

STATE OF NEBRASKA



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Note: Photo and caption available upon request

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Nebraska to receive \$246,500 in Wachovia Settlement

Wachovia Capital Markets, LLC, Settles Multistate Enforcement Actions Involving Potential Conflicts of Interest Between Research, Investment Banking

A settlement was announced today between state securities regulators and Wachovia Capital Markets, LLC (Wachovia Capital), based in Charlotte, North Carolina. Under the settlement, Nebraska will receive \$246,500 said Director John Munn, Nebraska Department of Banking and Finance (NDBF).

Munn made the announcement following an investigation of the firm led by Nebraska state securities regulators with assistance from regulators in Virginia, North Carolina and other states. The settlement results from allegations of potential conflicts of interest between Wachovia Capital's research analysts and investment bankers.

The allegations include the following charges:

- State investigators allege that Wachovia Capital failed to supervise its employees in connection with potential conflicts of interest between equity research and investment banking.
- Wachovia Capital did not keep certain electronic communications as required by state securities laws. Wachovia Capital's e-mail system and procedures were inadequate to ensure all electronic mail communications were retained and readily accessible. As a result, 20 percent of the e-mail folders requested in November 2002 could not be produced and 42 percent of the e-mail folders requested in January 2003 were not produced promptly for state investigators. Wachovia Capital also failed to maintain a system that allowed it to locate and retrieve back-up tapes for its e-mail system.

Wachovia Capital Markets, LLC, neither admitted nor denied the allegations.

According to NDBF Legal Counsel Sheila Cahill, lead attorney for the multistate case, the settlement effectively resolves a multistate investigation of Wachovia Capital Markets, which operates Wachovia Corporation's institutional brokerage and capital markets businesses. "The investigation and the corrective actions we took were necessary to protect Nebraska's investors," Cahill said. "Sound capital markets require an environment of trust and transparency between brokers and investors."

The multistate settlement is related to the April 2003 Global Settlement that 12 other investment banks have reached with state, federal and industry regulators. Under the terms of the settlement, Wachovia Capital will pay all 50 states, the District of Columbia and Puerto Rico a total of \$25 million, including: \$20 million in penalties for failing to supervise its employees in connection with potential conflicts of interest between equity research and investment banking; \$1.65 million in penalties for failing to preserve required books and records; \$3 million to be used for investor education, as designated by the Board of Directors of the North American Securities Administrators Association, Inc. (NASAA); and \$350,000 for costs

associated with the investigation, which will be paid to NASAA. The money will be divided based upon total population of each jurisdiction.

NDBF Securities Bureau Assistant Director Jack E. Herstein said, "The investigation of Wachovia Capital Markets is part of a comprehensive regulatory effort to safeguard the relationship between investment banking and research and to manage appropriately conflicts of interest." Herstein continued, "Today's agreement is a major step in our ongoing efforts to help maintain investor confidence by ensuring that all investors are provided with objective research and treated with fairness and honesty."

"I'm pleased with how this issue was resolved and am especially proud of Nebraska's role in the investigatory process. NDBF, and in particular Lead Attorney Sheila Cahill, kept this massive undertaking on course. Ultimately, this outcome encourages a more transparent investing environment," said Munn.

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