THE MYSTERY\(^1\) OF DECLINATIONS UNDER THE FOREIGN CORRUPT PRACTICES ACT (FCPA):
A PROPOSAL TO INCENTIVIZE COMPLIANCE

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INTRODUCTION

The Foreign Corrupt Practices Act (“FCPA”)\(^2\) criminalized “corruptly” paying of “something of value” to a “foreign official” “to obtain or retain business” by “issuers,” “domestic concerns” and others with some connection to the United States as well as the failure of an “issuer” to keep accurate books and records.\(^3\) Under the FCPA, the Department of Justice (“DOJ”) and the Securities and Exchange Commission (“SEC”) investigate alleged wrong doing and determine whether it is appropriate to indict, go to trial, plea bargain, enter into a deferred prosecution agreement (“DPA”), non-prosecution agreement (“NPA”), or issue a declination.\(^4\) Unfortunately for businesses, however, information about declinations, which is the most favorable outcome, has not been publically disclosed by the government.\(^5\)

We argue that public policy would be well-served if the government offered timely information about the parameters of its decisions to decline further enforcement action. Obviously, details about the parties involved would be confidential unless self-disclosed, but the

\(^{1}\) The Criminalization of American Business, ECONOMIST, 21, 23, Aug. 30, 2014. (noting “So how does a legal process without an open trial operate? The kind answer is ‘mysteriously;’ a harsher one might be “coercively.” The article also reports that “In January this year two senators, Elizabeth Warren and Tom Coburn, proposed a “Truth in Settlements Act”, which would require fuller disclosure about settlement terms. In February Better Markets, an advocacy organization that claims to promote transparency and accountability in financial markets, filed a suit in a federal court in Washington, DC, asking the Justice Department to explain the reasoning behind a $13 billion settlement with JPMorgan Chase in 2013, one of many in which it is involved. Better Markets and Ms. Warren both revel in bashing banks. But many bankers say they actually support these measures, which they hope would expose double standards for crime and the intellectual sloppiness of a populist regulatory system championed by politicians like Ms. Warren.; Chief executives now say it would be simply irresponsible for them to run the risk of an indictment and trial. The result is “regulation through prosecution” argues James Copland of the Manhattan Institute, a think-tank., See James R. Copland, Regulation by Prosecution: The Problems with Treating Corporations as Criminals, 13 CIV. JUST. REP. (2010).


\(^{4}\) A declination might be defined simply as a decision by the DOJ or SEC to decline to bring an enforcement action under the FCPA. However, as will be discussed, this definition fails to fully capture what a declination is. See infra, Sec. III.A.

\(^{5}\) See infra, Sec. III.
data would surely offer guidance to businesses attempting to comply with federal law while trying to decide whether or not to self-report findings of wrongdoing. This conundrum and the calculus of that decision is the basis for this article.

As a preliminary matter, we submit that the notion of “regulation though prosecution” without review and transparency is prejudicial to business and does not achieve the objective of having clear law to deter the proscribed activity. As one counsel has noted: “Voluntary self-disclosure is a business decision. What are the costs and benefits? Right now, it’s a guessing game.” To make matters more difficult, determining the contours of the FCPA itself can be a guessing game because the statute purposefully covers a broad range of activities. As the court in United States v. Kay stated:

Given the foregoing analysis of the statute's legislative history, we cannot hold as a matter of law that Congress meant to limit the FCPA's applicability to cover only bribes that lead directly to the award or renewal of contracts. Instead, we hold that Congress intended for the FCPA to apply broadly to payments intended to assist the payor, either directly or indirectly, in obtaining or retaining business for some person, and that bribes paid to foreign tax officials to secure illegally reduced customs and tax liability constitute a type of payment that can fall within this broad coverage. In 1977, Congress was motivated to prohibit rampant foreign bribery by domestic business entities, but nevertheless understood the pragmatic need to exclude innocuous grease payments from the scope of its proposals. The FCPA's legislative history instructs that Congress was concerned about both the kind of bribery that leads to discrete contractual arrangements and the kind that more generally helps a domestic payor obtain or retain business for some person in a foreign country; and that Congress was aware that this type includes illicit payments made to officials to obtain favorable but unlawful tax treatment.

Furthermore, by narrowly defining exceptions and affirmative defenses against a backdrop of broad applicability, Congress reaffirmed its intention for the statute to apply to payments that even indirectly assist in obtaining business or maintaining existing business operations in a foreign country. Finally, Congress's intention to implement the Convention, a treaty that indisputably prohibits any bribes that give an advantage to which a business entity is not fully entitled, further supports our determination of the extent of the FCPA's scope.

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6 See The Criminalization of American Business, supra note 1, at 23 (“Perhaps the most destructive part of it all is the secrecy and opacity. The public never finds out the full facts of the case, nor discovers which specific people—with souls and bodies—were to blame. Since the cases never go to court, precedent is not established, so it is unclear what exactly is illegal. That enables future shakedowns, but hurts the rule of law and imposes enormous costs. Nor is it clear how the regulatory booty is being carved up.”); cf. Plucking the Goose, ECONOMIST, Feb. 22, 2014 (“It isn’t just taxation that has the rich-world companies hissing these days, but rhetoric and regulation as well.”).

