



ANTI-CORRUPTION DIGEST

September 2018

Keeping ahead of global anti-corruption trends is critical in today's business markets. The Dorsey Anti-Corruption Digest, which puts global trends at your fingertips, puts you ahead. The deep experience of the Dorsey Anti-Corruption team, drawn from the DOJ, the SEC and years in private practice, will keep you ahead.

NORTH AMERICA

THE UNITED STATES

Another Arrest in PDVSA Bribery Scandal

Jose Manuel Gonzalez Testino, a dual U.S. and Venezuelan citizen, was the seventeenth person charged (twelve of whom have already pleaded guilty) as part of the Petroleos de Venezuela S.A. (PDVSA) bribery scandal. Mr. Gonzalez was charged in the beginning of August with conspiring to violate the Foreign Corrupt Practices Act (FCPA) and violating the FCPA, 15 U.S.C. § 78dd-2. The case is *U.S. v. Gonzalez*, Case No. 18-mj-03171(S.D. Tex. filed Aug. 1, 2018).

According to the criminal complaint, Mr. Gonzalez, along with an unnamed co-conspirator, controlled a number of U.S. and Panama-based energy companies that supplied equipment and services to Venezuela's state-owned energy company, PDVSA. An unnamed cooperating witness

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(who already pleaded guilty to conspiracy to launder money) who worked at PDVSA and its subsidiary from 2011-2013, told agents that he received bribe payments and other things of value in return for helping Mr. Gonzalez's companies obtain business from PDVSA. Specifically, in exchange for the bribes, the witness took steps to direct business to Mr. Gonzalez's companies, gave the companies priority over other vendors when it came to receiving payment, and awarded the contracts to the companies in U.S. dollars instead of Venezuelan currency. A second cooperating witness (who already pleaded guilty to conspiracy to violate the FCPA, substantive violations of the FCPA, and making false statements in his annual tax returns) who owned a number of U.S.-based energy companies that supplied equipment and supplies to PDVSA, corroborated that Mr. Gonzalez and the unnamed co-conspirator controlled the companies making the illicit payments. In total, Mr. Gonzalez paid at least \$629,000 to the cooperating witness in 2012 and 2013.

Three More Arrested in Fat Leonard Scandal

Three retired naval officers were indicted as part of the wide-ranging Fat Leonard scandal. Retired Capt. David W. Haas was accused of bribery, conspiracy to commit bribery, and conspiracy to commit honest services fraud. Two retired noncommissioned officers, former Master Chief Petty Officer Ricarte I. David and former Chief Petty Officer Brooks A. Parks, also face conspiracy to commit honest services fraud charges. All three indictments detail how the three were plied with cash, swanky parties, luxury travel, and prostitutes in return for their assistance in helping Leonard Glenn Francis, the owner of the Singapore-based Navy contractor GDMA, obtain lucrative contracts from the Navy. Mr. Francis pleaded guilty in 2015 to bribing senior staff and officers in the Asia-based Navy fleet. He also admitted to overcharging the Navy for the services provided, resulting in a more than

\$34.5 million loss to the Navy. With these new indictments, 32 former and current Navy officers have now been charged as part of the scandal, with 20 of them already having pleaded guilty.

U.K.-based Engineering Firm Receives DOJ Declination

Guralp Systems Limited (GSL), a manufacturer of seismology testing equipment, received a declination from the Department of Justice (DOJ) concerning possible FCPA and money-laundering violations. DOJ's investigation of the company centered around payments from GSL to Heon-Cheol Chi, the director of the Earthquake Research Center at the Korea Institute of Geoscience and Mineral Resources. Although the DOJ noted it had uncovered evidence of FCPA violations stemming from these payments, it declined to prosecute under the FCPA Corporate Enforcement Policy.

In coming to its declination decision, the DOJ took into account GSL's voluntary disclosure, significant remedial actions, and substantial cooperation with the DOJ, which assisted the DOJ with the prosecution of Mr. Chi for violating the money-laundering statutes. The declination letter also noted that the decision to decline prosecution was based in part on the fact that the U.K.'s Serious Fraud Office was currently investigating the company for the same misconduct.

Microsoft Under Investigation According to Media Sources

The DOJ and the Securities and Exchange Commission (SEC) are investigating Microsoft's Hungarian operations for possible bribery and corruption issues, according to the *Wall Street Journal*. The two agencies are looking at "how Microsoft sold software such as Word and Excel to middleman firms in Hungary that then sold those products to government agencies there in 2013 and 2014," according to the report.

Inter-American Development Bank Debars American Software Company

GL Systems LLC was debarred by the Inter-American Developmental Bank (IDB) for four years for “corrupt, collusive, and fraudulent practices.” GL Systems had been working on three IDB-financed projects in Barbados, one of which was to modernize the customs, excise, and VAT area in the country. The debarment was the first one resulting from a Negotiated Resolution Agreement entered into by IDB.

Barbados Insurance Company Receives Declination with Disgorgement

The DOJ issued a declination letter to the Insurance Corporation of Barbados Limited (ICBL) pursuant to the FCPA Corporate Enforcement Policy. The investigation conducted by the DOJ and the U.S. Attorney’s Office for the Eastern District of New York uncovered evidence that ICBL paid approximately \$36,000 to a Barbadian government official in return for his assistance in helping the company obtain two insurance contracts resulting in over \$686,000 in premiums and ultimately netting ICBL around \$94,000 in profits. High-level employees of ICBL took part in the scheme in August 2015 and April 2016 to make the bribe payments to Donville Inniss, a member of the Parliament of Barbados and the Minister of Industry, International Business, Commerce, and Small Business Development of Barbados.

The DOJ noted that, despite the involvement of high-level corporate officers, the agency decided to decline to prosecute based on the fact that the company made a voluntary and timely disclosure of the issues, conducted a thorough investigation, cooperated with the DOJ, enhanced its compliance program, and undertook remediation that included terminating all of the employees and

executives involved. In addition, the DOJ took account of the fact that ICBL agreed to disgorge the approximately \$94,000 in profits and the fact that the DOJ has been able to identify and charge the individuals involved.

