

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 54529 / September 28, 2006

INVESTMENT ADVISERS ACT OF 1940
Release No. 2558 / September 28, 2006

INVESTMENT COMPANY ACT OF 1940
Release No. 27505 / September 28, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12442

In the Matter of

**DEUTSCHE INVESTMENT
MANAGEMENT AMERICAS,
INC., DEUTSCHE ASSET
MANAGEMENT, INC., and
SCUDDER DISTRIBUTORS
INC.,**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER PURSUANT TO
SECTIONS 203(e) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940,
SECTIONS 9(b) AND 9(f) OF THE
INVESTMENT COMPANY ACT OF 1940,
AND SECTION 15(b) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Deutsche Investment Management Americas, Inc. (“DIMA”), Deutsche Asset Management, Inc. (“DAMI”), and pursuant to Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”) against Scudder Distributors, Inc. (“SDI”) (collectively “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”) that 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 them and the subject matter of these proceedings, the Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(e) and 203(k) of the Investment Advisers Act of 1940, Sections 9(b) and 9(f) of the Investment Company Act of 1940, and Section 15(b) of the Securities Exchange Act of 1934 (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offer, the Commission finds that:

Respondents

DIMA is a Delaware corporation with headquarters located, for most of the relevant period, in Baltimore, MD. DIMA has been registered with the Commission as an investment adviser since 1940. DIMA serves as an investment adviser to the Deutsche/Scudder Family of Funds Complex (“the Scudder Funds” or “the Funds”).

DAMI is a Delaware corporation with headquarters located in New York, NY. DAMI has been registered with the Commission as an investment adviser since 1986. Since April 2002, DAMI also has served as an investment adviser to the Scudder Funds.

SDI is a Delaware corporation and registered broker-dealer with headquarters located in Chicago, Illinois. SDI is the principal underwriter and distributor of shares of most of the U.S.-registered Scudder Funds.

Other Relevant Entities

Deutsche Asset Management (“DeAM”) is the global asset management division of Deutsche Bank AG. DeAM is the marketing name for the asset management activities of various legal entities, built by acquisition, including DIMA and DAMI. In April 2002, DeAM acquired Zurich Scudder Investment, Inc., later renamed DIMA, which had managed the Scudder fund complex (hereinafter the “2002 acquisition”). Following the 2002 acquisition, the Scudder Funds have been primarily managed by DIMA, which, as used herein, also refers to the investment advisers for the Scudder Funds prior to the 2002 acquisition. As used herein, SDI also refers to its predecessor entities including the distributor for the Scudder Funds prior to the 2002 acquisition.

Overview

This matter arises out of Respondents' failure to adequately communicate certain material facts to shareholders in the Scudder Funds and the boards of directors of the Scudder Funds ("Fund Boards"), including potential conflicts of interest that arose from SDI's arrangements with certain broker-dealers for marketing and distribution of the Scudder Funds within the broker-dealers' distribution systems, commonly known as "revenue sharing."

Between January 1, 2001 and October 2003, Respondents directed brokerage commissions on trades executed for the Scudder Funds to eighteen broker-dealers to reduce their revenue sharing costs. By directing brokerage commissions, a Fund asset, Respondents avoided, in certain instances, having to expend their own assets for revenue sharing. These marketing arrangements created potential conflicts of interest that DIMA and DAMI, as fiduciaries, should have -- but did not -- adequately disclose to the Fund Boards. DIMA and DAMI similarly failed to communicate to the Funds' shareholders in the Funds' prospectuses or Statements of Additional Information ("SAIs") that SDI used the Funds' assets to reduce revenue sharing costs.

SDI's Revenue Sharing and Directed Brokerage Agreements

DIMA and DAMI provided investment advisory and portfolio management and administrative services to the Scudder Funds. SDI marketed and distributed the Funds to retail third party broker-dealers. Between January 1, 2001 and October 2003, SDI entered into revenue sharing agreements with broker-dealers to gain additional exposure for the Funds. These agreements provided for placement on certain broker-dealers' preferred or recommended fund lists, increased access to broker-dealers' registered representatives, placement on the brokers' websites, and participation in broker-dealer conferences, among other things. These revenue sharing agreements are also sometimes referred to as "shelf space" agreements.