Thus, in diametric opposition to the district court, we conclude that bribes paid to foreign officials in consideration for unlawful evasion of customs duties and sales taxes could fall within the purview of the FCPA's proscription. We hasten to add, however, that this conduct does not automatically constitute a violation of the FCPA: It still must be shown that the bribery was intended to produce an effect — here, through tax savings — that would "assist in obtaining or retaining business."8

Even businesses that are trying to comply with the law find the environment challenging.9 We note with bemusement that none other than Lanny Breuer, the former Chief of the Department Criminal Division who moved into private practice, is on the record as stating:

Yet it is not clear, given the consequences of disclosure that companies are always best served by disclosing. In the anticorruption area, for instance, it may sometimes be preferable for a company to fully investigate the issue and fix the problem that led to the violation without disclosing it to the Justice Department.10

This article will explore the history of declinations and its interrelationship with disclosure. In Part I, we try to illuminate the question of whether or not business should self-report to the government by examining the current enforcement environment under the FCPA and, briefly, the United Kingdom Bribery Act ("UKBA"). We also consider the role of whistleblower bounties, which are certainly a significant factor in pro-active compliance and self-reporting decision-making by business.

In Part II, we address the costs of corruption in the context of the business decision at hand. While it is obvious that corruption undermines the economic fabric of any society, we posit that the opaque nature of the U.S. government’s decisions with respect to declinations makes the cost of compliance to business an ancillary “cost of corruption.”

The contours of declinations, to the extent we can understand them, are examined in Part III, keeping a firm focus on the underlying calculation confronting a firm of whether or not to self-disclose internal findings of wrongdoing. Finally, in Part IV, we offer a simple proposal that we believe will promote transparency and accountability in both business and the government, furthering public policy goals without compromising enforcement. Part V reiterates clear steps to improve enforcement efficacy and transparency.

Our proposal will take the guessing out of the equation and provide businesses with

8 United States v. Kay 359 F.3d 738, 755–56 (5th Cir. 2000) (reversing the dismissal of the indictment argued by Philip Urofsky), aff'd, 513F. 3d 432 (5th Cir. 2007) (affirming the jury verdict of the conviction for violations of the FCPA and obstruction of justice).

9 At the 2015 U.C. Davis Law Review Symposium (Corruption and Compliance: Promoting Integrity in a Global Economy). Walmart Global Chief Compliance Officer Jay Jorgensen discussed Walmart’s compliance efforts, which included $100 million spent reorganizing the corporate structure, training, and incorporating new technology. Thomas Lee, Top Walmart Official Says Retailer Strives to Prevent Corruption, S.F. GATE, Jan. 26, 2015. For a video of Jorgensen’s remarks, see http://mediasite.ucdavis.edu/Mediasite/Play/0c3852786c264ebea30e8c1bd4851c3d1d.

needed information to truly encourage disclosure. The recently approved Attorney General, Loretta Lynch, has concurred that it is possible for the DOJ to do more in this area. In response to a question during the course of her nomination, she stated:

As you know, the United States Attorney’s Manual provides a mechanism to allow for notification to an individual (or entity), where appropriate, that an investigation as to that individual (or entity) is being closed. If I am confirmed as Attorney General, I look forward to continuing the Department’s practice of providing meaningful guidance in the FCPA context (such as procedures to respond to opinion requests) and of actively pursuing and implementing means by which declinations and other information about the decision to prosecute, or not, can be responsibly and appropriately shared.11

This candid comment by the new Attorney General offers some hope for a change in business as usual. Figure 1 illustrates how a change in this policy, releasing declination information on a regular basis and increasing transparency, could have an impact on compliance and reducing bribery and corruption.12

The significance of such a potential global lessening of both grand and petty corruption is non-trivial. Economic progress in developing countries is less likely to be undermined by corruption, fewer poorly made products will be sourced because of bribes, and terrorism will be less able to be financed by these sources of underground payments.13 The payoff from such a measure is too beneficial to simply dismiss. Furthermore, businesses would be able to conduct business efficiently, control costs and, because of more certainty, would not have to result to investigations unfettered in scope that “boil the ocean” and thus would positively affect the balance sheet.14

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13 Richard N. Dean, Baker and McKenzie, and speaker at PLI conference on “The Foreign Corrupt Practices Act and International Anti-Corruption Developments 2015,” May 4-5, 2015 New York, New York, ended his presentation on linking the connection between bribery and corruption and terrorism making reference to the role of bribery in facilitating the terrorist attack on the school in Beslan, Chechnya, Notes on file with the authors; see also Martin Longman, Terrorism, Crime, and Corruption, WASH. MONTHLY, Jan. 14, 2015; Louise Shelley, Dirty Entanglement: Corruption, Crime and Terrorism, 39, 42 (2014). For a discussion of the cost of corruption generally, see infra, Sec. II.
14 See Assistant Attorney General Leslie R. Caldwell Speaks at American Conference Institute’s 31st International Conference on the Foreign Corrupt Practices Act, DOJ, Nov. 19, 2014, http://www.justice.gov/opa/speech/assistant-attorney-general-leslie-r-caldwell-speaks-american-conference-institute-s-31st (hereinafter “Caldwell Remarks”) (“So, in addition to promptly disclosing the conduct to us, I also encourage you to conduct a thorough internal investigation and to share with us the facts you uncover in that investigation. We do not expect you to boil the ocean in conducting your investigation but in order to receive full credit for cooperation; we do expect you to conduct a thorough, appropriately tailored investigation of the misconduct.”).
I. The Enforcement Environment

Although Congress may have expected the world to quickly follow its lead in combating corruption, two decades elapsed before the OECD adopted its Convention on Combating Bribery of Foreign Public Officials and more than another decade passed before the United Kingdom adopted its Bribery Act. Most recently, Brazil, China and India have adopted similar

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16 Bribery Act, 2010, c. 23 (Eng.).


legislation aimed at deterring improper business behavior, each with its own particular thrust.

