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Deutsche Bank Settles Over Ignored Red Flags on Jeffrey Epstein

The German lender repeatedly overlooked suspicious transactions, including payments to people a New York regulator described as his co-conspirators.

By Matthew Goldstein

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Payments to his alleged co-conspirators. Money wired to Russian models. A cash withdrawal of $100,000 for “tips and household expenses.”

When Jeffrey Epstein moved his money, Deutsche Bank didn’t ask many questions.

In a $150 million settlement announced on Tuesday, the New York Department of Financial Services said Mr. Epstein, a convicted sex offender, had engaged in suspicious transactions for years, even though Deutsche Bank deemed him a “high risk” client from the moment he became a customer in summer 2013.

“Despite knowing Mr. Epstein’s terrible criminal history, the bank inexcusably failed to detect or prevent millions of dollars of suspicious transactions,” Linda A. Lacewell, the department’s superintendent, said in a statement.

A year and a day after Mr. Epstein was arrested on federal sex-trafficking charges, the settlement described how bank employees had relied on informal meetings and institutional momentum to allow suspicious activity to proceed largely unchecked. Instead of performing appropriate due diligence on Mr. Epstein and the activity in his accounts, regulators wrote, the bank was focused on his potential to “generate millions of dollars of revenue as well as leads for other lucrative clients.”

Deutsche Bank acknowledged that it had erred in taking Mr. Epstein on as a client and that its processes had been weak. “Our reputation is our most valuable asset and we deeply regret our association with Epstein,” a bank spokesman, Daniel Hunter, said in a statement.

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"In the case of Jeffrey Epstein in particular, despite knowing Mr. Epstein's terrible criminal history, the Bank inexcusably failed to detect or prevent millions of dollars of suspicious transactions." - #NYDFS Supt. @LindaLacewell (4/4)

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We acknowledge our error of onboarding Epstein in 2013 and the weaknesses in our processes. We have learnt from our mistakes and deeply regret our association with Epstein.

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In a message to employees on Tuesday, the bank’s chief executive, Christian Sewing, said taking Mr. Epstein on was a “critical mistake and should never have happened.” He urged them to read the settlement document and “learn the appropriate lessons” from the bank’s past conduct.

“We all have to help ensure that this kind of thing does not happen again,” Mr. Sewing wrote.

The settlement — the first regulatory action taken against a financial institution in connection with Mr. Epstein — provides a glimpse into the mysterious finances of the self-described tax guru and financial adviser.

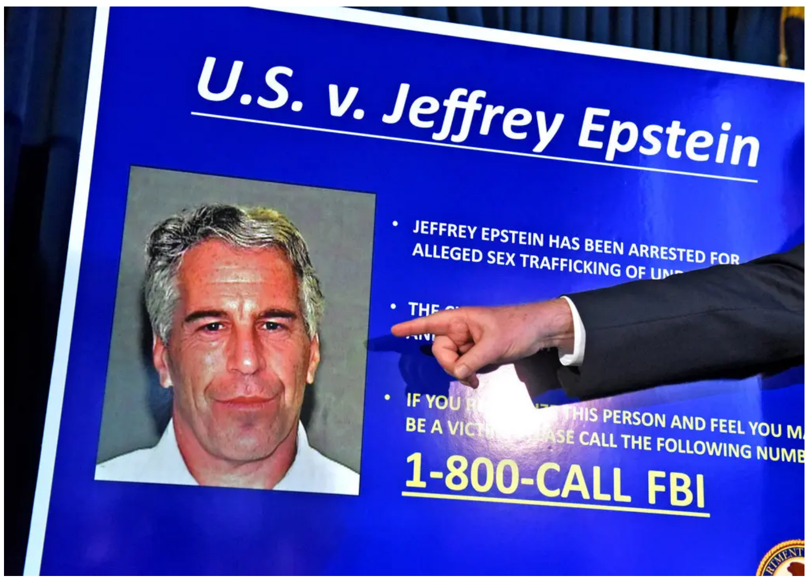
According to regulators, Mr. Epstein, who killed himself in a jail cell in New York last year while awaiting trial, sent $2.65 million in 120 wire transfers through accounts established in the name of an entity called the Butterfly Trust. Some of those payments — as well as money from other accounts — went to three people who had been named as co-conspirators in suits by Mr. Epstein’s accusers that were related to his 2008 guilty plea to prostitution charges in Florida.

Regulators did not name the co-conspirators in the settlement document. The settlement, citing published reports over those suits, describes the first two as having invoked their Fifth Amendment rights and the third as having been accused of recruiting girls for Mr. Epstein.

Four women were named as potential co-conspirators in the nonprosecution agreement Mr. Epstein reached with federal prosecutors that led to his plea to state charges in 2008. Another woman — Ghislaine Maxwell, a longtime confidante and business associate of Mr. Epstein — was charged last week by federal prosecutors in Manhattan with helping him recruit and groom teenage girls he abused at his lavish residences in New York, Florida and New Mexico.

Upon his death, Mr. Epstein left behind an estate valued at more than $600 million that is the subject of litigation by the attorney general of the United States Virgin Islands, where Mr. Epstein had lived and worked for nearly two decades. The attorney general, Denise George, has sued the estate, alleging that a company Mr. Epstein established there, Southern Trust, was a sham operation that he used to mislead the territory and receive a lucrative tax break.