In addition to making cash payments for these revenue sharing agreements, SDI entered into agreements with eighteen broker-dealers to direct brokerage commissions on transactions that DIMA and DAMI placed for the Funds to particular broker-dealers, in exchange for the broker-dealers' agreement to reduce or eliminate the Respondents' revenue sharing costs. For the most part, these agreements were oral and not reduced to writing. This practice is commonly referred to as "directed brokerage." In some instances, the broker-dealers only accepted directed brokerage for their revenue sharing arrangement because they would not accept cash payments.

In calculating the amount of directed brokerage, broker-dealers often required SDI to direct more in brokerage commission dollars than they otherwise would have been required to pay in cash. SDI and the broker-dealers used a ratio to convert brokerage commission amounts into cash or "hard dollars." If, for example, a particular revenue sharing agreement would cost SDI \$200,000 in cash, some broker-dealers would allow SDI to satisfy the agreement by directing \$300,000 in brokerage commissions to that broker-

dealer pursuant to an agreed ratio of 1:1.5. In many cases, this conversion ratio was flat (*i.e.* a 1:1 ratio), but overall the aggregate conversion ratio for the eighteen directed brokerage arrangements approximated 1:1.19.

Respondents Directed Brokerage Commissions to Reduce Revenue Sharing Costs

Between 2001 and 2003, SDI entered into directed brokerage agreements with eighteen retail broker-dealers and requested that DIMA and DAMI direct to each broker-dealer the amount of brokerage commissions set out in its agreement with that broker-dealer. SDI used the directed brokerage to reduce or eliminate the Respondents' revenue sharing costs. By receiving credit for the directed brokerage, a Fund asset, in many instances Respondents avoided having to expend their own assets to pay for the revenue sharing agreements.

If DIMA and DAMI could place a particular trade at favorable and comparable execution rates through several broker-dealers, then they would direct that trade to broker-dealers with whom SDI had a pre-existing, directed brokerage target. These commission sales targets were set at the beginning of the year, and were based on the prior year's portfolio trades performed by a particular broker-dealer. As Respondents met the target for a particular broker-dealer, in many instances they correspondingly reduced their revenue sharing costs. During the relevant period, Respondents directed a gross total of \$17,223,493 in brokerage commissions to these eighteen broker-dealers pursuant to pre-arranged directed brokerage targets. Applying the average conversion ratio of commission dollars to cash to this total, the Respondents avoided revenue sharing costs of \$14,223,493.

In April 2002, Deutsche Bank, AG ("Deutsche") acquired the Zurich Scudder investment adviser. Prior to the 2002 acquisition, the Deutsche organization included a mutual fund complex in the United States which did not engage in directed brokerage.

On January 1, 2003, Respondents suspended the directed brokerage practice which it had inherited as a result of Deutsche's April 2002 acquisition of the Zurich Scudder investment adviser. On April 10, 2003, Respondents reactivated the practice after studying it, setting up a committee to screen directed brokerage requests to ensure best execution, reducing the number of broker-dealers participating in the program to three, and revising the SAI disclosures.¹ The revised disclosure, as set forth in this excerpt from a March 2003 supplemental SAI, stated:

When selecting a broker-dealer to effect portfolio transactions on behalf of the Fund, the Advisor may, provided that it can be done consistently with the policy of obtaining the most favorable net results, consider the activities of the broker-dealer in selling shares of any Scudder-branded (funds marketed with the Scudder name), open-end investment company. The Advisor has informed the

¹ Through the relevant period, Respondents had disclosed to the Fund Boards and shareholders in the SAIs and Form ADV a policy of considering the broker-dealers' sale of Fund shares as a factor in the selection of broker-dealers for Fund portfolio transactions, subject to best execution.