A. Foreign Corrupt Practices Act and Enforcement

As is well understood, the FCPA requires publicly traded companies to maintain a complete and transparent set of books and records that reflect proper accounting of all payments made in business transactions. None of these payments may legally reflect an effort to incentivize a “foreign official” to enhance the bottom line. In other words, since 1977, U.S. companies and individuals may not give anything “of value…to obtain or retain business.” In 1998, this prohibition was extended to include “foreign firms and persons that take any act in furtherance of such a corrupt payment while in the United States.” In order to accomplish this legal requirement, the company must implement appropriate business practices, understood to be “a system of internal accounting controls…” Thus, the FCPA is a two-pronged approach to criminalizing bribery in that it imposes fines and possible imprisonment for either bribing or for violating the accounting requirements, or both.

By amendment in 1988, the FCPA recognizes an exception for what are known as facilitation payments to expedite or otherwise promote the processing of properly obtained business transactions. Also known as “grease” payments, this exception has proved to be a thorny defense; any such payment must not only meet specific statutory requirements, but also be properly recorded as such. Over the past ten years, and especially since the enactment of the UKBA, many businesses have officially abandoned the use of facilitation payments in favor of a “zero tolerance” view of offering incentives of any kind to foreign officials.

Enforcement of the FCPA rests with both the Securities and Exchange Commission (SEC) and the DOJ and each can take action “separately or jointly…against individuals and companies…” Note that under the statute, companies and individuals are subject to very serious sanctions.

20 This term is further defined as “any officer or employee or a foreign government or any department, agency, or instrumentality thereof.” In U.S. v. Esquenazi, 752 F.3d 912 (11th Cir. 2014), cert denied ___ U.S. ___ (Oct. 6, 2014), the meaning of “instrumentality” was explored and given a broad reach sufficient to include a foreign state-owned business as though it were an agency of the government, as well as its employees.
26 See DOJ & SEC, A Resource Guide to the U.S. Foreign Corrupt Practices Act, 1, 27, n. 176 (2012) (hereinafter “Resource Guide”) (“These payments, however, must be accurately reflected in the company’s books and records so that the company and its management are aware of the payments and can assure that the payments were properly made under the circumstances.”).
Companies that violate the FCPA are subject to fines of up to $2 million; and individuals making corrupt payments may be fined up to $100,000 and imprisoned up to five years. Under the Alternative Fines Act, the fines may actually be much higher – up to twice the benefit that the defendant(s) sought to obtain by making the corrupt payment(s). Fines imposed on individuals may not be paid by their employers or principals. In addition, the FCPA can lead to criminal sanctions for individual officers, directors, employees and agents.29

Indeed, the numbers regularly add up to many multiples of $2 million because the Alternative Fines Act is most often used to determine the fine and the DOJ also relies on “the advisory U.S. Sentencing Guidelines … to calculate an advisory penalty range.”30 The Sentencing Guidelines provide a scheme for calculating points based on elements of the FCPA offense and the benefit received while giving credit for efforts to implement and enforce an effective compliance program with the requisite elements.31

Former Assistant U.S. Attorney Michael Volkov offers a useful illustration of the DOJ calculations in a hypothetical FCPA case and demonstrates how a $10 million dollar benefit could result in proposed fines that fall within a range of $58 million and $116 trillion, which then provides the basis for settlement negotiations.32

According to the SEC’s own website, “In 2010, the SEC’s Enforcement Division created a specialized unit to further its enforcement of the FCPA…”33 As of May 20, 2015, four companies appear on the agency’s list of 2015 enforcement actions as having paid a total of $43.9 million to settle charges.34 Research reveals that corporations paid about $1.25 billion to the DOJ to settle FCPA actions in 2014 alone,35 while the SEC added about $327 million to its ledgers that year.36 This number is the largest since 2010 and, interestingly, represents the resolution of only ten cases.37

The “Broken Windows” Approach to FCPA Enforcement

In late 2013, SEC Chair Mary Jo White suggested that the SEC was adopting a policy of

29 Pitt, supra note ___ at 5.
32 Id.
34 Id.
36 Id. at 5.
“pursuing all types of violations of our securities laws, big and small”\(^{38}\) and compared it to the “broken windows” approach to reducing crime adopted by New York City in the 1990s.\(^{39}\) Of note is the fact that, in 2014, the SEC investigated two companies for improper payments that were much less than has been usually the case in FCPA cases.\(^{40}\)

In keeping with that approach, recent enforcement actions have gone beyond corporate fines to reach the individuals involved.\(^{41}\) In remarks on November 17, 2014, Assistant Attorney General Leslie R. Caldwell stated:

> As our enforcement actions demonstrate, we are focusing our attention on bribes of consequence, ones that fundamentally undermine confidence in the markets and governments. And our record of success in these prosecutions has allowed us to show — rather than just tell — corporate executives that if they participate in a scheme to improperly influence a foreign official, they will personally risk the very real possibility of going to prison.\(^{42}\)

Note that there is a perception that the DOJ is focused on enforcing the FCPA “as a broader foreign policy tool, rather than merely as a device meant to punish and deter corporations that engage in anti-competitive overseas conduct.”\(^{43}\) Commentary on this so-called “Caldwell Doctrine” suggests the possibility that the focus of enforcement might include not only the size of the bribes, but also “the degree to which the bribes might have negatively impacted the overall ‘fairness’ of the foreign country’s political and economic systems vis-à-vis the foreign country’s own citizenry.”\(^{44}\)

Compliance Programs as a Factor in FCPA Enforcement

Compliance programs were conceived and introduced as an element of the Federal Sentencing Guidelines in 1990 as Congress intended to fashion a “carrot and stick” approach to corporate self-regulation. It set forth seven elements of an “effective ethics and compliance program” that, if implemented, could significantly affect the financial risk of a business subject


\(^{39}\) Id. (citing George L. Kelling & James Q. Wilson, Broken Windows, The Atlantic (1982), available at http://www.theatlantic.com/magazine/archive/1982/03/broken-windows/304465 (“They [New York City Mayor Rudy Giuliani and Police Commissioner Bill Bratton] essentially declared that no infraction was too small to be uncovered and punished. . . . The theory is that when a window is broken and someone fixes it – it is a sign that disorder will not be tolerated. But, when a broken window is not fixed, it ‘is a signal that no one cares, and so breaking more windows costs nothing.’”).