Second Circuit Affirms Case Regarding When a Non-U.S. Resident Can Be Charged

In an August 24 opinion, the Second Circuit held that a foreign national that is not acting as an agent of a U.S. issuer or domestic concern cannot be held liable for violating the FCPA under accomplice theories if the individual’s conduct did not occur in the United States. The case is *U.S. v. Hoskins*, Case No. 16-1010-cr, 2018 WL 4038192 (2d Cir. Aug. 24, 2018).

The defendant, Lawrence Hoskins, was a U.K. citizen employed by a U.K.-based subsidiary of the French company Alstom SA. The DOJ alleged that Mr. Hoskins conspired with executives of Alstom’s U.S. subsidiary to bribe Indonesian officials to obtain a contract for an infrastructure project. Although the complaint alleged that the U.S. executives held meetings in the U.S. and discussed the scheme by phone and email, there was no allegation that Mr. Hoskins ever worked directly for the U.S. subsidiary or set foot on U.S. soil during the period of the conspiracy. Mr. Hoskins moved to dismiss, arguing that he did not fall into any of the categories of defendants enumerated by the FCPA, as he was not an agent of an issuer, domestic concern, or a foreign national acting in furtherance of the scheme in the U.S. In its opposition, the DOJ argued that Mr. Hoskins was an agent of the U.S. subsidiary on the basis of the emails and phone calls he took part in with his co-conspirators. The district court did not dismiss the DOJ’s claim based on Mr. Hoskins acting as an agent of the U.S. subsidiary, but did hold that the DOJ could not use conspiracy or aiding and abetting to further the jurisdictional reach of the FCPA statute.

The Second Circuit largely affirmed the district court's opinion, holding that charging conspiracy and aiding and abetting did not allow the DOJ to expand the FCPA's jurisdictional reach. The court also found that Mr. Hoskins could be considered an agent of the U.S. subsidiary, despite not being present in the U.S., and remanded the case to the district court to decide that question.

Legg Mason Resolves FCPA Investigation with SEC

Following Legg Mason's June 2018 non-prosecution agreement (NPA) with the DOJ regarding FCPA violations, the company consented to a cease and desist order with the SEC to resolve its investigation. The SEC's order found that Legg Mason violated the internal control provisions of the FCPA, 15 U.S.C. § 78m(b)(2)(B), by lacking appropriate internal accounting controls with respect to the use of introducing brokers and other intermediaries in emerging markets. Legg Mason agreed to pay the SEC \$27.6 million in disgorgement and \$6.9 million in pre-judgment interest. After crediting the disgorgement the firm already paid to the DOJ pursuant to the NPA (\$31.6 million), Legg Mason will have to pay the SEC an additional \$2.4 million. The SEC declined to impose a civil penalty in its resolution, noting that Legg Mason had already been fined \$32.6 million by the DOJ. The case is *In the Matter of Legg Mason*, Admin. Proc. File No. 3-18684 (Aug. 27, 2018).

According to the SEC's Order, the FCPA violations occurred between 2004 and 2010 when Legg Mason's former subsidiary, the Permal Group Ltd., partnered with Société Générale to bribe Libyan government officials, via an intermediary, to obtain business from state-owned financial institutions in Libya. Between 2005 and 2008, Société Générale paid the intermediary approximately \$26.25 million and in return sold the Libyan Financial

Institutions seven structured notes. Although the bribes were all paid by Société Générale. Permal Group Ltd. still earned net revenues of approximately \$31.6 million from the scheme.

As discussed in the July issue of the Digest, Société Générale entered into a deferred prosecution agreement with the DOJ in June 2018 to resolve the FCPA violations, and the bank's wholly-owned subsidiary, SGA Société Générale Acceptance, N.V. (SGA), also pleaded guilty to a one-count criminal information charging it with conspiracy to violate the FCPA. The bank agreed to pay \$860 million to the DOJ and France's Parquet National Financier (PNF) to resolve both the FCPA and LIBOR rigging charges.

EUROPE

THE UNITED KINGDOM

U.K. Bribery Act Under Review

The Bribery Act 2010 is currently undergoing a review process, carried out by a committee of lawmakers in the U.K. The review will seek to understand the effectiveness of the Act since it came into force. In particular, the review plans to consider the lack of prosecution of individuals in bribery cases, the impact of deferred prosecution agreements (DPAs) on corporate conduct and the lack of transparency about the decision on whether to offer a DPA.

A DPA is an agreement between an organization and a prosecutor to delay prosecution for a period of time, providing certain conditions are met such as the implementation of compliance programs or the payment of financial penalties.

The U.K.'s Serious Fraud Office has entered into four DPAs since they were introduced in 2014, but questions remain about the absence

of prosecution of individuals involved in bribery cases, mainly in cases where companies enter into a DPA.

The Law Society, the City of London Law Society and the Fraud Lawyers Association wrote that "It is notable that, so far, no individual connected to a published DPA has been prosecuted" in their joint submissions to the committee.

The committee has received 41 written submissions to date, and open sessions will be held to collect views from executives next month.

Former Güralp Systems Employees Charged with Corruption

On August 17, 2018, the U.K.'s Serious Fraud Office (SFO) announced that it has charged two former employees of Güralp Systems Limited, an engineering company specializing in the production of seismic testing equipment, with conspiracy to make corrupt payments.

Cansun Güralp, the founder of Güralp Systems, and Andrew Bell, the company's former managing director, are accused of having paid bribes to an unnamed South Korean public official, employed at South Korea's Institute of Geoscience.

The SFO's criminal investigation into Güralp Systems, which began in December 2015, has focused on alleged corrupt contracts in South Korea. Mr. Güralp and Mr. Bell appeared in Westminster Magistrates' Court on August 20, 2018.

