



Bribery & Corruption

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Japan

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Background

Japan is widely perceived to be one of the least corrupt countries in the world. Transparency International ranked Japan as the 20th least corrupt country out of 176 in the most recent Corruption Perceptions Index.¹ The World Justice Project's 2016 Rule of Law Index ranked Japan as the 13th least corrupt country out of 113,² and the US State Department has characterised the direct exchange of cash for favours from Japanese government officials as “extremely rare”.³

Corruption had been a prevalent feature of Japan's post-war economic boom, which was built on a close-knit alliance known as the “iron triangle” among Japanese businesses, politicians of the ruling Liberal Democratic Party (“LDP”), and elite bureaucrats. This close coordination guided Japan to its growth as the world's second-largest economy, but it also created a culture of secret, backroom dealings which, when exposed, shocked the public. Some of the most notorious scandals of that era include: the Lockheed case (1976), which led to the conviction of former Prime Minister Kakuei Tanaka (and was partly responsible for the creation of the US Foreign Corrupt Practices Act); the Recruit case (1989), which brought down the administration of Prime Minister Noboru Takeshita; the *Zenekon* (general contractors) cases (1993–1994), which resulted in several prefectural governors along with dozens of others being convicted, and one governor committing suicide; and the Bank of Japan/Ministry of Finance cases (1997–1998), which led to the arrests, resignations, and suicides of several high-ranking finance officials.

The type of conduct in these cases included firms seeking to win lucrative contracts through massive cash payments (Lockheed, *Zenekon*); firms offering highly lucrative insider stock information to win influence (Recruit); and officials receiving lavish entertainment, sometimes of a sexual nature, in exchange for favours (BoJ/MoF).⁴ Japan's economic downturn through the 1990s soured the public's patience for such behaviour, and increasingly became the focus of blame for the nation's woes.⁵ In particular, one type of entertainment – “*no-pan shabushabu*” (referring to an establishment where a type of hot pot was served by women wearing no underwear) – became synonymous in the public imagination with high-level corruption.⁶

In response, the Japanese government enacted various reforms, including requiring disclosure of politicians' assets, bringing more transparency to political contributions, and imposing stricter ethical rules on public officials.⁷ In addition, especially during the past 15 years, Japanese firms have instituted codes of conduct that prohibit giving or receiving inappropriate payments, gifts, or entertainment, not only to government officials, but in business transactions generally. Today, the websites of nearly every listed Japanese firm

trumpet their commitment to compliance and corporate social responsibility. While some challenges remain, as discussed in the “Current issues” section below, bribery is now widely understood in Japan to be impermissible, and corruption is no longer as prevalent a feature of the Japanese political and business landscape as it was 25 years ago.

Since July 2013, an LDP-led coalition under the leadership of Prime Minister Shinzo Abe has dominated the Japanese government. His administration pushed for an aggressive economic agenda, dubbed “Abenomics”, based on the “three arrows” of fiscal stimulus, quantitative easing, and structural reforms. The results of the programme have been mixed. Japan has made particularly little progress implementing actual structural reforms to its economic system and corporate culture.

The popularity of the Abe administration has plunged over the past year, in the wake of scandals involving known associates of Abe or his wife appearing to receive favourable treatment in government approval processes.⁸ In relation to these scandals, *sontaku*, a seldom-used Japanese term referring to the pre-emptive, placatory following of a superior’s inferred wishes, is increasingly being used to imply a system corrupted through governance-by-guesswork.⁹ In addition, a number of prominent officials have been forced into resignation (but not prosecuted) as a result of corruption scandals in recent years, including then-Governor of Tokyo Naoki Inose in December 2013 and then-Minister of Economy Akira Amari in January 2016.¹⁰

Legal overview

Bribery of Japanese public officials

Article 197 of Japan’s Penal Code prohibits a public official, defined (in Article 7) as “a national or local government official, a member of an assembly or committee, or other employees engaged in the performance of public duties in accordance with laws and regulations”,¹¹ from accepting, soliciting, or promising to accept a bribe in connection with his or her duties. It also prohibits a person who is to be appointed as a public official to do likewise, in the event that he or she is appointed. Furthermore, it is an offence under Article 198 to give, offer or promise to give a bribe to a public official or a person to be appointed a public official. So-called “legal persons” (*i.e.*, firms and organisations) are not liable for bribery under the Penal Code. Non-Japanese nationals are liable for bribery under the Penal Code only if the crime is committed within Japan. Japanese public officials are liable for accepting bribes outside Japan.