\(^{40}\) Dies, supra note ____.

\(^{41}\) Enforcement against individuals has significantly increased since 2008. As of January 2014, the DOJ had charged almost ninety individuals in the six year period of 2008-2014, while “between 1978 and 1999, the DOJ charged 38 individuals with FCPA criminal violations.” A Focus on DOJ FCPA Individual Prosecutions, FCPA PROFESSOR, Jan. 20, 2014, http://www.fcpaprofessor.com/a-focus-on-doj-fcpa-individual-prosecutions-2.

\(^{42}\) Caldwell Remarks, supra note ____.


\(^{44}\) Id. See also, http://www.fcpablog.com/blog/2014/10/29/in-defense-of-the-caldwell-doctrine.html
to government regulatory oversight.\textsuperscript{45} Briefly, depending upon the government’s assessment of its effectiveness, a compliance program could theoretically allow a judge to reduce a fine by 80\%.\textsuperscript{46} By the same token, failure to adopt an effective program could enable a judge to multiply a fine up to a factor of four.\textsuperscript{47} This scheme received a significant judicial stamp of approval in \textit{Caremark}, in which the court gave the corporate Board of Directors substantial credit for their efforts to implement a compliance program in a shareholder action for lack of meaningful oversight.\textsuperscript{48}

Today, compliance programs must be robust and meaningful; the enforcement authorities make no secret of their weight as decisions regarding next steps are made. Andrew Ceresny,

\begin{itemize}
\item[(1)] exercise due diligence to prevent and detect criminal conduct; and
\item[(2)] otherwise promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.…
\item[(3)] The organization shall use reasonable efforts not to include within the substantial authority personnel of the organization any individual whom the organization knew, or should have known through the exercise of due diligence, has engaged in illegal activities or other conduct inconsistent with an effective compliance and ethics program.
\item[(4)] (A) The organization shall take reasonable steps to communicate periodically and in a practical manner its standards and procedures, and other aspects of the compliance and ethics program, to the individuals referred to in subparagraph (B) by conducting effective training programs and otherwise disseminating information appropriate to such individuals' respective roles and responsibilities.
\item[(B)] The individuals referred to in subparagraph (A) are the members of the governing authority, high-level personnel, substantial authority personnel, the organization's employees, and, as appropriate, the organization's agents.
\item[(5)] The organization shall take reasonable steps—
\item[(A)] to ensure that the organization's compliance and ethics program is followed, including monitoring and auditing to detect criminal conduct;
\item[(B)] to evaluate periodically the effectiveness of the organization's compliance and ethics program; and
\item[(C)] to have and publicize a system, which may include mechanisms that allow for anonymity or confidentiality, whereby the organization's employees and agents may report or seek guidance regarding potential or actual criminal conduct without fear of retaliation.
\item[(6)] The organization's compliance and ethics program shall be promoted and enforced consistently throughout the organization through
\item[(A)] appropriate incentives to perform in accordance with the compliance and ethics program; and
\item[(B)] appropriate disciplinary measures for engaging in criminal conduct and for failing to take reasonable steps to prevent or detect criminal conduct.
\item[(7)] After criminal conduct has been detected, the organization shall take reasonable steps to respond appropriately to the criminal conduct and to prevent further similar criminal conduct, including making any necessary modifications to the organization's compliance and ethics program.
\end{itemize}

\textsuperscript{45} U.S. Sentencing Guidelines Manual § 8B2.1. These are:

\textsuperscript{46} Id., Section 8C2.6

\textsuperscript{47} In re Caremark Int’l Deriv. Lit., 698 A.2d 959 (Del. Ch. 1996). By today’s standards, those efforts were truly substandard.
Director of the SEC Division of Enforcement, has explicitly stated:

Nothing situates a company better to avoid FCPA issues than a robust FCPA compliance program.

The best companies have adopted strong programs that include compliance personnel, extensive policies and procedures, training, vendor reviews, due diligence on third-party agents, expense controls, escalation of red flags, and internal audits to review compliance. … Companies should perform risk assessments that take into account a host of factors listed in the [Resource] guide and then place controls in these risk areas. Companies should have disciplinary measures in place to deter violations and compliance programs should be periodically tested and reviewed to ensure they are keeping pace with the business. Such programs, properly implemented, will also help companies avoid other problems at foreign subsidiaries, like self-dealing, embezzlement and financial fraud.

As part of our settlements, we have on occasion required the retention of a monitor to assist in administering such compliance programs. For those companies that have developed robust programs during the investigation, we have required self-reporting and certifications. But the overwhelming message that one has to take away from our actions is how important such programs are for ensuring compliance.