Board of each Scudder-branded, open-end investment company of these practices and has undertaken to provide to the Boards regular reports about its selection of broker-dealers to effect portfolio transactions. *The Advisor believes that these reports are important because it recognizes that it or its affiliates may derive some benefit from these practices.* [Emphasis added].

The revised disclosure in this supplemental SAI was an improvement in that it pointed out to Fund Boards and Fund shareholders that the advisers “may derive some benefit” from directed brokerage. Nonetheless, DIMA and DAMI still failed to adequately disclose the conflict of interest created by the use of Fund assets to reduce SDI’s revenue sharing obligations. Six months after the directed brokerage program was reactivated, it was suspended again on October 16, 2003, and remains suspended today.

Respondents’ Conduct

DIMA and DAMI, as fiduciaries, had a duty to communicate actual and potential conflicts of interest to the Fund Boards and material information that would expose the conflicts of interest they faced relating to the use of directed brokerage. These conflicts included the use of Fund assets to reduce SDI’s revenue sharing obligations and the possibility that Respondents would benefit if the marketing and distribution arrangements led to an increase in assets under management. During the relevant time period, DIMA and DAMI did not effectively communicate with the Fund Boards regarding the directed brokerage practice.

DIMA and DAMI were primarily responsible for ensuring that the disclosures made in the Funds’ prospectuses and SAIs accurately described how DIMA and DAMI chose broker-dealers for Fund portfolio transactions. Specifically, Item 16(c)² of the Form N-1A requires a description in the SAI of “how the Fund will select brokers to effect securities transactions for the Fund” and requires that “[i]f the Fund will consider the receipt of products or services other than brokerage or research services in selecting brokers, [the Fund should] specify those products or services.” Nonetheless, DIMA and DAMI failed to effectively communicate to the Fund Boards or to shareholders that SDI used fund brokerage commissions to satisfy its revenue sharing agreements. The failure to communicate these facts was a material omission that should have been disclosed to avoid misleading the Fund Boards and shareholders.

When Respondents directed Fund brokerage commissions to satisfy the revenue sharing obligations, they did not ensure that these commissions came from those Funds that were promoted by the broker-dealers in connection with the revenue sharing agreements. Moreover, during the relevant period, Respondents did not apply for and the Commission did not grant an exemption from the statutory provisions that prohibit such joint enterprises or arrangements.

² As of July 4, 2004, the relevant item of the Form N-1A has been changed from Item 16(c) to Item 15(c).

Legal Discussion

Section 206(2) of the Advisers Act provides in pertinent part that it is “unlawful for any investment adviser, by the use of the mails or any means or instrumentality of interstate commerce, directly or indirectly . . . to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.”

Section 34(b) of the Investment Company Act provides in pertinent part that it is “unlawful for any person to make any untrue statement of a material fact in any registration statement . . . filed or transmitted pursuant to” the Investment Company Act and to “omit to state therein any fact necessary in order to prevent the statements made therein, in light of the circumstances under which they were made, from being materially misleading.”

Rule 17d-1 under Section 17(d) of the Investment Company Act provides in pertinent part that it is unlawful for any “affiliated person of or principal underwriter for any registered investment company . . . , acting as principal, [to] participate in, or effect any transaction in connection with, any joint enterprise or other joint arrangement or profit-sharing plan in which any such registered company . . . is a participant . . . unless an application regarding such joint enterprise profit-sharing plan has been filed with the Commission and has been granted by an order entered prior to the submission of such plan [.]”

Violations

As a result of the conduct described above:

- a. DIMA and DAMI willfully³ violated Section 206(2) of the Investment Advisers Act, and Sections 17(d) and 34(b) of the Investment Company Act and Rule 17d-1 thereunder.
- b. SDI willfully⁴ aided and abetted and caused DIMA and DAMI’s violations of Section 206(2) of the Investment Advisers Act and willfully violated Section 17(d) of the Investment Company Act and Rule 17d-1 thereunder.

³ “Willfully” as used with respect to the direct violations in this Order means intentionally committing the act which constitutes the violation. See Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000); Tager v. SEC, 344 F.2d 5, 8 (2d Cir. 1965). There is no requirement that the actor also be aware that it is violating one of the Rules or Acts.