DENMARK

Danske Bank to Comply With Authorities in Money Laundering Probe

Danske Bank, Denmark's largest bank is complying with the investigation by

prosecutors in Denmark into allegations that \$8.3 billion was laundered through its Estonian branch, according to the Bank's August 7, 2018 announcement.

The newspaper *Berlingske* claimed last year that \$3.9 billion of suspicious funds from several Eastern European countries, including Russia and former Soviet states Azerbaijan and Moldova, had been laundered through the bank. Last month *Berlingske* published another article, which doubled the previously reported figure of the amount of money that was allegedly laundered through the bank to over \$8.3 billion, after it received bank statements from 20 companies who had accounts with Danske Bank's Estonian branch between 2007 and 2015.

Flemming Pristed, Danske Bank's chief counsel commented on the investigation stating "We have a good and constructive dialogue on an ongoing basis with the authorities, and we will be at the service of SOIK if it needs further clarification on specific matters." SOIK is the Danish police's Special Economic and International Crime unit.

Danske Bank is already under investigation in connection with money laundering allegations in Estonia and France.

SWITZERLAND

Top Executive and Senior Lawyer at 1MDB Targeted in Corruption Probe

In a recent development in the multimillion dollar corruption scandal affecting 1Malaysia Development Berhad (1MDB), a former top executive of 1MDB and a senior lawyer at the fund who worked with Goldman Sachs Group Inc., are said to be amongst six people who were recently targeted in Switzerland's criminal investigation. The two individuals are being investigated for criminal mismanagement, bribery, money laundering and misconduct in public office.

According to people who are familiar with the matter, the unnamed 1MDB executive allegedly authorized an illicit transfer of \$700 million. The two unnamed individuals were referred to as “two former officials at 1MDB” in a press release from the Office of the Attorney General last month.

1MDB is currently at the center of money laundering investigations in various countries, including the United States, Switzerland and Malaysia. Authorities in Switzerland suspect that funds raised for economic development projects by 1MDB were stolen. According to the U.S. Department of Justice, an estimated \$4.5 billion was misappropriated from 1MDB.

“Corruption” Wiped From New FIFA Code of Ethics

The new Fédération Internationale de Football Association (FIFA) Code of Ethics, which came into force on August 12, 2018, no longer contains the term “corruption”.

The previous FIFA ethics code, adopted in 2012, cited the terms “bribery and corruption”, and placed no limitation period on the prosecution of these offences. Although the term “corruption” is no longer used in the 2018 edition of the Ethics Code, “bribery” is still identified and prohibited. However, the ability to prosecute bribery offenses has been weakened by the introduction of a 10-year limitation period.

In recent years, there have been several high profile accusations of officials in the soccer world taking bribes and match fixing. The most notable pair, former FIFA President, Sepp Blatter, and former FIFA Vice President, Jack Warner, were investigated by FIFA’s Ethics Committee before being removed from the organization for claims of financial misconduct in 2015.

A new defamation offense has also been introduced in the 2018 ethics code. Those found to have defamed FIFA can be banned from football-related activities for a period of

up to two years, with an increase to five years for repeated serious cases.

Former Gunvor Employee to Enter Deal with Swiss Prosecutors

The Swiss Federal Criminal Court found a former employee at the global energy trader, Gunvor Group, guilty of bribing officials in two African nations on August 28, 2018. The former employee, Pascal Collard, agreed to enter into a deal with prosecutors in Switzerland in which he admitted to paying bribes to officials in the Congo Republic and Ivory Coast to secure oil deals. According to the Swiss Federal prosecutors’ indictment, released in June 2018, Mr. Collard worked with Gunvor “colleagues” to bribe the officials.

The deal is in connection with a money laundering investigation into Gunvor’s employees that began in 2011, but initially lacked enough evidence to identify any individuals. In 2012, Gunvor accused Mr. Collard of fraud and embezzlement relating to the firm’s Congo dealings, and also dismissed him. As part of the agreement, Mr. Collard was given an 18-month suspended prison sentence and will not serve time in prison, provided he does not commit further crimes in the next three years.

A statement from Mr. Collard’s lawyers said “The details in the document aren’t something new. Pascal agrees he did this but others in the company, including top executives, were aware. The deal opens the door for these other people in the company to be indicted.”

Gunvor has always denied any knowledge of the alleged bribe payments.

SPAIN

Chief of Anti-Corruption Group on Trial for Extortion

Miguel Bernad, the founder of the Spanish anti-corruption group “Manos Limpias” (Clean Hands), and Luis Pineda, the creator of the Ausbanc association, a financial consumer's association, have been accused of fraud, extortion and belonging to a criminal organization. The allegations were announced on August 1, 2018 by Spain's National Court, which deals with large corruption cases.

Manos Limpias and the Ausbanc association are suspected of seeking bribes from companies and individuals in exchange for the withdrawal of criminal cases that the groups had filed against them. One of the most noteworthy cases dealt with by Manos Limpias was the tax evasion charges brought against Spanish King Felipe VI's younger sister, Princess Cristina, in a corruption scandal linked with her husband's business practices. The defense team in the case claimed that Manos Limpias had asked for a bribe in exchange for dropping the allegations, but that Princess Cristina's lawyers had refused.

Prosecutors have requested a 118-year prison sentence for Mr. Pineda and a 24-year prison sentence for Mr. Bernad.

Court Finds the Leader of Spain's People Party Obtained Degree in Potentially Corrupt Circumstances

Spain's High Court found that Pablo Casado, the new leader of Spain's centre-right People's Party, was awarded his academic degree in dubious circumstances, according to its August 6, 2018 finding. The High Court concluded that there were signs of bribery in connection with the awarding of degrees to Mr. Casado and a number of other individuals,

stating, “The director of the course ... acted so that a particular, chosen group of students were given a master's degree (...) without any academic merit, giving it to them as a gift.”

The court said it could not progress the case because of immunity laws for members of parliament. The case has now been passed to the Supreme Court which will decide whether to proceed.

Mr. Casado said last month “Under no circumstances have I accepted a gift or requested something that was not given to any other students.”

