

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:)
)
Deutsche Bank Securities Inc.,)
) **No. 1100301**
)
Respondent.)

NOTICE OF HEARING

TO THE RESPONDENT: Deutsche Bank Securities Inc.
c/o its attorneys:

Christian J. Mixer
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue, NW
Washington, DC 20004

Michael M. Philipp
Morgan, Lewis & Bockius LLP
77 West Wacker Drive, Sixth Floor
Chicago, IL 60601

You are hereby notified in accordance with Sections 11.E and F of the Illinois Securities Law of 1953 [815 ILCS 5/11.E and F] (“the Act”) and 14 Ill. Adm. Code 130, subpart K, that a public hearing will be held at the Secretary of State’s office at the office of the Illinois Securities Department, 69 W. Washington Street, Suite 1220, in Chicago, Illinois 60602, on August 31, 2012 or as soon thereafter as possible before Soula Spyropoulos, or such other hearing officer who shall be presiding at that time.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act sanctioning the Respondents and/or granting such other relief as may be authorized under the Act including, but not limited to, the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for this proposed action are as follows:

Auction Rate Securities

1. 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.

2. 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.

3. Beginning in February of 2008, the ARS market experienced widespread failed auctions (the “2008 Auction Failures”).

4. 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.

5. The interest rate set at an ARS auction is commonly referred to as the “clearing rate.”

6. 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

7. DBSI (CRD #2525) is a Delaware corporation with a primary place of business located at 60 Wall Street, New York, New York.

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8. Deutsche Bank Alex Brown (“DBAB”), a division of DBSI, provides wealth planning and brokerage services to private, institutional, and corporate clients.

9. The Corporate and Investment Bank (“CIB”), another division of DBSI, provides capital market financial services to institutions and corporate clients.

10. DBSI engaged in the marketing and sale of ARS in the State of Illinois.

11. Certain DBSI agents solicited sales of ARS to clients; however, certain DBSI agents did not fully comprehend the product, auction process, or the risks.

12. DBSI did not provide its agents with adequate training concerning the complex characteristics of ARS and risks inherent with this type of investment.

13. DBSI did not create and maintain adequate written supervisory procedures to ensure its agents provided their clients with adequate disclosure of the complex characteristics of ARS and risks inherent with this type of investment.

14. 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.”

15. 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 alternative.”

16. Certain DBAB clients maintained investment policies and objectives designed to place their money in safe and liquid investments.

17. Certain DBAB agents sold ARS to these DBAB clients, despite their investment policies and objectives which sought safe and liquid investments.

18. From approximately September of 2003 until February of 2008, DBAB categorized ARS under the heading "Other – Money Market Instruments" on clients' monthly account statements.

19. 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.

20. 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 100 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.

21. 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.

22. 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

23. 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 Preferred issues since 1992¹ (the "DBAB Managed Preferred"), it was in the interest of the firm to keep the clearing rates low for issuers of the DBAB Managed Preferred. As broker-dealer, the firm had a duty to provide the highest available ARS clearing rates to its clients.

24. 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.

25. By failing to fully 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 business with respect to the marketing and sale of auction rate securities.

26. 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

27. 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

¹ These Preferred issues were Nuveen Maryland Premium Income Municipal Fund 2 (CUSIP No. W67061Q305), and Van Kampen Invest Grade (CUSIP Nos. E920929601, F920929700, and G920929809).

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.

28. 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.

29. 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.

30. In or around August of 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.

31. 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.

32. 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

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conduct in the securities business with respect to the marketing and sale of auction rate securities.

33. By failing to ensure adequate disclosure to clients 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.

34. 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 Section 8.E(1)(b) of the Act.

35. 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 Section 8.E(1)(e)(i) of the Act.

NOTICE: You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

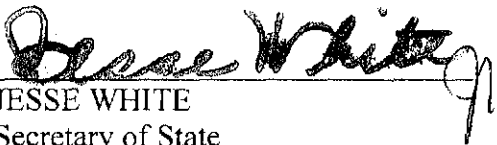
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A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Department's website at:
<http://www.cyberdriveillinois.com/departments/securities/lawrules.html>, or on request.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 16th day of July 2012.


JESSE WHITE
Secretary of State
State of Illinois

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