The punishment for a public official (or a person to be appointed a public official) who accepts a bribe is imprisonment with work for up to five years, as well as confiscation of the bribe or its monetary value. If a public official agrees to perform an act in response to a request, the sanction is imprisonment with work for up to seven years. Further, if such public official consequentially acts illegally or refrains from acting in the exercise of his or her duty, the sanction is imprisonment with work for a period within a range of one to 20 years. The sanction for offering or promising to give a bribe to a public official is imprisonment with work for up to three years, or a maximum fine of 2.5m yen (approximately US\$23,000).

In July 2017, Japan revised the Act on Punishment of Organised Crime and Control of Crime Proceeds¹² to forbid conspiracies by groups of two or more people to commit certain crimes, including giving and receiving bribes. The revision ostensibly was necessary in order for Japan to ratify the United Nations Convention against Transnational Organised Crime. The government rushed through the passage of the revision, characterising it as an

“Anti-Terrorism Law”, and arguing that the conspiracy statute would only be used against criminal organisations and terrorists, not the general population.

As part of the reforms of the late 1990s, the Japanese government established the National Public Service Ethics Board, which provides a website (<http://www.jinji.go.jp/rinri/eng/index.htm> (English site)) with the ethics code applicable to bureaucrats, as well as detailed guidelines.

“Deemed public officials” and other prohibitions against bribery of employees in public services

Under various laws specific to formerly or predominantly state-owned enterprises, employees of such entities have the status of “deemed public officials” (*minashi koumuin*). These laws expressly forbid anyone from bribing such persons and forbid such persons from accepting bribes.¹³ In addition, without using the term “deemed public officials”, certain laws prohibit the employees of specific firms that perform public services from accepting or demanding bribes.¹⁴

Bribery of foreign public officials

Japan has been a member of the Organisation for Economic Co-operation and Development (“OECD”) since 1964. Japan implemented the 1997 OECD Anti-Bribery Convention in 1998, by amending the Unfair Competition Prevention Act (“UCPA”) to add Article 18, which criminalised bribery of foreign public officials. An additional law was enacted in 2004 to broaden the jurisdiction of Article 18 to cover conduct by Japanese nationals while abroad. The Japanese government also amended the Income Tax Act in 2006 to prohibit deducting bribes paid abroad as business expenses. Unlike the Penal Code, Article 22(1) of the UCPA expressly imposes criminal liability on legal persons (firms and organisations).

Article 18 was intended to track the language of the Anti-Bribery Convention, and provides as follows:

*No person shall give, or offer or promise to give, any money or other benefit to a Foreign Public Official, etc. in order to have the Foreign Public Official, etc. act or refrain from acting in relation to the performance of official duties, or in order to have the Foreign Public Official, etc., use his/her position to influence another Foreign Public Official, etc. to act or refrain from acting in relation to the performance of official duties, in order to obtain a wrongful gain in business with regard to international commercial transactions.*¹⁵

Originally, the penalty for bribing a foreign public official was imprisonment with work for up to three years or a maximum fine of 3m yen (approximately US\$27,000), or both, and the statute of limitations for natural persons had been three years. However, in response to the OECD’s recommendations, Japan increased the penalties to five years and 5m yen (approximately US\$45,000), and extended the limitations period to five years.¹⁶ In addition, if an individual bribed a foreign official in connection with the business of a legal person, such legal person could now be subject to a maximum fine of 300m yen (approximately US\$2.7m). The law does not provide for confiscation of the proceeds of bribing a foreign public official. In June 2016, the OECD Working Group on Bribery in International Transactions (“the OECD Working Group”) reiterated the need to amend the Anti-Organised Crime Law so that firms and individuals convicted of bribing foreign officials cannot keep their illegal proceeds, including by laundering them. The Working Group also repeated its recommendation that Japan establish an action plan to enable police and prosecution resources to proactively detect, investigate, and prosecute cases of foreign bribery by Japanese firms.¹⁷