Of course, it is critical for such programs to be real programs. . . . The best companies would put the compliance program ahead of business interests and allow decisions to be made to ensure compliance with the law, no matter the business consequences. It is that sort of attitude that is the measure of whether such programs will be successful.49

In this same vein, the Resource Guide to the FCPA (“Guide”),50 published in 2012 by the DOJ and the SEC, lists a number of factors that influence when parties are charged.51 The Guide also has a section on declinations that lists six anonymized cases when the agencies declined to prosecute.52 The commentary notes that strong remedial actions—including firing responsible employees, withdrawing a bid, reorganizing the compliance program, instituting in-person training, and conducting timely and thorough investigations, uncovering only small payments and demonstrating full cooperation—all contribute to the decision.53

Self-reporting and Cooperation in FCPA Enforcement

50 See generally Resource Guide, supra note ____.
51 See infra, Sec. III.B.
52 Resource Guide, supra note ____ at 77–79. For more on these examples, see infra, Sec. III.C.3; Sue Reisinger, DOJ’s New Duck, CORP. COUNS., Sept. 1, 2014, http://www.corpcounsel.com/id=120266441918/DOJs-New-Duck.
Both the DOJ and the SEC have publicly highlighted the importance of self-reporting and cooperation as elements of FCPA enforcement. In a keynote address in November of 2014, Assistant Attorney General Caldwell reiterated the global costs of corruption while emphasizing the increasing cooperation and communication between the anti-corruption enforcement authorities around the world. She not only emphasized the DOJ’s record of developing robust cases, pointing to the role of “whistleblowers and international cooperation” in so doing, but also highlighted the importance of self-disclosure, noting that prosecutors “should consider ‘the corporation’s timely and voluntary disclosure of wrongdoing and its willingness to cooperate in the investigation of its agents’ in deciding how to proceed in a corporate investigation.”

According to Caldwell, critical elements of effective self-disclosure include timeliness and a thorough internal investigation that includes relevant information being communicated to the DOJ, including, most especially, data relevant to the particular individuals involved. “She emphasized that cooperation has real benefits in terms of charging decisions, methods of disposition (often in the form of deferred prosecution agreements, non-prosecution agreements and declinations rather than guilty pleas) and penalties.”

PetroTiger stands as the example of the benefits to a company of choosing the avenue of prompt and robust self-disclosure. The official news release did not describe the company’s cooperation, but Ms. Caldwell did: “Petro-Tiger is a fine example of the kind of cooperation we expect. The company self-reported and fully disclosed the relevant facts to us, even though those facts implicated two CEOs and a top in-house counsel. Petro-Tiger itself has not been charged.”

Note that although former Co-CEO Knut Hammerskjold and former general counsel

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54 “The World Bank estimates that more than $1 trillion is paid every year in bribes, which amounts to about 3 percent of the world economy.” Caldwell Remarks, supra note __. See also infra, Sec. II.

55 “[W]e increasingly find ourselves shoulder-to-shoulder with law enforcement and regulatory authorities in other countries. … And make no mistake, this international approach has dramatically advanced our efforts to uncover, punish and deter foreign corruption.” Caldwell Remarks, supra note __.


58 See supra, note ___ [16] (“We do not expect you to boil the ocean in conducting your investigation but in order to receive full credit for cooperation, we do expect you to conduct a thorough, appropriately tailored investigation of the misconduct.”)


61 Caldwell Remarks, supra, note __.
Gregory Weisman pled guilty to violating the FCPA, former Co-CEO Joseph Sigelman chose to go to trial on, among other allegations, charges of bribing a Columbian official to obtain a $39 million oil contract. His case has made headlines with respect to another element of self-reporting and cooperation: the willingness of certain individuals to assist the government. Here, Sigelman’s former general counsel, George Weisman, turned informant and secretly video recorded certain conversations that have been ruled to be about business strategy and therefore not protected by any attorney-client privilege.

Similarly, the SEC has made much of the value of self-reporting the accounting requirements of the FCPA. For example, in announcing its very first NPA in 2013, the Commission stated:

The SEC has determined not to charge Ralph Lauren Corporation with violations of the …FCPA due to the company’s prompt reporting of the violations on its own initiative, the completeness of the information it provided, and its extensive, thorough and real-time cooperation with the SEC’s investigation. [This] cooperation saved the agency substantial time and resources ordinarily consumed in investigations of comparable conduct.

In 2015 remarks, Director of the SEC Division of Enforcement Andrew Ceresney pointed out that while “there has been lot of discussion recently about the advisability of self-reporting FCPA misconduct to the SEC… I think any company that does the calculus will realize that self-reporting is always in the company’s best interest.” A few weeks earlier and in the same vein, Ceresney offered specific examples:

Two recent FCPA matters illustrate the considerable benefits that can flow from

63 See Cassin, supra note ____.

Self-reporting from individuals and entities has long been an important part of our enforcement program. Self-reporting and cooperation allows us to detect and investigate misconduct more quickly than we otherwise could, as companies are often in a position to short circuit our investigations by quickly providing important factual information about misconduct resulting from their own internal investigations.

In addition to the benefits we get from cooperation, however, parties are positioned to also help themselves by aggressively policing their own conduct and reporting misconduct to us. We recognize that it is important to provide benefits for cooperation to incentivize companies to cooperate. And we have been focused on making sure that people understand there will be such benefits. We continue to find ways to enhance our cooperation program to encourage issuers, regulated entities, and individuals to promptly report suspected misconduct. The Division has a wide spectrum of tools to facilitate and reward meaningful cooperation, from reduced charges and penalties, to non-prosecution or deferred prosecution agreements in instances of outstanding cooperation.
coming forward and cooperating. Last month, we charged Layne Christensen with FCPA violations involving improper payments to foreign officials in several African countries in order to obtain beneficial treatment and reduce its tax liability. In settling the matter for $5 million, we credited the company for self-reporting the misconduct and cooperating with our investigation. Among other things, the company provided real-time reports of its investigative findings, produced English language translations of documents, made foreign witnesses available, and shared summaries of witness interviews and forensic reports. The company also undertook an extensive remediation effort. Because of the company’s extensive remediation, cooperation and self-reporting steps, we agreed to accept a significantly lower penalty from the company than we otherwise might have sought in the matter. The penalty imposed was around 10 percent of the disgorgement amount, whereas penalties have typically been closer to 100 percent of the disgorgement amount.