ESTONIA

Estonia's Parliament Holds Extraordinary Meeting to Discuss Money Laundering Probe

Parliament in Estonia has held an extraordinary meeting to discuss a money laundering case involving Danish bank, Danske Bank, after a new criminal complaint was filed in the country against the Bank by Bill Browder, an American businessman. Mr. Browder was once the biggest foreign money manager in Russia. He is now a well-known critic of the Russian government.

Danske Bank is facing allegations that its Estonian branch was involved in money laundering between 2007 and 2015. The bank is conducting investigations into the allegations and is due to report the findings in September 2018.

The chairman of Estonia's parliamentary legal affairs committee, Jaanus Karilaid, commented on the meeting, stating “The Legal Committee wants to get more clarity on how it could have been possible to launder Russian criminal money in that way in an Estonian operating branch.” Danske Bank did not comment on the meeting.

RUSSIA

Former Senior Investigator Handed Prison Sentence for Bribery

The Moscow City Court has sentenced Denis Nikandrov, the former head of Moscow's Investigative Committee, to a five and a half year prison sentence for accepting a bribe from a well-known mafia boss.

In 2016, Mr. Nikandrov was detained for accepting a \$1 million bribe from a notorious crime lord, Shakro Molodoy, who was in prison at the time. Various other senior investigators have been charged in the case, including Alexander Lamonov, the deputy head of security at Moscow's branch of the Investigative Committee. Mr. Lamonov was sentenced to five years in jail for accepting a bribe from a crime lord in July this year.

In addition to the prison sentence, Mr. Nikandrov's military rank has been removed.

ROMANIA

Anti-Government Protests in Romania Continue

On August 11, 2018, thousands of people in Romania took part in an anti-government rally in the capital Bucharest, one day after more than 400 individuals were injured in clashes between the police and those taking part in protests. The demonstrations took place peacefully, with approximately 25,000 people taking part, in the capital Bucharest, and other demonstrators gathering in the Romanian cities Cluj, Sibiu, Timișoara and Iași.

Protests also took place the day before on August 10, 2018 in front of the government headquarters in Bucharest, against what demonstrators described as entrenched corruption and low wages. According to the *BBC*, protestors were demanding the

resignation of the governing Social Democrats (PSD) for the governments perceived attempts to weaken the judiciary. In July this year, President Klaus Iohannis approved the dismissal of Laura Codruța Kövesi, an anti-corruption prosecutor in Romania who had been leading corruption investigations involving politicians. Violence began at these protests when paving slabs were thrown at the police, who responded with pepper spray, tear gas and water cannon.

Although the police say they acted in a proportionate manner, Mr. Iohannis asserted that the reaction of the police was "disproportionate".

U.S. Embassy in Bucharest Urges Romania to Continue Anti-Corruption Fight

In a statement sent to the *Associated Press* on August 28, 2018, the U.S. Embassy in Bucharest urged Romania to continue with its efforts to combat corruption and safeguard the rule of law. This statement follows a letter from President Donald Trump's personal attorney, Rudy Giuliani, to the Romanian president, criticizing the country's current corruption prevention efforts.

Mr. Giuliani's letter, published by *Mediafax*, said that Romania's anti-corruption directorate had been intimidating judges and lawyers, and using unfair methods against suspects. Mr. Giuliani claimed "many innocent people" had been sent to prison. Mr. Giuliani said in his letter that he was in favor of legitimate efforts to fight corruption, but he protested throughout about what he characterized as the direction of Romania's anti-corruption fight.

SLOVENIA

15 People Indicted for Graft in Hospitals

On August 6, 2018, Slovenia's state news agency, STA, said that Slovenia's Specialized Prosecution Service has filed an indictment against 15 people who were allegedly involved in an arrangement where bribes were paid to doctors by medical equipment suppliers. The indictment was filed for money laundering offences and one person has been accused of forging or destroying business documents to conceal evidence.

The prosecutor's investigation began in 2013 in five cities in Slovenia, including the capital, Ljubljana. The investigation alleges that medical equipment suppliers offered bribes to doctors in exchange for the doctors favoring them.

According to the Specialized Prosecution Service, the criminal activities have caused €1.18 million (approximately \$1.36 million) of losses to public funds.

BELARUS

Belarus Health Service Facing Large Corruption Scandal

Officials in Belarus have called for an overhaul of the country's health service following a large corruption scandal. Valery Vakulchik, the head of the country's state security service has denounced what he described as a vast system of procurement of medical equipment and drugs at inflated prices. According to Mr. Vakulchik, prices were habitually increased by 60 percent and doubled in some cases. Mr. Vakulchik stated that "Bona fide suppliers could not rely on a positive outcome" as procurement were made "via numerous middlemen (and) finance companies", instead of directly with producers.

Medical equipment imported was claimed to be second hand, but later sold on as if new and often lacked the necessary certification or was supported by faked documentation.

In reaction to the scandal, Alexander Lukashenko, the President of Belarus, has fired his Prime Minister, Andrei Kobyakov, and other key members of government after a corruption scandal in the country's health service. Authorities in Belarus have arrested several health officials, drug company representatives and medics who are suspected of involvement in a scheme to siphon off millions of dollars in state funding from the health service.

37 top health officials have been arrested in Belarus and investigations opened involving 60 people, including representatives of international pharmaceutical companies. The deputy health minister, Igor Lositsky, has been detained in connection with the scandal, along with doctors at well regarded clinics and leading business people involved in producing and importing medicines.

Mr. Lukashenko, who has been the President of Belarus since 1994, said in comments released by his press office "I won't name names, but in our government we had the following situation – one programme would be announced and then another programme would be carried out". He added, "I've never allowed this and I never will. What we have promised the people – with a government formed precisely with this programme in mind – we must follow this programme."

MALTA

Former CEO Cleared of Bribery Charges

Mario Mizzi, the former Chief Operating Officer of Malta Investment Management Company Limited (MIMCOL), has been cleared by Malta's Criminal Court with bribery in

connection with the former government's plan to privatize certain shipyards.