The Ministry of Economy, Trade and Industry (“METI”) administers the UCPA, including Article 18, but the Public Prosecutors Office handles prosecutions under Article 18. METI’s website includes a section dedicated to preventing the bribery of foreign officials (http://www.meti.go.jp/policy/external_economy/zouwai/index.html (in Japanese)). The site provides detailed “Guidelines to Prevent Bribery of Foreign Public Officials” that explain the law, as well as how firms can prevent bribery.

The Japan Federation of Bar Associations (“JFBA”) issued the “Guidance on Prevention of Foreign Bribery” in July 2016, as a supplement to the METI Guidelines, with the purposes of clarifying: (1) the elements of an anti-bribery compliance programme necessary to fulfil the duty of firms to implement an internal control system; (2) the elements of internal control system that may help firms seek mitigation of or relief from penalties; and (3) a practical approach to foreign bribery issues for firms and lawyers.¹⁸

Facilitation payments

The original METI Guidelines issued in 2004 indicated that the UCPA does not explicitly exempt “small facilitation payments”, but that such payments would not be a criminal offence under the OECD Anti-Bribery Convention. The OECD criticised this (and METI’s attempts to explain its interpretation) as confusing, and METI updated the Guidelines in September 2010 to clarify that facilitation payments would be illegal under Japanese law if the payments were intended “to obtain or retain improper business advantage in the conduct of international business”.¹⁹ The OECD subsequently criticised Japanese authorities for not actively encouraging Japanese firms to prohibit making even small facilitation payments, and METI removed the paragraph related to facilitation payments in its July 2015 revision of the Guidelines. The JFBA Guidance, noting that the issue of handling facilitation payments often arises both in business practices and in legal consultations, stated that paying even small sums to facilitate the smooth progress of ordinary administrative services is prohibited. Additionally, the JFBA Guidance suggests engaging the Japanese embassy or consulate, chamber of commerce, Japan’s Ministry of Foreign Affairs, and other institutions to press the local government to eliminate facilitation payments.²⁰

Commercial bribery

Article 967 of the Companies Act prohibits commercial bribery. Under that statute, if certain specified types of corporate executive or employee, or an accounting auditor, accepts, solicits or promises to accept property benefits in connection with such person’s duties, in response to a wrongful request, it is punishable by imprisonment with work of up to five years or a fine of up to 5m yen (approximately US\$45,000). In addition, the bribe or its monetary value may be subject to confiscation. Giving, offering, or promising to give a commercial bribe is punishable by imprisonment with work of up to three years or a fine of up to 3m yen (approximately US\$27,000). This statute is analogous to Article 197 of the Penal Code, and the analysis of what constitutes a bribe is virtually the same.²¹ However, prosecutors have not used this statute, instead preferring to go after managers who accept bribes based on “aggravated breach of trust” against the firm, under Article 960 of the Companies Act. Corporations are not liable for commercial bribery under the Companies Act.

Current issues

Kansei dango

Despite the reforms discussed above, one type of corruption that remains deeply entrenched in Japan is government-led bid-rigging on public projects (*kansei dango*): a type of

bid-rigging scheme in which a public official acts as an organiser to determine which firm will win. Typically, the official is a representative of the government entity that issued the bid request, who wishes to dole out favours to firms (especially in construction) that are major sources of political funds, or are potential sources of work after the official leaves government. After long acceptance, the government started prosecuting this type of conduct in the 1990s as part of the general trend towards anti-corruption. As the widespread nature of the practice became apparent, legal reforms were instituted in the early 2000s, including the passage of a law specifically prohibiting *kansei dango* and amendments to the Anti-Monopoly Act. But a flood of major bid-rigging incidents in 2005 and 2006, including those resulting in the arrests of three prefectural governors, led to an accelerated passage in 2006 of amendments to the existing law against *kansei dango*. Additionally, starting with the *Steel Bridge Cartel* case of 2006, shareholders began suing corporate executives on the theory that the executives' participation in the bid-rigging schemes had damaged the firm. Further, the Japan Fair Trade Commission ("JFTC") found in three separate cases (2007, 2009, and 2012) that officials of the Ministry of Land, Infrastructure and Transportation ("MLIT") were involved in bid-rigging, requiring the JFTC to demand improvements of the MLIT.