Similarly, our joint SEC-DOJ FCPA settlement with Bio-Rad Laboratories earlier this month for $55 million reflected a substantial reduction in penalties due to the company’s considerable cooperation in our investigation. In addition to self-reporting potential violations, the company provided translations of numerous key documents, produced witnesses from foreign jurisdictions, and undertook extensive remedial actions. There, the DOJ imposed a criminal fine of only $14 million, which was equivalent to about 40 percent of the disgorgement amount. Again, a large reduction from the typical ratio.

The bottom line is that the benefits from cooperation are significant and tangible. When I was a defense lawyer, I would explain to clients that by the time you become aware of the misconduct, there are only two things that you can do to improve your plight — remediate the misconduct and cooperate in the investigation. That obviously remains my view today. And I will add this — if we find the violations on our own, and the company chose not to self-report, the consequences will surely be worse and the opportunity to earn significant credit for cooperation may well be lost.

This risk of suffering adverse consequences from a failure to self-report is particularly acute in light of the continued success and expansion of our whistleblower program. As you know, the Dodd-Frank Act authorized the SEC to create a whistleblower program to provide monetary awards to certain individuals who provide information about securities laws violations that leads to successful enforcement actions.

The program creates a powerful inducement for those aware of wrongdoing to break their silence and it has been very successful, even transformative, in its impact. Whistleblowers have alerted us to conduct that we would otherwise have been unaware of, allowed us to expedite our investigations, and provided us with a detailed roadmap for misconduct. The kind of evidence they provide us often cannot be obtained from other sources.66

Critics of the calculus of self-reporting have been and remain wary. Lanny Breuer,

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changed his position on the advisability of self-reporting when he left the Department of Justice. Similarly other attorneys echoed the dilemma for companies:

Because of the degree of prosecutorial discretion recent in the U.S. enforcement system, however, ranging from whether to prosecute at all, what charges to bring, and what penalty-mitigation credit to give in a negotiated resolution, it remains difficult to isolate the benefits of voluntary disclosure. This creates a lack of certainty and predictability that has made disclosure (in the sense of self-reporting to the U.S. enforcement authorities) decisions often very difficult for companies. While the costs of self-reporting are fairly predictable and substantial, the benefits are not.

B. United Kingdom Bribery Act (UKBA)

The business community—and their advisers—reacted with concern as the UKBA set a higher bar than the FCPA regarding bribery in commercial transactions. First, this new anti-corruption legislation, enacted in 2010 and effective in 2011, defined bribery to include any transfer of value made by or to any individual in the chain of business, public official or private individual. Further, the UKBA extends its reach to include those involved in doing business in the U.K., whether or not the offending transaction occurred within the country’s borders. Finally, no exception for facilitation payments exists, requiring those businesses affected by the UKBA to review existing policies intended to comply with the more lenient standard of the FCPA on this point. Enforcement of the UKBA rests with the Serious Fraud Office (“SFO”), which has stand-alone authority to both investigate and prosecute that is fairly unusual in the British criminal scheme.

On the other hand, of particular relevance here, a business’ strong compliance policy offers a safe harbor of sorts, as the UKBA approves of an “adequate procedures defense.” Current efforts to further promote robust procedures include a proposal to “make it an offence for organizations to fail to prevent ‘acts of financial crime’ by associated persons, including

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67 Breuer, supra note 10.
69 Bribery Act, 2010. c. 23 §§ 1–6 (Eng.).
70 Bribery Act, 2010. c. 23 § 12 (Eng.).
71 See Facilitation Payments, SERIOUS FRAUD OFFICE, Oct. 9, 2012, http://www.sfo.gov.uk/bribery-corruption/the-bribery-act/facilitation-payments.aspx (“A facilitation payment is a type of bribe and should be seen as such. . . . Facilitation payments were illegal before the Bribery Act came into force and they are illegal under the Bribery Act, regardless of their size or frequency.”).
73 Bribery Act, 2010, c. 23 § 7(2) (Eng.). See also Earle & Cava, supra note _____ [Penumbra] at n. 32 and corresponding text; Dieter Juedes, Taming the FCPA Overreach Through an Adequate Procedures Defense, 4 WM. & MARY BUS. L. REV. 37 (2013), http://scholarship.law.wm.edu/wmblr/vol4/iss1/3 (calling for a similar approach vis a vis the FCPA).
fraud and money laundering,”74 and to recognize the same defense. Some suggest that this new proposal, when taken together with Section 7 of the Act that established corporate responsibility to “prevent bribery by associate persons,”75 would make it easier for the SFO to pursue companies themselves,76 in addition to individuals.

In 2012, the SFO adopted revisions to its policies that made a “critical change”77 in its approach to enforcement by removing language explicitly providing that self-reported conduct “would be dealt with civilly whenever possible.”78 The revisions provide, quite simply: “Self-reporting is no guarantee that a prosecution will not follow.”79 The new view places great weight on the adequacy of the procedures in place to contain the behavior of a rogue employee.80

Obviously then, there is much interest in understanding the parameters of approved adequate procedures, the basic elements of which are generally familiar by now,81 but no specific

75 Id.
76 Id.

Whether or not the SFO will prosecute a corporate body in a given case will be governed by the Full Code Test in the Code for Crown Prosecutors, the joint prosecution Guidance on Corporate Prosecutions and, where relevant, the Joint Prosecution Guidance of the Director of the SFO and the Director of Public Prosecutions on the Bribery Act 2010.