⁴ “Willfully” as used with respect to the aiding and abetting violations in this Order means knowingly committing the act which constitutes the violation. Cf. Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000); Tager v. SEC, 344 F.2d 5, 8 (2d Cir. 1965).

Respondents' Cooperation During the Investigation

In accepting the offer of settlement, the Commission recognizes the cooperation of the Respondents during the course of the investigation.

IV.

Undertakings

Respondents undertake the following:

- A.** Written Policies and Procedures. Respondents shall, within 90 days from the date of entry of the Order, require a senior level employee to implement and maintain the following written compliance policies and procedures:
1. SDI will amend its guidelines for entering into revenue sharing agreements⁵ with broker-dealers and other intermediaries concerning the sale of fund shares to require that each such agreement describe the services that the broker-dealer or other intermediary will provide. The amended guidelines must be presented to the Fund Boards and approved by SDI's Chief Compliance Officer;
 2. All revenue sharing agreements concerning the sale of fund shares must be approved in writing by SDI's Chief Compliance Officer, or her delegate, and the form of any such agreements, or any material deviation therefrom, presented to the Fund Boards prior to implementation;
 3. Subject to the approval of the Fund Boards, Respondents will prepare disclosures for the Funds to include in their prospectuses or SAIs information about payments made by Respondents to broker-dealers or other intermediaries in respect of the sale of fund shares in addition to dealer concessions, shareholder servicing payments, and payments for services that Respondents or an affiliate otherwise would provide, such as sub-accounting, and state that such payments are intended to compensate broker-dealers for various services, including without limitation, placement on the broker-dealers' preferred or recommended fund lists, access to the broker-dealers' registered representatives, assistance in training and education of personnel, marketing support, and other specified services;

⁵ As used in the Undertakings section herein, "revenue sharing agreements" are agreements by which payments are made to broker-dealers from Respondents' assets relating to the sale of Funds and/or assets maintained in the Funds other than (i) dealer concessions, 12b-1 fees, shareholder servicing payments, or sub-accounting payments or (ii) non-cash compensation arrangements as expressly permitted by NASD Rule 2820(g)(4) or Rule 2830(l)(5) (or any successor to either such rule).

4. At least once per year, Respondents will make presentations to the Fund Boards (or any other committee performing similar functions or designated by the Fund Boards), including an overview of Respondents' revenue sharing agreements and policies, any material changes to such policies, the number and types of such agreements, the types of services received, the identity of participating broker-dealers or other intermediaries, and the total dollar amounts paid to such broker-dealers and intermediaries. Respondents shall also provide the Fund Boards (or any other committee performing similar functions or designated by the Fund Boards) with a summary quarterly report setting forth amounts paid by Respondents for such agreements and the broker-dealers and intermediaries that received such payments;
 5. At least once per year, for at least five years, DIMA and DAMI shall continue to provide the Fund Boards (or any other committee performing similar functions or designated by the Fund Boards) with a best execution analysis. In such analyses, DIMA and DAMI shall include lists of: (a) the top ten executing broker-dealers used by DIMA and DAMI and (b) the top ten selling broker-dealers conducting business with SDI; and
 6. DIMA and DAMI shall develop policies and procedures to ensure that fund administrative expenses are not used to finance the distribution of Funds.
- B.** Certification. No later than twenty-four months after the date of entry of the Order, the Presidents of DIMA, DAMI and SDI shall certify to the Commission in writing that they have fully adopted and complied in all material respects, as of that date, with the undertakings set forth in this section or, in the event of material non-adoption or non-compliance, shall describe such material non-adoption and non-compliance.
- C.** Recordkeeping. Respondents shall preserve for a period of not less than six years from the end of the fiscal year last used, the first two years in an easily accessible place, any records of their compliance with the undertakings set forth in this section.
- D.** Deadlines. For good cause shown, the Commission staff may extend any of the procedural dates set forth above.

V.