Despite these changes, new *kansei dango* cases continue to emerge.

- In June 2015, MLIT sued 39 construction companies for damages allegedly resulting from *kansei dango* in relation to 59 construction bids in Kochi Prefecture.
- In February 2017, the Nagoya District Court imposed a three-year suspended sentence and a fine of 320,000 yen (approximately US\$2,900) on a former regional employee of MLIT for leaking information related to the construction of a bridge in Mie Prefecture. The court also imposed three-year suspended sentences on former employees of the construction company that received confidential bidding information from the former regional MLIT employee.
- In May 2017, the Nagoya District Court imposed a five-year suspended sentence and a 1.95m yen (approximately US\$18,000) fine on a former regional employee of MLIT for leaking information related to the construction of a tunnel in Mie Prefecture.

Amakudari

A related issue is *amakudari*, which literally means "descent from heaven", and refers to the practice of government officials retiring into lucrative positions in businesses they used to regulate. This practice has been identified as a significant cause for *kansei dango*, because bidders are populated by former officials of agencies requesting the bids, or providing future job opportunities for such officials.²² Reportedly, for example, 68 bureaucrats retired from METI into top positions at Japan's 12 electricity suppliers, which METI oversees,²³ and between 2007 and 2009, 1,757 bureaucrats were hired at organisations and firms that received subsidies or government contracts during 2008.²⁴

In the wake of the *kansei dango* scandals of the mid-2000s, in which collusion was found to have occurred between current and former government officials, the National Public Service Act ("NPSA") was amended in 2007. The amendment prevented ministries from finding post-retirement jobs for their officials, limited job-hunting by officials while still in government, and prohibited former officials from recruiting activities. However, the reform has not been particularly effective, with many officials still being hired by firms and organisations they used to oversee. During the administration of the Democratic Party of Japan ("DPJ") from 2009 to 2012, further attempts to amend the NPSA stalled. In July 2013, the "Headquarters for Promotion of Reform to the National Public Service System",

which was founded in 2008 to implement the 2007 amendment, formally disbanded after its five-year term expired; in fact, it was virtually non-operational during the DPJ years. The LDP included the eradication of *amakudari* as one of its campaign promises in 2012, but has not pressed for new legislation on this issue. In March 2017, the Ministry of Education, Culture, Sports, Science and Technology announced that it had confirmed 62 cases in which current or former ministry employees had illegally negotiated with universities to secure their colleagues' post-retirement jobs. The ministry's discovery resulted in the resignation and penalisation of 37 senior ministry bureaucrats.²⁵

Low enforcement of UCPA Article 18

In the 18 years since its enactment in 1998, UCPA Article 18 has been enforced only four times:²⁶

- In March 2007, two Japanese individuals were found guilty of bribing two senior Filipino officials with about 800,000 yen (approximately US\$7,300) worth of golf clubs and other gifts, in an effort to win a government contract. They failed to win, but the bribes were reported by a whistleblower. The individuals were fined 500,000 yen (approximately US\$4,500) and 200,000 yen (approximately US\$1,800), respectively. It appears that the firm they worked for (the Philippines subsidiary of a Japanese firm) was not prosecuted.
- In January and March 2009, four Japanese individuals were found guilty of bribing a Vietnamese official in connection with a highway construction project that was partly financed by official development assistance (“ODA”) from Japan. The value of the contract was approximately US\$24m, and the total amount given to the official was about US\$2.43m, but the court specified the amount of the bribes at US\$820,000, partly because the statute of limitations had run expired on some of the earlier conduct. The court imposed three-year suspended sentences on the individuals. The firm they worked for was fined 70m yen (approximately US\$636,000), and was also temporarily delisted by the Japan Bank for International Cooperation and the Japan International Cooperation Agency.
- In September 2013, a former executive of a Japanese automotive parts manufacturer was fined 500,000 yen (approximately US\$4,500) for bribing an official in China to ignore an irregularity at a subsidiary's factory in Guangdong Province.
- In February 2015, the Tokyo District Court found a railway consulting firm and its three former executives guilty of violating the UCPA by bribing government officials of Vietnam, Indonesia, and Uzbekistan with approximately US\$1.2m in order to obtain consulting contracts related to ODA projects in the three countries. The court imposed three-year suspended sentences on the three individuals, and fined the consulting firm 90m yen (approximately US\$818,000). The Japanese government agency in charge of ODA said that Japan will resume providing the ODA funds after Vietnam returns the bribe.