Mr. Mizzi was charged in January 2012 with demanding a bribe in exchange for favorable consideration in the tender process for the privatization of the shipyards. Paul Cardona, a representative for one of the bidders in the tender process, SYC Limited, claimed that Mr. Mizzi had approached him and said "scratch my back and I'll scratch yours". Mr. Cardona understood this statement to be a request for a bribe.

The case was decided by Magistrate Doreen Clarke who concluded that Mr. Mizzi made the statement to Mr. Cardona in response to an offer from Mr. Cardona that he would inform Mr. Mizzi of any work opportunities. The court found that the statement was not a request for a bribe.

Maltese Firm Named in Venezuelan Corruption Investigation

According to the Maltese news agency, *MaltaToday*, a Maltese wealth management firm, Portmann Capital Management Limited, is the unnamed Maltese company referred to in a U.S. money laundering investigation involving Venezuelan officials.

A criminal complaint filed in the courts of Miami alleges that eight defendants embezzled funds from Venezuela's substantial oil income and abused their special access to the Venezuelan government's foreign-currency exchange system, which offers a better rate of exchange than the normal market. Although the name of the Maltese investment firm that allegedly helped launder the illegal proceeds is not revealed in the criminal complaint, it does state that the firm is suspected of receiving above €20 million (approximately US\$ 23.5) for laundering the money with a 4% service charge.

A director of Portmann Capital Management Limited told *MaltaToday* that the company

does not believe that it is the Maltese firm identified in the Florida Court complaint.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Former Yugoslav Republic of Macedonia's Attempts to Prevent Corruption "Disappointing"

The Council of Europe's anti-corruption body, the Group of States against Corruption (GRECO), said on August 9, 2018 that the Former Yugoslav Republic of Macedonia's (FYROM) attempts to prevent corruption have been "disappointing". According to a compliance report by the GRECO group, the FYROM has "made no substantial progress" in implementing recommendations that were made more than four years ago aimed at preventing corruption against judges, parliament members and prosecutors.

GRECO has said that only six out of the 19 recommendations it made for tackling corruption have been implemented satisfactorily. The report did find that the country has made some progress in preventing corruption among judges and prosecutors.

MIDDLE EAST

ISRAEL

Israel's Housing & Construction's Overseas Subsidiary Suspected of Corruption

Israeli investigators have expanded their investigation into Housing & Construction Limited's Guatemalan subsidiary, SBI Infrastructure. The Israeli police and the

World Bank have been investigating SBI Infrastructure for bribing Kenyan and other African officials to win major infrastructure projects. The Israeli police and the Israeli Securities Authority have questioned two people in connection with the allegations, one of which is Shari Arison, Israel's wealthiest woman, who, until recently, controlled Housing & Construction Limited.

Interior Ministry Employees Arrested for Taking Bribes to Expedite Services

Four Interior Ministry employees were among the 83 East Jerusalem residents arrested by Israeli police as part of a pay-to-play scheme. In recent years, the Interior Ministry has faced a considerable backlog in requests for services. The four employees are accused of accepting bribes from residents to provide services, such as issuing ID cards, birth certificates, and travel certificates. Also among those arrested are six individuals accused of functioning as middlemen between the employees and residents.

PAKISTAN

Pakistan's Next Prime Minister Facing Corruption Probe

Imran Khan, Pakistan's premier-designate and former cricket star, appeared before Pakistan's National Accountability Bureau, according to a spokesman. Mr. Khan faces questions about his alleged misuse of a government helicopter for private visits between while his party, Tahreek-e-Insaf, governed the Khyber Pakhtunkhwa province. These private trips, which allegedly occurred between 2013 and 2018, cost the government 2.17 million rupees (US\$20,000).

IRAN

Central Bank of Iran Deputy Arrested as Part of Corruption Investigation

Ahmad Araghchi, a Central Bank of Iran Deputy in charge of foreign-currency affairs, was arrested as part of a widespread corruption crack-down in Iran's foreign-currency sector, according to the *Islamic Republic News Agency*. Along with Mr. Araghchi, an employee in a top government office, four traders, and an unlicensed foreign-currency dealer were also arrested.

ASIA

CHINA

Over 30,000 Officials Disciplined for Violating the "Eight-Point" Guidelines Since 2012

According to a recent study by China's Central Commission for Discipline Inspection, 31,130 officials have been disciplined for violating one or more of the "eight-point" "frugality code" implemented in 2012 by the Chinese government. The eight-point guidelines refer to the eight unlawful practices from which government officials must abstain during their tenure, which include accepting allowances or bonuses without prior authorizations, giving or accepting gifts or taking public vehicles for personal use. Other offenses include spending government funds on extravagant dinners, private events such as weddings and funerals and unnecessary government-related buildings.

The unintended consequences of the crackdown are a steady sales decline for a number of manufacturers and service providers. These include caterers,

wholesalers, hotels, first-class flight tickets for airlines and expensive liquors producers, such as Moutai, as officials begin to adopt a more frugal lifestyle.

Critics believe that the current administration is using the crackdown as a ploy to remove political dissidents, while supporters believe the frugality code prevents the tax dollars from being misused by government officials.

Huarong Executives Under Investigation for Corruption

Lai Xiaomin, former head of China's largest state-owned asset management company, Huarong Asset Management, is under investigation for "serious discipline violations." The investigation uncovered over 270 million yuan (approximately US\$ 39,530,889) of unreported cash hidden in several properties under Mr. Lai's name. Huarong Asset Management was established by the Chinese government in 1999 to handle bad debts for Chinese banks.

In addition to the large amount of cash, Mr. Lai also allegedly funneled billions of yuan to private companies in other Chinese provinces.

Peng Shuai Banned from Competing for Six Months After Forcing Partner to Forfeit Game at the 2017 Wimbledon

The Tennis Integrity Unity (TIU) banned tennis player Peng Shuai from competing for six months and ordered Ms. Peng to pay a fine of US\$ 10,000 fine after investigation revealed that Ms. Peng forced and then later bribed her doubles partner to withdraw from the 2017 Wimbledon doubles game. Although Ms. Peng's doubles partner refused and Ms. Peng ultimately did not compete in the doubles match, the TIU said that Ms. Peng's action amounted to a violation of the Tennis Anti-Corruption Program Rules. Ms. Peng's coach was also suspended for three months.