If on the evidence there is a realistic prospect of conviction, the SFO will prosecute if it is in the public interest to do so. The fact that a corporate body has reported itself will be a relevant consideration to the extent set out in the Guidance on Corporate Prosecutions. That Guidance explains that, for a self-report to be taken into consideration as a public interest factor tending against prosecution, it must form part of a "genuinely proactive approach adopted by the corporate management team when the offending is brought to their notice."

80 Suarez-Martinez, supra note ____.
81 The following should be pillars of a business’ procedures:

(1) Procedures proportionate to the bribery risks faced and nature, scale and complexity of the company’s activities;
(2) Top-level management commitment to preventing bribery, which fosters a culture within the company in which bribery is never acceptable;
(3) Periodic assessment and documentation of the nature and extent of its exposure to potential risks of bribery;
(4) Proportionate and risk based approach to due diligence procedures in respect of persons who perform or will perform services for or on behalf of the company;
(5) Internal and external communication, including training, proportionate to the risks faced to ensure that bribery prevention policies and procedures are embedded throughout the organization;
(6) Monitoring and review of procedures to prevent bribery and make improvements if necessary.
insight is available from any official decision. 82 Indeed, in late 2014, headlines announced the fact that the SFO obtained its first criminal convictions. 83 Three executives of Sustainable AgroEnergy were prosecuted for fraud against investors; two of them were convicted of violating the Bribery Act and were sentenced to four and six years in jail. 84

Obviously, and unlike the situation in the U.S., enforcement of the UKBA by the SFO is viewed as thin, a perception that may be buttressed by the fact that its budget was “cut from £52million in 2008 to £32million in 2014.” 85 In response to criticism that it started only twelve investigations in 2014 despite receiving at least 2500 whistleblower reports, 86 the SFO defended itself by arguing that the agency was “set up to specialize in only the most serious and complex cases.” 87 The spokesman stated that the SFO also gives good leads to other responsible agencies. 88

It is interesting to note that the SFO’s enforcement authority has included DPAs only since February, 2014 89 leaving commentators wondering “whether ... [this] encourages more companies to self-report bribery and corruption to the SFO.” 90 Indeed, shortly thereafter, Ben Morgan, the Joint Head of Bribery and Corruption of the SFO, publicly addressed the possibility of entering into a DPA with the enforcement authority by posing two questions in the mind of anyone advising a company regarding self-disclosure:


85 Roberts, supra note [97].

86 James Salmon, Serious Fraud Office under fire for turning a deaf ear to whistleblowers as it launches just 12 investigations last year despite 2,500 reports of corruption, DAILY MAIL, April 6, 2015, http://www.thisismoney.co.uk/money/markets/article-3027807/Serious-Fraud-Office-fire-turning-deaf-ear-whistleblowers-launches-just-12-investigations-year-despite-2-500-reports-corruption.html.

87 Id.

88 Id.


90 Roberts, supra note [97].
1) Will the SFO ever find out? And
2) If they, do what would they really do about it anyway.\textsuperscript{91}

These two questions bring into focus the top-of-mind concerns of anyone advising a business facing the dilemmas presented when evidence of wrongdoing is uncovered. They have universal application in the context of the question under consideration here: Why not make it easier for a business to know how and why the enforcement authority has decided not to proceed with a case? Why not be transparent?

C. A Snapshot of Incentives to Blow the Whistle

Another strand of the enforcement thread under consideration here is the proverbial elephant in the room: the increasing number of laws that offer tantalizing incentives to report corporate wrongdoing to the government, which is now coupled with the increasing awareness of these laws.\textsuperscript{92} Indeed, although the False Claims Act\textsuperscript{93} has offered a reward for reporting fraud upon the government since the Civil War, the collapse of Enron motivated Congress to enact several federal statutes intended to restore trust in the markets by protecting employees who reported their employer’s wrongdoing.\textsuperscript{94} The first was the Sarbanes-Oxley Act of 2002,\textsuperscript{95} section 806 of which provided that “no publicly traded company, nor any officer, employee, contractor, subcontractor or agent of such company, may take retaliatory adverse employment action against a whistleblowing employee.”\textsuperscript{96} Other important whistleblower protections appear in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank).\textsuperscript{97}
including the Consumer Financial Protection Act of 2010 (CFPA),\textsuperscript{98} a response to the financial crisis of 2008.

These federal\textsuperscript{99} statutes have had their intended effect. For example, according to the SEC’s 2014 Report on the Dodd-Frank Whistleblower Program, the agency received 332 whistleblower tips in FY 2011, 3001 tips in FY 2012, 3,238 tips in FY 2013, and 3,620 tips in FY 2014.\textsuperscript{100} Further, “since the beginning of the whistleblower program, the Commission has received…tips…from individuals in 83 countries outside the United States.”\textsuperscript{101} Finally, and perhaps most significant, is the money:

Since the inception of the [SECs]…program in August 2011, [it] has authorized awards to fourteen whistleblowers, with awards being made to nine whistleblowers during Fiscal Year 2014. …

On September 22, 2014, the Commission authorized an award of more than $30 million to a whistleblower who provided original information that led to a successful SEC enforcement action. This … award is more than double the amount of the previous highest award made under the SEC’s whistleblower program.\textsuperscript{102}

With respect to FCPA enforcement, the SEC recently commented on its review of its whistleblower program four years after adopting it. In laying a foundation for the data noted above, the Director of SEC Division of Enforcement specifically noted:

Th[e] risk of suffering adverse consequences from a failure to self-report is particularly acute in light of the continued success and expansion of our whistleblower program. …

