Press Release

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DFS FINES DEUTSCHE BANK $425 MILLION FOR RUSSIAN MIRROR-TRADING SCHEME

The Bank Allowed Traders to Engage in a Money-Laundering Scheme Using "Mirror Trades" That Improperly Shifted $10 Billion Out of Russia

DFS Directs Bank to Hire an Independent Monitor to Review and Report on Its Existing Compliance Programs, Policies and Procedures

Financial Services Superintendent Maria T. Vullo today announced that Deutsche Bank AG and its New York branch will pay a $425 million fine and hire an independent monitor as part of a **consent order** entered into with the New York State Department of Financial Services (DFS) for violations of New York anti-money laundering laws involving a "mirror trading" scheme among the bank's Moscow, London and New York offices that laundered $10 billion out of Russia. DFS's investigation found that the bank missed numerous opportunities to detect, investigate and stop the scheme due to extensive compliance failures, allowing the scheme to continue for years. DFS worked closely on the investigation with the Financial Conduct Authority.

"In today's interconnected financial network, global financial institutions must be ever vigilant in the war against money laundering and other activities that can contribute to cybercrime and international terrorism," **Superintendent Vullo said**. "This Russian mirror-trading scheme occurred while the bank was on clear notice of serious and widespread compliance issues dating back a decade. The offsetting trades here lacked economic purpose and could have been used to facilitate money laundering or enable other illicit conduct, and today's action sends a clear message that DFS will not tolerate such conduct. DFS is pleased to work with the Financial Conduct Authority on this matter. We also appreciate the bank's forthrightness and timeliness in conducting its internal review and cooperation in our investigation."

In addition to today's action, Superintendent Vullo has led DFS enforcement actions for violations of AML laws against Intesa Sanpaolo S.p.A., which was fined $235 million; Agricultural Bank of China, which was fined $215 million; and Mega Bank of Taiwan, which was fined $185 million.

Today's action further highlights the importance of DFS's new risk-based anti-terrorism and anti-money laundering regulation, which became effective on January 1, 2017. DFS's regulation requires regulated institutions to maintain programs to monitor and filter transactions for potential BSA/AML violations and prevent transactions with sanctioned entities. It also requires

regulated institutions to submit an annual board resolution or senior officer compliance finding confirming the steps taken to ascertain compliance with the regulation. In addition, DFS has proposed a first-in-the-nation cybersecurity regulation, which will be effective March 1, 2017, requiring DFS regulated institutions to establish and maintain a cybersecurity program designed to protect consumers and ensure the safety and soundness of New York's financial services industry.

DFS found that Deutsche Bank and several of its senior managers missed key opportunities to detect, intercept and investigate a long-running mirror-trading scheme facilitated by its Moscow branch and involving New York and London branches. Operating through the equities desk at Deutsche Bank's Moscow branch, certain companies that were clients of the Moscow equities desk issued orders to purchase Russian blue chip stocks, always paying in rubles. Shortly thereafter, sometimes on the same day, a related counterparty would sell the identical Russian blue chip stock in the same quantity and at the same price through Deutsche Bank's London branch. The counterparties involved were always closely related, often linked by common beneficial owners, management or agents. The trades were routinely cleared through the bank's Deutsche Bank Trust Company of the Americas (DBTCA) unit. The selling counterparty was typically registered in an offshore territory and would be paid for its shares in U.S. dollars. At least 12 entities were involved, and none of the trades demonstrated any legitimate economic rationale.

DFS's investigation uncovered violations that included the following:

- The bank has conducted its banking business in an unsafe and unsound manner, failing to maintain an effective and compliant anti-money laundering program. The bank failed to maintain and make available true and accurate books, accounts and records reflecting all transactions and actions.
- When contacted by a European financial institution about contradictory information about one of the companies involved in the trading scheme, a senior compliance employee who supervised special investigations at the DBTCA never responded. In addition, the senior compliance employee did not take any steps to investigate the basis for the European Bank's inquiry, later explaining that the employee had "too many jobs" and "had to deal with many things and had to prioritize."
- The bank's Know Your Customer (KYC) processes were weak, functioning merely as a checklist with employees mechanically focused on ensuring documentation was collected, rather than shining a critical light on information provided by potential customers. Virtually all of the KYC files for the companies involved in the scheme were insufficient, and a Moscow employee who oversaw the illicit mirror trading was also actively involved in the onboarding and KYC documentation of companies involved in the scheme. In addition, certain staff members experienced hostility and threats on several occasions when it appeared they had not moved quickly enough to facilitate transactions.
- The bank failed to accurately rate its country and client risks for money laundering throughout the relevant time period and lacked a global policy benchmarking its risk

appetite, resulting in material inconsistencies and no methodology for updating the ratings. Deutsche Bank was not in line with peer banks, which rated Russia as high risk well before Deutsche Bank did in late 2014.

- The bank's anti-financial crime, AML and compliance units were ineffective and understaffed. A senior compliance staffer repeatedly stated that he had to "beg, borrow, and steal" to receive appropriate resources, leaving existing personnel scrambling to perform multiple roles. At one point, an attorney who lacked any compliance background served as the Moscow branch's head of compliance, head of legal, and as its AML Officer – all at the same time.

Within 60 days of the consent order, the bank must engage an independent monitor, approved by DFS, to conduct a comprehensive review of the bank's existing BSA/AML compliance programs, policies and procedures that pertain to or affect activities conducted by or through its DBTCA subsidiary and the New York branch.

Within 30 days of the selection of the independent monitor, the bank, DBTCA and the New York branch must submit to DFS for approval an engagement letter than provides for the independent monitor to review and report on, among other things:

- The elements of the bank's corporate governance that contributed to or facilitated the improper conduct and permitted it to go on;
- Relevant changes or reforms to corporate governance that the bank has made since the time of the improper conduct and whether those changes or reforms are likely to significantly enhance the bank's BSA/AML compliance going forward; and
- The thoroughness and comprehensiveness of the bank's current global BSA/AML compliance programs.

In addition, the bank must submit a written action plan to improve and enhance its current global BSA/AML compliance programs that pertain to or affect activities conducted by or through DBTCA and the New York Branch.

A copy of the consent order can be found **here**.

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