Chinese Information Technology Company Barred from Taking on World Bank Projects for 15 Months

The World Bank debarred Jiangsu Zhidehuatong Information Technology Co., Ltd. (Trachtech) from participating in any World Bank-financed projects for fifteen months after an investigation revealed that Trachtech provided a false certification in order to obtain a bid in the Hubei Xiangyang Urban Transportation project. Partially funded by the World Bank, the Hubei Xiangyang Urban Transportation project was designed to improve the transportation and traffic in the Xiangyang District.

According to the World Bank, Trachtech "falsified a certificate related to technical equipment that it hoped to supply to a bidder on a traffic-monitoring and -management contract within the project." The "falsified certificate was designed to mislead procurement authorities and imply that the bidder met the project's tender requirements," according to the World Bank. Trachtech settled the claims with the World Bank in exchange for lighter disciplinary penalties.

INDONESIA

Judge Sentencing Person to Jail for Blasphemy Among Others Arrested for Involvement in Bribery

Four judges and two law clerks of the Medan District Court in North Sumatra have been arrested as the Corruption Eradication Commission (KPK) continues to crack down on corruption in the judicial branch of the government. According to the KPK, three of the judges adjudicated a criminal case over land use rights that eventually led to the imprisonment of businessman Tamin Sukardi. Inexplicably, the three judges ordered a six-

year sentence, which is four years less than the recommended sentence demanded by the Attorney General's Office. The KPK suspects that the three judges may have accepted bribes in exchange for ordering a lighter sentence for Mr. Tamin.

One of three judges, Wahyu Prasetyo Wibowo, is also known for recently sentencing Meliana, a forty-four year old mother, to one and a half year in prison for "blasphemy" after she complained about the number of calls to prayer she received from a local mosque. Mr. Wahyu's ruling stirred up public criticisms, calling Mr. Wahyu's ruling to be a product of the Indonesian Ulema Council's campaign for Ms. Meliana's imprisonment. Ms. Meliana's case triggered riots, with over twelve people sentenced to prison for partaking in the riots.

The judges' arrests mark the latest of KPK's campaign to investigate corruption in the courtrooms. Since 2010, the KPK has arrested at least 18 judges.

SOUTH KOREA

Prison Sentence of Former President Increased to 25 Years

The Seoul High Court increased former South Korean president Park Geun-hye's prison sentence to 25 years and the fine to 20 billion won (approximately US\$ 17.8 million) on appeal by the prosecutors. Ms. Park, who was convicted of corruption charges, originally received a 24-year sentence and a 18 billion won fine (approximately US\$ 16,128,453). The new sentence issued by the appellate court is short of the 30-year prison sentence and 118.5 billion won (approximately US\$104,178,986) fine the prosecutors requested. Ms. Park did not attend the court hearing as she reportedly believes it is politically motivated.

Former Fair Trade Commission Officials Arrested for Corruption

Former Fair Trade Commissioner (FTC) Jeong Jae-Chan and his deputy, Kim Hack-hyun, were arrested on corruption charges for helping former senior FTC officials secure employment at private corporations after retirement. In exchange, they allegedly agreed to forego administrative investigation on the companies.

MALAYSIA

Sabah Forestry Department Raided for Corruption

Senior officials of the Sabah Forestry Department are under investigation for issuing government contracts and licensing agreements to timber companies in exchange for bribes. In August, the Malaysian Anti-Corruption Commission ("MACC") raided and confiscated documents from offices of the Sabah Forestry Department, as well as the homes of some of the senior officers. The MACC said the forestry officials violated Section 4 of the Country's Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act. Sam Mannan, the Conservator of Forests overseeing the Sabah Forestry Department, has been removed from his post.

Former Prime Minister Pleads Not Guilty to Corruption Charges

Former Prime Minister Najib Razak, pleaded not guilty to three additional counts of money laundering. The new charges brings the total number of criminal charges pending against Mr. Najib to seven. The other charges include breach of trust and abuse of power, which Mr. Najib also denies. With the new charges, Mr. Najib faces over 120 years of imprisonment. Mr. Najib was ousted from office and put under investigation earlier this year for his

involvement in the looting of Malaysia's state funds, 1MDB.

JAPAN

Education Ministry Official Indicted for Accepting Bribes

Kazuaki Kawabata, a senior official of the Education Ministry, has been indicted for accepting bribes from Koji Taniguichi, an executive of a consulting firm, during his tenure as an executive board member at the Japan Aerospace Exploration Agency. Mr. Kawabata allegedly accepted meals, drinks and taxi rides totaling 1.5 million yen (US\$ 13,503) from Mr. Taniguichi. In return, Mr. Kawabata did favors for Mr. Taniguichi, such as arranging for a famous astronaut to speak at the Tokyo Medical University at Mr. Taniguichi's request. Mr. Taniguichi was also indicted.

PHILLIPINES

Military Officers Fired Over Allegations of Purchasing Supplies at Inflated Prices

President Rodrigo Duterte fired twenty military officials, including colonels and a general, for corruption relating to the purchase of military medical supplies. An investigation revealed that the military officials purchased military supplies at inflated prices and took a share of the profits from the price margins.

HONG KONG

Hong Kong Anti-Corruption Agency Arrests Japanese Casino Tycoon for Corruption

The Independent Commission Against Corruption (ICAC) arrested Kazuo Okada and his associate for embezzling HK\$ 135 million

(approximately US\$ 19,285,714). The ICAC's current investigation was prompted by a criminal complaint filed by Tiger Resort Asia Ltd., an operator and shareholder of Mr. Okada's casino resort, Okada Manila. The complaint alleges that Mr. Okada defrauded and embezzled corporate funds from Okada Manila by first making loans to his associate Li Jian without the required board approval. Then, upon receiving repayments from Mr. Li, Mr. Okada gave some of it back to Mr. Li as compensation for his help in the fraudulent scheme and kept the rest for personal use.