The OECD has criticised this low level of enforcement activity, issuing a news release in June 2016, both in English and Japanese, recommending that Japan establish an action plan to organise police and prosecution resources to be able to proactively detect, investigate, and prosecute cases of foreign bribery by Japanese firms. The OECD admonished Japan's continued failure to fulfil the OECD Working Group's recommendations, noting that the failure would not only increase the Group's concerns but also negatively affect other countries' efforts in the global fight against foreign bribery.

The greatest challenge for increasing enforcement of UCPA Article 18 is creating incentives for firms to self-report, or for whistleblowers to come forward. The type of whistleblower

award programme instituted by the US Securities and Exchange Commission will be difficult to implement in Japan, considering the smaller potential recovery available (*i.e.*, the amount of the potential reward is unlikely to offset the downsides of reporting on one's employer). Instituting a leniency-type system to reduce potential fines in exchange for cooperation may encourage some firms to self-report, but the maximum corporate exposure of 300m yen (approximately US\$2.7m) may not be large enough to justify the trouble. In addition, the four decided cases – to the extent that they provide any guidance – seem to indicate that courts will impose a fine that is roughly equivalent to the amount of the bribe.

An interesting point of comparison may be the JFTC's cartel leniency programme, which is modelled on similar programmes in the US and the EU. When the programme was first proposed, many doubted that it would succeed in a group-oriented culture like Japan. But, to the contrary, Japanese firms immediately began filing applications. Between 2006 and 2015, 938 filings have occurred, resulting in 109 publicised actions against a total of 264 firms. The programme's success indicates that measures initially viewed as unlikely to succeed in Japan may still be worth implementing.

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* * *

Endnotes

1. Transparency International, *Japan* (<https://www.transparency.org/country/JPN>).
2. World Justice Project, Rule of Law Index 2016, Absence of Corruption (<http://data.worldjusticeproject.org/#/groups/JPN>). According to the overall Rule of Law Index, Japan is ranked as the country with the 15th strongest rule of law out of 113 countries.
3. US Department of State, Bureau of Economic and Business Affairs, *Investment Climate Statements for 2017 – Japan* (<http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2017&dclid=269819>).
4. See Andrew Horvat, “MoF fries in ‘no pan shabu shabu’”, *Euromoney*, Mar. 1998 (<http://www.euromoney.com/Article/1005671/MoF-fries-in-no-pan-shabu-shabu.html>).
5. See Alan C. Miller, “Japan’s Money in the Mists”, *Los Angeles Times*, Nov. 24, 1998; “Japan: Away with the Rogues”, *The Economist*, Sep. 21, 2000.
6. See Horvat, *supra*.
7. See Act No. 100 of 1992, Act No. 5 of 1994, Act No. 106 of 1994, and Act No. 129 of 1999.
8. “Kake Gakuen questions still unanswered”, *The Japan Times*, July 26, 2017 (http://www.japantimes.co.jp/opinion/2017/07/26/editorials/kake-gakuen-questions-still-unanswered/#.WXrPH_mGOUL).
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10. “Inose calling it quits over money scandal”, *The Japan Times*, Dec. 19, 2013 (<http://www.japantimes.co.jp/news/2013/12/19/national/politics-diplomacy/inose-calling-it-quits-over-money-scandal/#.WZFsGwUmM8>); “Japanese economy minister Akira Amari quits over bribery claims”, *BBC News*, Jan. 28, 2016 (<http://www.bbc.com/news/world-asia-35427563>).

