Press Release

SEC Charges Deutsche Bank With Misstating Financial Reports During Financial Crisis

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Washington D.C., May 26, 2015 — The Securities and Exchange Commission today charged Deutsche Bank AG with filing misstated financial reports during the height of the financial crisis that failed to take into account a material risk for potential losses estimated to be in the billions of dollars.

Deutsche Bank agreed to pay a $55 million penalty to settle the charges.

An SEC investigation found that Deutsche Bank overvalued a portfolio of derivatives consisting of "Leveraged Super Senior" (LSS) trades through which the bank purchased protection against credit default losses. Because the trades were leveraged, the collateral posted for these positions by the sellers was only a fraction (approximately 9 percent) of the $98 billion total in purchased protection. This leverage created a "gap risk" that the market value of Deutsche Bank's protection could at some point exceed the available collateral, and the sellers could decide to unwind the trade rather than post additional collateral in that scenario. Therefore, Deutsche Bank was protected only up to the collateral level and not for the full market value of its credit protection. Deutsche Bank initially took the gap risk into account in its financial statements by adjusting down the value of the LSS positions.

According to the SEC's order instituting a settled administrative proceeding, when the credit markets started to deteriorate in 2008, Deutsche Bank steadily altered its methodologies for measuring the gap risk. Each change in methodology reduced the value assigned to the gap risk until Deutsche Bank eventually stopped adjusting for gap risk altogether. For financial reporting purposes, Deutsche Bank essentially measured its gap risk at $0 and improperly valued its LSS positions as though the market value of its protection was fully collateralized. According to internal calculations not for the purpose of financial reporting, Deutsche Bank estimated that it was exposed to a gap risk ranging from $1.5 billion to $3.3 billion during that time period.

"At the height of the financial crisis, Deutsche Bank's financial statements did not reflect the significant risk in these large, complex illiquid positions," said Andrew J. Ceresney, Director of the SEC's Division of Enforcement. "Deutsche Bank failed to make reasonable judgments when valuing its positions and lacked robust internal controls over financial reporting."

In addition to the $55 million penalty, the SEC's order requires Deutsche Bank to cease and desist from committing or causing any violations or future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934 and Rules 12b-20, 13a-1, and 13a-16. Deutsche Bank neither admits nor denies the SEC's findings in the order.

The SEC's investigation was conducted by Amy Friedman, Michael Baker, Eli Bass, and Kapil Agrawal. The case was supervised by Scott Friestad, Laura Josephs, Ms. Friedman, and Dwayne Brown. The SEC appreciates the assistance of the German Federal Financial Supervisory Authority and the United Kingdom Financial Conduct Authority.

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