Previously, Mr. Okada served as a board member of the Universal Entertainment Corporation, but was ousted from the company following allegations that he stole over US\$ 20 million from the company.

AFRICA

COMOROS

Ex-President Charged with Corruption in Passport Sales Scheme

Former President Ahmed Abdallah Mohamed Sambi was charged with corruption and embezzling public funds in an investigation into a scheme to sell Comoros passports for cash. The Comoros Islands is a small nation of about 800,000 people off the south-east coast of Africa. In 2008, the country began a program to sell passports to the governments of United Arab Emirates and Kuwait in an effort to raise cash. An investigation by the Comoros parliament found that thousands of passports were sold outside the official program and that least \$100 million in revenue was missing. Court documents showed that the former president and others will also face forgery and falsification of records charges. A June *Reuters* investigation into the matter found that some passports ended up in the

hands of Iranians who had been targeted by international sanctions.

GHANA

Seven Ghanaian Soccer Referees Banned, Fourteen Others Suspended in Corruption Scandal

Seven Ghanaian soccer referees and one other Ghanaian official were banned for 10 years to life by the Confederation of African Football (CAF) after allegations of widespread corruption. An additional fourteen referees from various other countries were suspended. The CAF said the decisions stemmed from a media investigation that revealed widespread abuses, including one official that was filmed taking a \$600 payment. The CAF declined to provide details, announcing only the sanctions. The latest actions followed a May documentary by a Ghanaian investigative journalist who found that corruption in African soccer was rampant even after the FIFA corruption scandal. Ghanaian soccer has been thrust into a crisis, with the government disbanding the football association.

KENYA

400 Procurement, Accounting Heads Cleared in Government Anti-Corruption Push

Government officials in Kenya said in mid-August that they had reviewed and cleared 400 procurement and accounting heads in the ongoing review process ordered by President Uhuru Kenyatta in an anti-corruption push. In June, President Kenyatta ordered all procurement and accounting officers of state agencies and departments to be vetted, including information on their assets and liabilities. A government spokesman said that the second cohort of public officers to be vetted has been identified. President Kenyatta

has engaged in a major anti-corruption drive, which has led to a number of arrests and investigations in the country.

Two Top Officials Arrested over \$3-Billion Railway Corruption Allegations

Authorities in Kenya arrested two government officials on corruption charges related to land allocation for a \$3 billion railway project in mid-August. The Chairman of the National Land Commission, Mohammed Abdalla Swazuri, and the Managing Director of the Kenya Railways Corporation, Atanas Kariuki Maina, were arrested. The corruption investigation has focused on allegations that officials pocketed taxpayer money by making fake compensation claims for land used for the railway. The massive railway project was financed by China and is one of the country's largest infrastructure projects. Some in the country have criticized the project for increasing Kenya's debt burden.

SOUTH AFRICA

South Africa to Investigate Allegations of State Attorneys Corruption

South Africa's Special Investigating Unit will probe whether state attorneys defrauded the government of billions of dollars by deliberately losing cases, Justice Minister Michael Masutha said in mid-August. The unit will look into hundreds of cases in which state attorneys have been accused of colluding with private lawyers to settle false claims. Minister of Health Aaron Motsoaledi said that \$4 billion in alleged fraudulent claims will be investigated in the health ministry. President Cyril Ramaphosa has made fighting corruption in the country a key issue in order to restore investor confidence after ex-President Jacob Zuma was forced to resign amid staggering corruption allegations.

Top Prosecutor Abrahams Ordered to Step Down

The Director of Public Prosecutions, Shaun Abrahams, was ordered to step down by South Africa's highest court in mid-August. Mr. Abrahams was widely viewed as an obstacle to fighting corruption in the country after gaining a reputation for defending former President Zuma's interests, including declining to charge officials that were linked to alleged corrupt conduct by the Gupta family. As previously reported in the Digest, the Guptas are alleged to have used their influence with former President Zuma to shape government policy to their advantage. The Constitutional Court found that Mr. Abrahams' appointment in 2015, was invalid because it had arisen from an "abuse of power" by Mr. Zuma. The former president offered Mr. Abrahams' predecessor, Mxolisi Nxasana, a \$1 million payment to resign, which allowed Mr. Zuma to appoint his own prosecutor. Many hope Mr. Abrahams' dismissal will help restore the reputation of the justice system. President Ramaphosa has 90 days to name a replacement.

LATIN AMERICA

BRAZIL

Ex-Finance Minister Charged with Corruption

Former Finance Minister Guido Mantega was indicted in mid-August on money laundering and other corruption charges for his involvement in accepting bribes from Odebrecht in exchange for advancing legislation favorable to the company. The "Operation Car Wash" investigation has uncovered an extensive web of pay-to-play corruption between Brazilian companies and politicians, as previously reported in the Digest. Mr. Mantega served as Finance

Minister during the second term of jailed former President Luiz Inacio Lula da Silva.

Petrobras Recovers \$274 million in Embezzled Funds

The Brazilian state-owned oil company Petrobras said in August that it had recovered \$274 million in embezzled funds stemming from the "Car Wash" investigation. According to the company, the funds were returned "through cooperation and leniency agreements signed with individuals and legal entities" and is the largest restitution payment received since the investigation began in 2014.

COLOMBIA

Attorney General: Odebrecht Bribes Three Times Larger Than Previously Disclosed

Attorney General Nestor Humberto Martinez revealed in August that Odebrecht SA paid at least \$32.5 million in bribes in Colombia, which is three times the amount it confessed to in its 2016 plea agreement with Brazilian and U.S. authorities. The 2016 plea agreement listed \$11.1 million in bribes that were paid to win infrastructure projects in Colombia. The Attorney General said that Odebrecht bribed dozens of officials and executives in the country to win six government contracts from 2009 to 2014. Nearly three dozen people have been indicted and five convicted. Prosecutors also said there are three former Odebrecht executives that have been indicted with arrest orders pending for: Amilton Hideaki Sendai, Eder Paolo Ferracuti and Marcio Marangoni. All three are believed to be in Brazil.

