wanted to use its calculation of the Gap Risk as leverage in its renegotiations of the Montreal Accord with the Canadian governments. The Desk Model measured Deutsche Bank's Gap Risk at approximately \$1.5 billion on December 14, 2008. The Desk Model, created

prior to the renegotiation of the Montreal Accord, did not take into account in calculating the Gap Risk the moratorium on collateral calls.

- 33. In addition, on December 15, 2008, in an attempt to quantify for negotiation purposes the impact of the moratorium on the Gap Risk, Deutsche Bank employees used a Black-Scholes methodology to calculate this risk. The Black-Scholes methodology measured the Gap Risk in the LSS Positions at \$3.3 billion.
- 34. Deutsche Bank provided the Black-Scholes calculation in connection with the negotiations of the restructuring, to argue that the moratorium increased the Gap Risk.

Deutsche Bank did not comply with IAS 39

- 35. When it ceased to measure the Gap Risk in valuing the LSS Positions, Deutsche Bank failed to measure the fair value of the LSS Positions in compliance with IAS 39.
- 36. In particular, market participants would have considered market conditions that would affect the Gap Risk at the end of 2008 and the first quarter of 2009 when measuring the fair value of the LSS Positions. Market volatility, reflected in rapidly widening credit spreads after Lehman Brothers' collapse, increased the value of CDO positions like the LSS Positions. As the value of the LSS Positions increased, generally so did the Gap Risk -- the risk that the value of the LSS Positions could exceed the existing collateral. Market participants would have factored such a risk into the value of the LSS Positions.
- 37. Deutsche Bank recognized in its financial statements the increasing value of the LSS Positions driven principally by increasing credit spreads and their increased volatility, but, at the same time, did not take into account the impact of this same market information when measuring the Gap Risk in its LSS Positions.
- 38. In addition, a market participant would have considered, not only the positive, but also the adverse, terms of the Montreal Accord when measuring the fair value of the LSS Positions. In particular, a market participant would have taken into account the impact of the New Triggers and the moratorium in measuring the fair value of the LSS Positions.

The values of the LSS Positions were overstated

39. Given the prevailing market conditions at the time, Deutsche Bank's failure to take Gap Risk into account in valuing the LSS Positions, essentially measuring the Gap Risk at \$0 at year end 2008 and for the first quarter of 2009, was not reasonable. In just one year, from December 31, 2007 to December 31, 2008, the value of Deutsche Bank's LSS Positions, driven by the disruption in the markets, had quadrupled in value from \$2.63 billion to \$10.65 billion. By the end of the first quarter of 2009, the LSS Positions were valued at \$9.72 billion. In accounting for these positions, Deutsche Bank incorporated the gains resulting from these increases in value into its financial statements. However, Deutsche Bank's measurement of its Gap Risk, which should

have moved in the same direction as the LSS Positions' fair value, went from \$200 million to \$0 during the same period.

- 40. Deutsche Bank's rationale for ceasing to measure the Gap Risk was that there was no reliable method for measuring its Gap Risk on the LSS Positions, which were valued using significant unobservable inputs. While the valuation of assets like the LSS Positions is complex, and there was not an industry standard for modeling Gap Risk, it was unreasonable for Deutsche Bank to simply no longer consider Gap Risk for financial reporting purposes. There were methods that could estimate Gap Risk. For example, as discussed above, the MRM Model was potentially capable of dynamically calculating Gap Risk in light of available market inputs. However, the MRM model was never approved or implemented for financial reporting purposes. A recreation of that model run by an outside valuation expert retained by the SEC staff for purposes of this investigation calculated a value for Deutsche Bank's Gap Risk of at least \$1.5 billion for year end 2008 and during the first quarter of 2009.
- 41. Further, as discussed above, Deutsche Bank quantified the Gap Risk outside of its financial reporting calculations, as part of the Montreal Accord negotiations, and acknowledged the significance of its impact. Most notably, a separate group of Deutsche Bank employees working on the Montreal Accord negotiations analyzed the effect of the New Triggers and the moratorium on its Gap Risk. During these negotiations, Deutsche Bank estimated the Gap Risk to be in the range of \$1.5 billion to \$3.3 billion.
- 42. The range of estimates generated by these different approaches, although not for financial reporting purposes, should have indicated to Deutsche Bank that its Gap Risk was significant and not \$0. For the fiscal year 2008 and the first quarter of 2009, a full consideration of the potential range of estimates under prevailing market conditions would have generated a measure of Gap Risk that would have materially affected the value of the LSS Positions as reported in Deutsche Bank's financial statements.
- 43. By failing to properly assess Gap Risk in accordance with IAS 39, Deutsche Bank overstated the fair value of the LSS Positions, resulting in misstatements that were material to its financial statements filed with its Form 20-F for fiscal year end 2008 (filed March 24, 2009) and Form 6-K filed April 28, 2009 reporting the results of operations for the quarter ended March 31, 2009. Deutsche Bank's books and records were also inaccurate from at least October 1, 2008 through March 31, 2009.

Deutsche Bank's inadequate internal accounting controls

- 44. Because the LSS Positions were illiquid assets, it was necessary for Deutsche Bank to use a valuation technique and reasonable management judgment in determining the fair value of the LSS Positions. Because areas of complex valuation, such as these, require the exercise of judgment, they also necessitate strong internal accounting controls in order to arrive at reasonable valuations for financial reporting purposes.
 - 45. Proper internal accounting controls serve to ensure that the appropriate factors are

considered in assigning valuations, that the suitable individuals are involved in decision making, and that there exist checks and balances throughout the process. However, Deutsche Bank lacked adequate internal accounting controls to ensure that it was appropriately measuring the Gap Risk in valuing the LSS Positions in accordance with IAS 39.

