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Press Release

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UNFAIR TRADING INVESTIGATION AND RESULTS

Violation of prohibition on market manipulation through the link between spot and futures by KOSPI200 stocks and derivatives trading on November 11, 2010, a KOSPI200 options' expiry date

Case Overview

According to investigation results, AAA¹⁾, who is head of Absolute Strategy Group (ASG) - Asia of Deutsche Bank AG Hong Kong Branch, DDD, who is in charge of ASG - Global of New York Deutsche Bank Securities Inc., etc. conspired with EEE, who is managing director of Global Equity Derivatives (GED) at Deutsche Securities Korea, Deutsche Bank AG's South Korean securities unit, to manipulate market prices in Korean capital markets.

They had constructed speculative derivatives positions in advance through the combination of short synthetic futures and long put options. In order to gain profit from these speculative positions, they sold KRW2.4424 trillion (US\$ 2.2 billion) worth of stocks listed in the KOSPI200, which they had purchased through index arbitrage trading and held during the last year (2010), in the last ten minutes before the market closed on Nov. 11, 2010, an expiry date for KOSPI200 options.

Due to these massive manipulative orders, KOSPI200 index plunged 2.79% (254.62p → 247.51p) and they gained illegal profits of KRW44.87 billion (US\$ 40.5 million) from market manipulation through the link between spot and futures (options) transaction.

Investigation Activities and Enforcement Process

A joint investigation team by the Financial Supervisory Service (FSS) and the Korea Exchange (KRX) was organized to commence an investigation on Nov. 12, 2010, the next day on which the incident occurred.

- Investigation team members: five staffs in Special Investigation Team of the FSS, two staffs in Review Team 3 of the KRX
- In-depth investigations were carried out for about two months from Nov. 12, 2010 to Jan. 21, 2011 which included interviews with involved persons and collecting evidences at the Deutsche Bank AG Hong Kong Branch, which placed massive orders to sell, and Deutsche Securities Korea, which was the window to execute the selling orders.



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In order to ensure unbiased investigation and reasonable enforcements by financial authorities,

- Examinees were given sufficient opportunities to make counterarguments by having their lawyers present during the interview sessions.
- They defended their case at the Capital Market Investigation Review Committee meeting held on Feb. 10, 2011, and the Securities and Futures Commission meeting on Feb. 23, 2011, and took testimony at a hearing on Feb. 18, 2011 arranged for the person(s)/entities that are targeted for administrative sanctions.

Investigation Results

[Personal violation: Violation of prohibition on market manipulation through the link between spot and futures]

The following persons involved in this case were found to have discussed and reported to each other on market manipulation: AAA (nationality: U.K.), who is head of ASG - Asia of Deutsche Bank AG Hong Kong Branch, BBB (nationality: France), who is director of ASG - Asia of Deutsche Bank AG Hong Kong Branch, CCC (nationality: Australia), who is in charge of Risks and Trading in Global Market Equity (GME) of Deutsche Bank AG Hong Kong Branch, DDD (nationality: U.S), who is in charge of ASG - Global of New York Deutsche Bank Securities Inc., and EEE (nationality: Korea), who is managing director of GED in Deutsche Securities Korea.

From 14:19:50 to 14:49:59, immediately before the last ten minutes of trading to decide the closing price on Nov. 11, 2010, the expiry date of KOSPI200 options, they constructed speculative positions in excess of normal arbitrage positions through the combination of short synthetic futures (short call options and long put options) and long put option positions in KOSPI200 options that were slated to expire on that day.

During the last ten minutes of trading to decide the closing price, they made manipulative selling in seven orders for the whole 199 stocks, valued at KRW2.4424 trillion (US\$ 2.2 billion), including Samsung Electronics that they had purchased through index arbitrage trading and held during the last year (2010), at 4.5% to 10% lower prices than the immediately preceding price. These manipulative orders forced KOSPI200 index down by 2.79% (254.62p → 247.51p, ↓7.11p) compared to the immediately preceding price during the ten minutes to decide the closing price and they gained KRW44.87 billion in illegal profits.

[Institutional violation: Application of Joint Penal Provisions²⁾ for negligence of management and supervision of internal control system against market manipulation]



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Deutsche Bank AG

This market manipulative transaction was made with major involvement of ASG team in Deutsche Bank AG Hong Kong Branch, but the involvement of its headquarters, Deutsche Bank AG, was not confirmed. Nevertheless, Deutsche Bank AG was regarded as a legal entity of the beneficial owner of the fund and profit or loss related to this market manipulation.

Deutsche Securities Korea

Since EEE, de facto in charge of derivatives management of Deutsche Securities Korea, was involved in this market manipulation in connection with the business of the corporation and Deutsche Securities Korea gained illegal profits from long put option positions of its own accounts as a consequence of above market manipulation, the Securities and Futures Commission concluded that management and supervision system for internal controls at Deutsche Securities Korea was not in a proper operation.

Penalties

Accusation to the prosecutor's office

- AAA: head of ASG - Asia of Deutsche Bank AG Hong Kong Branch
- BBB: director of ASG - Asia of Deutsche Bank AG Hong Kong Branch
- CCC: head of Risks and Trading in GME of Deutsche Bank AG Hong Kong Branch
- DDD: head of ASG - Global of New York Deutsche Bank Securities Inc.
- EEE: managing director of GED at Deutsche Securities Korea
- Deutsche Securities Korea

Request for suspension from office for six months

- EEE: managing director of GED at Deutsche Securities Korea

Suspension of partial business operation for six months

- Deutsche Securities Korea (enforcement period: April 1, 2011~September 30, 2011)
- Scope for suspension: Securities transactions and exchange-traded derivatives transactions as a dealer, Exchange and Securities Direct Market Access (DMA) business as a broker. Out of derivatives transactions on the Exchange as a dealer, "unavoidable" hedge transactions related to trading as a liquidity provider (LP) of combined derivatives securities that have already been issued by Deutsche Securities Korea and listed on the Exchange will be allowed.



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Notification of suspects and their misconducts to relevant foreign financial authorities

- AAA, BBB and CCC in Deutsche Bank AG Hong Kong Branch: Securities and Futures Commission of Hong Kong (SFC) and Hong Kong Monetary Authority (HKMA)
- DDD in New York Deutsche Bank Securities Inc.: U.S. Securities and Exchange Commission (SEC)
- Deutsche Bank AG: Federal Financial Supervisory Authority of Germany (BaFin)

For your reference:

- 1) According to Criminal Law in Korea, we are not able to disclose suspect's real name to media or in public prior to indictment by the prosecutor. For this reason, we used artificial names such as AAA and BBB, etc. instead of real names in this press release.*
- 2) Article 448(Joint Penal Provisions) of Financial Investment Services and Capital Markets Act: If a representative of a corporation or an agent, employee or any other employed person of a corporation commits any violation falling under the provisions of Articles 443 through 446 in connection with the business of the corporation, not only shall such an offender be punished accordingly, but the corporation shall be punished by a fine under the relevant Articles: Provided, that the same shall not apply to cases where the corporation has paid due attention to or diligently supervised the relevant business in order to prevent such violation.*

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