MEXICO

Authorities Open New Corruption Investigation into Ex-Governor

Authorities in the northern Mexican state of Chihuahua opened a new corruption investigation into former Governor Cesar Duarte and dozens of ex-officials from his administration. The investigation relates to the possible diversion of nearly \$320 million in government funds in 2016. The state prosecutor's office said that 43 former public officials are implicated in "irregularities" that were found after an audit. Mr. Duarte has a number of arrest warrants out for his arrest. Earlier this year the government seized four ranches belonging to the ex-governor.

Report: Mexican Steel Giant Made Suspicious Payments to Company Linked to Odebrecht

An investigative news site is reporting that one of Mexico's largest steelmakers, Altos Hornos de Mexico, paid \$3.7 million to a shell company linked to Odebrecht to facilitate bribe payments. The steel company allegedly made three wire transfers to Grangemouth Trading Company in 2014 after AHMSA completed a controversial \$273 million sale of a fertilizer plant to Pemex. The news site was unable to find a direct link between the payments and the Pemex contract. AHMSA confirmed that the payments had been made but said that they were for consulting services related to an expansion in Monclova, Mexico. As previously reported in the Digest, the Odebrecht investigation is one of the world's largest corruption scandals, leading to prison terms for more than 130 politicians and corporate executives.

ARGENTINA

Former President Fernandez Denies Wrongdoing in Corruption Probe, Senate Approves Raids on Properties

Ex-President Cristina Fernandez de Kirchner denied allegations in August that she was responsible for a major corruption scheme involving public contracts. Argentine senators approved a judge's request to carry out raids on the former president's properties. Authorities are offering a reward of up to \$675,000 for information about the case. Fourteen people have been arrested in the investigation that includes business leaders and former officials from her administration. The allegations stem from an investigation by newspaper *La Nacion* into alleged corruption during the administrations of Ms. Fernandez and her predecessor and late husband, Nestor Kirchner. According to the newspaper, a driver of one of the accused kept a notebook with detailed information on his deliveries of millions in cash payments to former officials in exchange for awarding public contracts. Ms. Fernandez's private address and presidential residence are allegedly referenced. Ms. Fernandez is currently a senator, which grants her immunity from prosecution. Since she left office, Ms. Fernandez has also been accused of money laundering, fraud, and illegal enrichment. Federal Judge Claudio Bonadio, who summoned Ms. Fernandez to testify in August in the corruption case, asked lawmakers in December to remove Ms. Fernandez's immunity to allow an arrest on treason charges related to a 1994 bomb attack in Argentina. Ms. Fernandez has accused Judge Bonadio of being "an enemy judge" who is politically motivated. The case has prompted protests demanding the removal of Ms. Fernandez's immunity from prosecution.

The corruption investigation into hundreds of alleged bribe payments to members of former government of Cristina Fernandez de Kirchner

has hit Argentina's economy particularly hard as investors become increasingly weary of doing business in the country. This latest threat has come after the country's currency collapsed in May, forcing President Macri to ask the IMF for a \$50 billion credit line.

Power Generator Company Chairman Arrested in Corruption Probe

The corruption investigation tied to ex-President Cristina Fernandez implicated Armando Loson, the Chairman of Albanesi SA. The company was forced to scrap a planned bond sale after his arrest. Mr. Loson is a member of the family that is the controlling shareholder of the firm. Albanesi canceled the \$70 million bond sale, according to local exchange filings. Company officials declined to comment and details of Mr. Loson's involvement in the corruption scandal were not immediately clear.

Former Vice President Boudou Sentenced to Jail in Corruption Case

Former Vice President Amado Boudou was sentenced to 5 years and ten months in jail for his attempt to buy a money-printing company through an intermediary company in early August. Mr. Boudou served during former President Cristina Fernandez's administration. He was accused of lifting a bankruptcy declaration against Ciccone Calcografica, a currency company, in exchange for an equity stake while he served as economy minister, prior to becoming vice president. A Buenos Aires court found Mr. Boudou guilty of committing passive bribery and engaging in business "incompatible with public office." Mr. Boudou has been banned for life from holding public office.

EL SALVADOR

Ex-President Saca Pleads Guilty to Embezzlement

Former President Tony Saca pleaded guilty to embezzlement in early August, admitting to diverting \$301 million in public funds during his presidency from 2004-2009. Mr. Saca's guilty plea reduced his jail time from 30 years to 10 years. Mr. Saca admitted that he made monthly payments of \$10,000 to a journalist to cover his administration favorably. He also admitted to monthly payments of \$100,000 to publicity firms that kept 20 percent and returned the remaining 80 percent to Mr. Saca. The ex-president also built a luxury home and purchased dozens of properties during his tenure. Three other former presidents have been accused of being involved in similar scandals, including Mauricio Funes, Mr. Saca's successor, who was accused of embezzling nearly \$351 million in June. Mr. Funes has been living in exile in Nicaragua for the past two years, and maintains his innocence.

AUSTRALIA

Commission Report Finds Corruption among Senior Health Department Officials

A new report released in mid-August by the Corruption and Crime Commission found that numerous health executives at North Metropolitan Health Service accepted cash, gifts, and travel from contractors in exchange for government contracts. Executive directors John Fullerton and David Mulligan, as well as former facilities development manager Shaun Ensor, were named in the report. Among other findings, Mr. Fullerton billed taxpayers for \$170,000 in renovations on his house using fraudulent invoices. The Commission report details "more than a decade of corruption



conduct reaching into senior levels within WA Health.” Attorney-General John Quigley said that the state would seek to recoup the money lost due to the corrupt conduct but noted the process was “complicated.” The Commission said it fears the corruption has spread beyond the North Metropolitan Health Service.

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