In view of the foregoing, the Commission deems it appropriate, and in the public interest, to impose the sanctions specified in the Offer submitted by Respondents.

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, Sections 9(b) and 9(f) of the Investment Company Act, and Section 15(b) of the Exchange Act, it is hereby ORDERED that:

- A. DIMA, DAMI and SDI are censured.
- B. DIMA and DAMI shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Investment Advisers Act, and Sections 17(d) and 34(b) of the Investment Company Act and Rule 17d-1 thereunder.
- C. SDI shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Investment Advisers Act and Section 17(d) of the Investment Company Act, and Rule 17d-1 thereunder.
- D. There shall be, pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, a Fair Fund established for the funds described in Section V.E., below. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that they shall not, after offset or reduction in any Related Investor Action based on Respondent's payment of disgorgement in this action, further benefit by offset or reduction of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in this Order.
- E. DIMA, DAMI and SDI shall, within 30 days from the date of issuance of this Order, jointly and severally pay disgorgement (in

the amount of \$14,223,493), prejudgment interest (in the amount of \$2,106,236), and a civil penalty (in the amount of \$3,000,000), for a total payment of \$19,329,729, as follows. Respondents shall pay the disgorgement, prejudgment interest, and \$1,507,278 of the civil penalty amounts to the Scudder Funds, based upon the amount of brokerage commissions from each fund used to satisfy revenue sharing agreements (with amounts owed to liquidated Funds, prejudgment interest amounts, and penalty amounts allocated pro-rata on an annual basis to active Scudder Funds) in the total amount of \$17,837,007.⁶ Respondents shall pay the \$1,492,722 balance of the civil penalty to the U.S. Treasury. The Scudder Funds are now known as the DWS Funds. The amounts that will be paid to each Scudder Fund are detailed below:

FUND NAME	Distribution Amount
DWS Growth & Income Fund	\$6,272,839
DWS Capital Growth Fund	\$1,212,267
DWS Capital Growth VIP	\$399,942
DWS Large Company Growth Fund	\$395,569
DWS Global Opportunities Fund	\$280,944
DWS Gold & Precious Metals Fund	\$222,120
DWS Growth and Income VIP	\$210,334
DWS Global Thematic Fund	\$180,452
DWS Health Care Fund	\$108,421
DWS Global Opportunities VIP	\$40,401
DWS Small Cap Value Fund	\$33,425
DWS Health Care VIP	\$27,245
DWS Enhanced S&P 500 Index Fund	\$7,795
DWS Small Cap Core Fund	\$5,833
DWS Emerging Markets Equity Fund	\$4,329
DWS Large Cap Value Fund	\$2,794,468
DWS Technology Fund	\$1,736,648
DWS Balanced Fund	\$1,332,575

⁶ The \$1,507,278 portion of the civil penalty to be paid to the Funds represents an additional increment of interest designed to make the Funds whole through August 31, 2006.

DWS Balanced VIP	\$651,306
DWS Technology VIP	\$338,842
DWS Blue Chip Fund	\$339,837
DWS Small Cap Growth VIP	\$155,225
DWS Large Cap Value VIP	\$139,707
DWS Blue Chip VIP	\$73,817
DWS Target 2014 Fund	\$50,393
DWS Target 2011 Fund	\$39,952
DWS Global Thematic VIP	\$37,541
DWS Target 2013 Fund	\$35,873
DWS Target 2012 Fund	\$26,228
DWS Target 2010 Fund	\$23,587
DWS Target 2008 Fund	\$12,128
DWS Micro Cap Fund	\$298,095
DWS Small Cap Growth Fund	\$170,195
DWS Mid Cap Growth Fund	\$161,678
DWS Mid Cap Growth VIP	\$16,995

- F. DIMA, DAMI and SDI shall comply with the undertakings enumerated in Section IV above.
- G. Nothing in this Order shall relieve DIMA, DAMI and SDI of any other applicable legal obligation or requirement, including any rule adopted by the Commission subsequent to this Order.

By the Commission.

Nancy M. Morris
Secretary