11. Unless otherwise noted, translations of Japanese laws in this article are from the “Japan Law Translation” website of the Ministry of Justice (<http://www.japaneselawtranslation.go.jp/>).
12. See Act No. 136 of 1999, as amended by Act No. 67 of 2017.
13. See Act No. 165 of 1947 (Japan Post); Act No. 89 of 1997 (Bank of Japan); Act No. 205 of 1949 (bar association); Act No. 112 of 2003 (national universities); Act No. 185 of 1951 (driving schools); Act No. 141 of 1959 (National Pension Fund Association); Act No. 33 of 2015 (The Tokyo Organising Committee of the Olympic and Paralympic Games). This list of “deemed public officials” is not exhaustive.
14. See Act No. 69 of 1984 (Japan Tobacco); Act No. 85 of 1984 (NTT); Act No. 88 of 1986 (Japan Railways); Act No. 132 of 1950 (NHK); Act No. 124 of 2003 (Narita Airport); Act No. 37 of 2007 (International Criminal Court).
15. UCPA art. 18(1); translation from the Ministry of Economy, Trade and Industry, *Guidelines to Prevent Bribery of Foreign Public Officials* (rev. July 30, 2015) (http://www.meti.go.jp/policy/external_economy/zouwai/pdf/GuidelinesforthePreventionofBriberyofForeignPublicOfficials.pdf).
16. UCPA art. 21(2)(vii); OECD Working Group on Bribery, *Japan: Phase 2bis Report on the Application of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the 1997 Recommendation on Combating Bribery in International Business Transactions* (June 2006), at 11 (<http://www.oecd.org/daf/anti-bribery/anti-briberyconvention/37018673.pdf>).
17. OECD, “Japan must make fighting international bribery a priority”, June 30, 2016 (<http://www.oecd.org/daf/anti-bribery/japan-must-make-fighting-international-bribery-a-priority.htm>).
18. Japan Federation of Bar Associations, *Guidance on Prevention of Foreign Bribery*, July 15, 2016 (<https://www.nichibenren.or.jp/en/document/opinionpapers/20160715.html>).
19. METI press release, “Revision of ‘Guidelines to Prevent Bribery of Foreign Public Officials’”, Sep. 21, 2010 (http://www.meti.go.jp/english/press/data/20100921_01.html).
20. See endnote 18, *supra*.
21. Seiichi Ochiai, ed., *Kaishaho Kommentar (Companies Act Commentary)* (2011), vol. 21 § 967, at 125 (in Japanese).
22. See “Amakudari, Kouji Rakusatsu Ni Eikyo, Ichi Nin Ukeire 0.7 Point Joushou (Impact of ‘amakudari’ on winning construction projects – 0.7 point increase with one person hire)”, *Nihon Keizai Shimbun*, Feb. 21, 2017 (http://www.nikkei.com/article/DGXLASDG20H6D_R20C17A2CC0000/); “1,757 got jobs via ‘amakudari’ from ‘07 to ‘09”, *The Japan Times*, Aug. 24, 2010 (<http://www.japantimes.co.jp/news/2010/08/24/national/1757-got-jobs-via-amakudari -from-07-to-09/#.UhWk2BtcXis>).
23. See “Utilities got 68 ex-bureaucrats via ‘amakudari’”, *The Japan Times*, May 4, 2011 (<http://www.japantimes.co.jp/news/2011/05/04/news/utilities-got-68-ex-bureaucrats-via-amakudari/#.UhWjsRtcXit>).
24. See endnote 22, *supra*.
25. “Education ministry probe finds 62 illegal cases of ‘amakudari’”, *The Japan Times*, Mar. 30, 2017 (<http://www.japantimes.co.jp/news/2017/03/30/national/education-ministry-probe-finds-62-illegal-cases-amakudari/>).
26. See endnote 17, *supra*.

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