Fraud charges and shareholder revolt at Deutsche Bank

Verena Nees
8 June 2015

The annual general meeting of Deutsche Bank on May 21 took place against a background of severe turbulence due to the numerous scandals enveloping Germany's largest financial institution. On Sunday the chairman of the bank's Supervisory Board announced that the current joint heads of the bank, Anshu Jain and Jürgen Fitschen, would be stepping down from their posts.

The furore surrounding Deutsche Bank has profound causes rooted in economic and political developments since the 2008 financial crisis.

The general meeting in Frankfurt, attended by about 5,000 shareholders, gave rise to fierce criticism of the corporate executives' policies. Anju Jain and Jürgen Fitschen received only about 61 percent of the vote, instead of the customary 95 percent. The financial pages of major media outlets proclaimed that a "shareholder revolt" and even a "revolution" had taken place.

Booing and howling rebukes, shareholders railed against the numerous legal suits involving the financial institution, and the horrendous penalties curtailing the bank's profits and consequent investor dividends. Having registered a market capitalisation of €43 billion in April, Deutsche Bank ranked at only 46th place among the major international banks.

Since April 28, court proceedings have opened against five German bank managers, including current co-CEO Jürgen Fitschen, former board members Rolf Breuer and Josef Ackermann, and other executive members. They are charged with fraudulent collaboration in a particularly severe case, relating to the bankruptcy of media entrepreneur Leo Kirch. The prosecution accuses them of having tried to deceive the court with lies and illegal collusion in a civil case last year. That trial had led to an extrajudicial payment of €925 million.

Deutsche Bank was also punished in April by US and British regulators, with a record fine of €2.5 billion, because of its intense involvement in the Libor and Euribor manipulations. The systematic falsification of the Libor benchmark interest rate had brought the participating banks, including UBS (Switzerland), Barclays, Citigroup and JPMorgan, fantastic profits, while defrauding small investors, homeowners and retirees of millions.

Last year, Deutsche Bank was involved in about 6,000 lawsuits and, according to the *Frankfurter Allgemeine Zeitung* (FAZ) newspaper, had to lay out at least €6 billion alone for penalties and settlements. In addition to the Libor scams, these cases also dealt with manipulation in gold price fixing [daily collusion among the big banks regarding their trading volume in gold, in order to influence the gold price], exchange rate manipulation, tax fraud in the trading of CO2 certificates, fraudulent securities transactions, etc.

Shortly before the bursting of the US housing bubble in 2007, Deutsche Bank had sold securities that were toxic with US housing loans, although it had long foreseen the collapse of the market. It fobbed off allegedly secure financial instruments to local governments, massively increasing their interest payments and thus their eventual debts.

Despite the large penalties arising mainly from the investment business scams, Deutsche Bank announced in April a new "Strategy 2020," which amplifies and prioritises investment banking, while largely abandoning retail banking and the small customer sector. The Postbank, purchased only seven years ago, is to be sold off; jobs will be slashed and numerous branches closed.

The shareholders gathered in Frankfurt, especially the major investors and fund managers, criticised "Strategy 2020" because they considered it not radical enough to maximise profits.

Union Investment portfolio manager Ingo Speich said that, after the bank's "eight lost years," it is now confronted with another five unprofitable transition years of restructuring costs amounting to billions of euros. Hans-Christoph Hirt, manager of the huge British pension fund and shareholder advisor Hermes EOS, also expressed his doubts as to whether the objectives of "Strategy 2020" would be achieved, and recommended that the executive board should be dismissed.

Klaus Nieding, vice president of the German Society for the Protection of Securities Holders (DSW) said that representatives of small shareholders complained that they would have to foot the bill for the "investment bankers' casino gambling" by ending up with meagre dividends.

Adopting a blatantly nationalist tone, he attacked investment banker Anshu Jain, who originally came from India but has long been active in the US and London, and is blamed by Niedling for the Libor scandal. He charged that Deutsche Bank's attempt to rise to the position of a global investment bank involved engaging "foreign investment bankers as mercenaries" and thereby paving the way for the scandals in the first place. Quoting an old saying, he warned: "If a farmer sets a fox to guard the hen-house, he shouldn't be surprised when it makes a meal of the chickens—and the farmer will eventually suffer the same fate."

Hans-Martin Buhlmann from the Association of Institutional Private Investors took the same line, calling for Anshu Jain to step down.

A few days after the annual general meeting, the works council at Deutsche Bank's Frankfurt headquarters joined the small shareholders in their campaign against "foreign investment banker" Anshu Jain. It arranged for the distribution of a leaflet, headed "Wind of Change? Wind of Jain?", which indirectly demanded Jain's resignation, declaring: "A radical new beginning here would restore our credibility and create a genuine spirit of optimism."

The ver.di trade union, whose members comprise the works council and whose chairman Frank Bsirske is a member of the bank's supervisory board, declined to comment. Bsirske and the other nine workers' representatives had agreed to the cost reduction programme in April.

Despite the criticism of Anshu Jain from the shareholders and the Frankfurt works council, his power on the board has been strengthened. On the eve of the annual general meeting, the executive and supervisory boards had accepted primary responsibility for "Strategy 2020." As a consequence, several other board members had to surrender their seats. In addition to the outgoing head of the private customers division, Rainer Neske, these included investment banker and Asia region manager Alan Cloete, who had been targeted in the Libor scandal, and Deutsche Bank UK director Colline Grassie.

The proceedings against Deutsche Bank reveal the extent to which it is enmeshed in the parasitic machinations of the global financial elite. But the prosecution is also a consequence of political calculations related to the great power ambitions of German imperialism. The fact that international financial markets are still dominated mainly by US and British banks on Wall Street and in the City of London continues to exasperate the German bourgeoisie. By focusing on investment banking, it aims to expand the role of Deutsche Bank as a global player.

This was expressed quite bluntly in an editorial in the *Die Zeit* weekly newspaper on May 28. Under the headline "Farewell to the Idyll," journalist Uwe Jean Heuser stresses: "Germans need their own bank. Those in positions of power should fight for it, even though to do so would be unpopular." According to Heuser, it is pointless to complain about Deutsche Bank; it is "strategically necessary" to create a "bank of international standing."

The journalist refers to the debt crisis in 2008, when Josef Ackermann as head of Deutsche Bank mediated the government "bailout" at the federal chancellery, ensuring that Deutsche Bank was—indirectly—the party to benefit the most. Summing up, Heuser asks: "Who will the government call in the next crisis? JPMorgan?" Die Zeit bemoans the fact that the close relationship between Washington and Wall Street is exploited to the benefit of US interests, and demands the same arrangement for Germany. "As nice as it would be," writes Heuser, "to have a single global market, the world is a long way from achieving such a thing."