Deutsche Bank's Changing Valuation Methodology

- 46. In its changing approaches to measuring the Gap Risk, Deutsche Bank failed to ensure that the views of certain groups or individuals whose roles were to serve a control function were given adequate consideration or that they participated meaningfully in the decision making.
- 47. The freezing of the 15% haircut at its December 31, 2007 amount was done without consultation with MRM, and, when notified, MRM expressed concern about both the freezing of the amount and whether the 15% haircut was conservative enough.
- 48. MRM was also concerned that there had not been any analysis to justify the \$200 million amount that Deutsche Bank had used to measure the Gap Risk in valuing the LSS Positions. No analysis was performed in response to MRM's concerns.
- 49. As discussed, on or around September 16, 2008, Deutsche Bank froze the value of the measurement that the Desk Model was assigning to Deutsche Bank's Gap Risk, and shortly thereafter, effective October 1, 2008, stopped using the Desk Model. Rather than implementing a model or any other methodology to measure the inherent Gap Risk in its LSS Positions, Deutsche Bank instead measured its Gap Risk at \$0.
- 50. When Deutsche Bank stopped using the Desk Model and assigned a value of \$0 to its Gap Risk, certain individuals were not included in the decision making process, including individuals who served in important internal control capacities and should have been involved in determining whether Deutsche Bank was adequately measuring the Gap Risk in its LSS Positions.
- 51. For example, the Models & Methodologies department, the internal control function within the finance department responsible for ensuring proper methods for making any valuation adjustments, was not included in the decision to stop valuing the Gap Risk in the LSS Positions. In fact, when the head of Models & Methodologies learned that Deutsche Bank was not assigning any amount to the Gap Risk, he expressed concern regarding "whether we have sufficient reserves to reflect the [G]ap [R]isk we hold and how we monitor going forward."
- 52. Similarly, although required by its policies and procedures, Deutsche Bank did not contemporaneously document its rationale and analysis relating to the decisions to change how it assessed the Gap Risk.
- 53. For example, no concurrent written analysis was done to explain the basis for changing the various methodologies, including the decision to stop measuring the Gap Risk in October 2008. With respect to the decision to stop measuring the Gap Risk, the finance department and MRM attempted to document later in the fourth quarter of 2008 and in January

2009 the basis for Deutsche Bank's decision to stop valuing the Gap Risk. However, the lack of controls surrounding the decision created confusion in reconstructing what decisions had been made with respect to the measurement of the Gap Risk, who was responsible for the decisions, and what the rationale was for the decisions.

Deutsche Bank's IPV Process

- 54. In addition, Deutsche Bank's internal controls for independently assessing its valuation of the LSS Positions and the Gap Risk were inadequate.
- 55. One tool which should have served as a check on whether Deutsche Bank was appropriately measuring the Gap Risk was Deutsche Bank's Independent Price Verification ("IPV"), a division of Deutsche Bank's Business Area Control. The role of IPV was to verify the valuations generated by the trading desk. Any discrepancies between the Desk's and IPV's valuations could suggest issues requiring further inquiry.
- 56. In September 2008, Deutsche Bank classified the LSS Positions as "unverified." This meant that only minimal, if any, testing was performed on the LSS Positions by IPV to ensure that Deutsche Bank was appropriately valuing them.
- 57. Deutsche Bank's IPV function was performing <u>no</u> testing with respect to Deutsche Bank's Gap Risk in the LSS Positions. Indeed, as early as July 2008, IPV's monthly control report noted that "LSS gap [risk] [is] not price tested. Methodology is under review." Throughout the remainder of 2008 and the first quarter of 2009, Deutsche Bank's Gap Risk in the LSS Positions remained untested by IPV.
- 58. As a result of the above, from at least January 2008 through at least March 2009, Deutsche Bank's internal accounting controls were inadequate.
- 59. Deutsche Bank cooperated with the SEC staff's investigation, including sharing the findings of its internal investigation and making overseas witnesses available for interviews.

D. VIOLATIONS

- 60. As a result of the conduct described above, Deutsche Bank violated Section 13(a) of the Exchange Act and Rules 13a-1, 13a-16, and 12b-20 thereunder.
- 61. As a result of the conduct described above, Deutsche Bank violated Section 13(b)(2)(A) of the Exchange Act which requires reporting companies to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of assets.
- 62. As a result of the conduct described above, Deutsche Bank violated Section 13(b)(2)(B) of the Exchange Act which requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance

with generally accepted accounting principles or any other criteria applicable to such statements.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Deutsche Bank's Offer.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 21C of the Exchange Act, Respondent Deutsche Bank cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-16 thereunder.
- B. Respondent shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$55,000,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways:
 - (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
 - (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or
 - (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center Accounts Receivable Branch HQ Bldg., Room 181, AMZ-341 6500 South MacArthur Boulevard Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying
Deutsche Bank as a Respondent in these proceedings, and the file number of these proceedings; a
copy of the cover letter and check or money order must be sent to Laura B. Josephs, Division of
Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5010.

By the Commission.

Brent J. Fields Secretary