It was Southern Trust — and a similarly named subsidiary, Southern Financial — that opened the first of Mr. Epstein's accounts with Deutsche Bank in 2013. Over the next five years, Mr. Epstein, his related entities and his associates opened more than 40 accounts with the bank, the settlement said.



Geoffrey Berman, then the U.S. attorney for the Southern District of New York, announcing charges against Jeffery Epstein last year. Stephanie Keith/Getty Images

Over the years, activities in those accounts were repeatedly questioned by Deutsche Bank employees, who were ignored by their superiors.

According to the settlement, an unnamed executive emailed the manager in charge of the relationship with Mr. Epstein in 2013, before any accounts were opened. The executive said that he had spoken to two other top bank officials and that neither had suggested that a relationship with Mr. Epstein required a risk review.

Bank officials frequently pointed to that email as a reason to keep him as a client or accommodate his wishes, the settlement said. That included setting up the Butterfly Trust accounts for him in 2014, even though, the settlement said, the accounts' connection to the alleged co-conspirators created a "very real risk" that payments could be used to further or cover up criminal activity.

In 2015, after a specialist in the anti-money-laundering department raised concerns about the bank's continued relationship with Mr. Epstein, a department manager and the executive who wrote the email two years earlier met with Mr. Epstein at his Manhattan townhouse to discuss new allegations of abuse contained in civil suits. The settlement said that bank officials had "appeared to be satisfied by Mr. Epstein's response" and that the relationship had continued.

When the bank later set conditions for monitoring Mr. Epstein's activity, the settlement said, they were poorly communicated, creating confusion. Anti-money-laundering specialists interpreted the guidance to mean that unusual activity should be flagged only if it was unusual for Mr. Epstein — which led to an alert about payments to a Russian model and a Russian publicity agent being dismissed because the transactions were "normal for this client," according to an email cited in the settlement.

At the end of 2018 — after The Miami Herald published details of Mr. Epstein's nonprosecution agreement with federal prosecutors from a decade earlier — the bank decided it could no longer keep Mr. Epstein as a client. But an unnamed bank employee who managed the institution's relationship with him still drafted reference letters to send to other banks, on Deutsche Bank letterhead, according to the settlement.

"Banks are the first line of defense with respect to preventing the facilitation of crime through the financial system, and it is fundamental that banks tailor the monitoring of their customers' activity based upon the types of risk that are posed by a particular customer," said Ms. Lacewell, the regulator's superintendent.

The settlement on Tuesday also covered compliance failures unrelated to Mr. Epstein. The department found that Deutsche Bank had not properly monitored transactions with Danske Bank Estonia and FBME Bank, a Tanzanian institution. As part of the agreement, Deutsche Bank promised to continue its work with an independent monitor — in place since 2017 — to improve its compliance systems.

While the settlement described a long list of missteps by Deutsche Bank, it praised the bank for its "exemplary cooperation." It also said the bank had cut ties with other high-risk clients.

In a statement, the bank said it had invested nearly $1 billion in training and oversight, and had beefed up its anti-financial-crime division.

"It is our duty and our social responsibility to ensure that our banking services are used only for legitimate purposes," Mr. Sewing said in his message to employees. "That's exactly why we should always examine things critically, ask questions and speak up."

The settlement is just the latest black eye for Deutsche Bank over legal and regulatory mistakes. Those include punishments by federal and state regulators, as well as the British authorities, for failing to stop Russian money laundering. And in 2015, Deutsche Bank agreed to pay $2.5 billion in penalties to settle accusations that it had manipulated the London interbank offered rate, or LIBOR.

Deutsche Bank has also attracted scrutiny for its relationship with President Trump and his family. It has been the long-running lender for Mr. Trump and has been the target of subpoenas from congressional investigators and state prosecutors.

Some of the payments Mr. Epstein made from his Deutsche Bank accounts were "inherently suspicious," regulators wrote. Those included multiple settlement payments totaling more than $7 million and payments totaling more than $6 million for what regulators said appeared to be legal expenses for himself and for people the settlement identified as co-conspirators.

Other transactions — even if harmless — should have raised alarms, regulators wrote.

One of Mr. Epstein's personal lawyers made $800,000 in withdrawals for Mr. Epstein over a four-year period. Regulators said the bank never got a good explanation for those withdrawals, except that Mr. Epstein needed the money for travel, expenses and paying tips.

According to the settlement, the unnamed lawyer twice asked bank officials how much money could be withdrawn without triggering some kind of alert. Suspicious that he was trying to circumvent federal regulations that require cash transactions of $10,000 or more to be reported to the government, bank employees spoke to the lawyer.

The settlement said the lawyer denied trying to avoid such a report, and bank officials allowed him to continue making withdrawals on Mr. Epstein's behalf — including taking out $100,000 at a branch on Park Avenue, not far from Mr. Epstein's townhouse.

David Enrich contributed reporting.

Matthew Goldstein covers Wall Street and white collar crime and housing issues. @mattgoldstein26

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