The program creates a powerful inducement for those aware of wrongdoing to break their silence and it has been \textit{very successful, even transformative, in its impact}. Whistleblowers have alerted us to conduct that we would otherwise have been unaware of, allowed us to expedite our investigations, and provided us with a detailed roadmap for misconduct. The kind of evidence they provide us often

\begin{thebibliography}{99}
\item \textsuperscript{98} Id. at §§ 1011 \textit{et seq.}, codified at 12 U.S.C. §§ 5491 \textit{et seq.} (establishing the Bureau of Consumer Financial Protection).
\item \textsuperscript{100} SEC, 2014 \textit{ANNUAL REPORT TO CONGRESS ON THE DODD-FRANK WHISTLEBLOWER PROGRAM}, 1, 20 (2014), available at \url{http://www.sec.gov/about/offices/owb/annual-report-2014.pdf}.
\item \textsuperscript{101} Id. at 23.
\item \textsuperscript{102} Id. at 10 (citing Order Determining Award Claim, SEC Rel. No. 73174, File No. 2014-10 (Sept. 22, 2014)).
\end{thebibliography}
cannot be obtained from other sources.103

Similarly, in addition to the SEC program described above, the Dodd-Frank whistleblower provisions apply to “monetary sanctions recovered by … the DOJ, self-regulatory organizations, state attorneys general, and other regulators.”104

Of special note to our discussion of declinations is the willingness of the judiciary to expand the protected class of whistleblowers, which we believe reflects an increased social norm of promoting transparency. In this respect, the 2014 Supreme Court decision in Lawson v. FMR LLC,105 requires specific discussion. In considering the possible layers of whistleblowers in a public company who might need protection from retaliation from whistleblowing, the Supreme Court held that the provision extends to “not only employees or a public company, but also employees of a private contractor or subcontractor that performs services for a public company, including individuals who have a services contract with a public company officer or employee.”106 Interestingly, Justice Sotomayor wrote a dissenting opinion expressing concerns about the new “stunning reach”107 of Section 806, perhaps a bit surprising given the general perception that misbehavior runs amok in the financial industry.108

Similarly, California’s new whistleblowing framework substantially strengthens the scope of protections offered to an employee whistleblower by specifically expanding the range of protected reporting options. While the statute had always extended anti-retaliatory protections to employees who reported reasonably-believed violations of state or federal laws, rules, or regulations to a government or law enforcement agency . . . SB 496 extends this protection to employees who report suspected illegal behavior: (1) internally to “a person with authority over the employee” or to another employee with the authority to “investigate, discover or correct” the reported violation; or (2) externally to an “public body conducting an investigation, hearing or inquiry.”

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SB 496 further provides that the protection of whistleblowers applies regardless of whether disclosing such information is part of the employee’s job duties. For example, a company’s compliance officer is protected under section 1102.5 for disclosing purported illegal activity even though his job duties may require him to report such activity externally or internally.”109


105 134 S. Ct. 1158 (2014).

106 Begley & Haverstick, supra note ____ [104].

107 See id.; Lawson, 134 S.Ct. at 1177 (Sotomayor, J., dissenting).


109 Goodwin & Reathaford, supra note ____.
It is obvious that businesses are now engaging with a new world of risk, one created not by the public officials of foreign countries, but by the public officials in Congress. Without doubt, the reach of whistleblower incentives has permeated corporate culture and has become an additional “cost” of corruption.

II. The Cost of Corruption

The cost of corruption is insidious.\textsuperscript{110} It infects societies, discourages innovation and individuals’ participation and subverts development.

Corruption is a global problem. In the three decades since Congress enacted the FCPA, the extent of corporate bribery has become clearer and its ramifications in a transnational economy starker. Corruption impedes economic growth by diverting public resources from important priorities such as health, education, and infrastructure. It undermines democratic values and public accountability and weakens the rule of law. And it threatens stability and security by facilitating criminal activity within and across borders, such as the illegal trafficking of people, weapons, and drugs. International corruption also undercuts good governance and impedes U.S. efforts to promote freedom and democracy, end poverty, and combat crime and terrorism across the globe.

Corruption is also bad for business. Corruption is anti-competitive, leading to distorted prices and disadvantaging honest businesses that do not pay bribes. It increases the cost of doing business globally and inflates the cost of government contracts in developing countries. Corruption also introduces significant uncertainty into business transactions: Contracts secured through bribery may be legally unenforceable, and paying bribes on one contract often results in corrupt officials making ever-increasing demands. Bribery has destructive effects within a business as well, undermining employee confidence in a company’s management and fostering a permissive atmosphere for other kinds of corporate misconduct, such as employee self-dealing, embezzlement, financial fraud, and anti-competitive behavior. Bribery thus raises the risks of doing business, putting a company’s bottom line and reputation in jeopardy. Companies that pay bribes to win business ultimately undermine their own long-term interests and the best interests of their investors.\textsuperscript{111}

Assistant Attorney General Caldwell has explicitly addressed the costs of corruption from a public policy point of view:

[C]orrupt countries are less safe. Corruption thwarts economic development, traps entire populations in poverty, and leaves countries without a credible justice system. Corrupt officials who put their personal enrichment before the benefit of


\textsuperscript{111} Resource Guide, supra note ___ at 2–3.
their citizenry create unstable countries. And as we have seen time and time again, unstable countries become the breeding grounds and safe havens for terrorist groups and other criminals who threaten the security of the United States.112

This was not always a common understanding. In 1978, only a year after the FCPA was enacted, Susan Rose Ackerman, a Yale economist, shifted the discussion from the moral sphere to the economic cost of corruption in her ground breaking work, Corruption: A Study in Political Economy.113 Others extended this argument, which seemed to resonate more than the earlier moral arguments against corruption and bribery. Paolo Mauro in Corruption and Growth linked the deleterious impact of corruption on growth.114 George Moody-Stuart concluded that high corruption correlated with low economic growth in the short 1992 booklet entitled Grand Corruption in Third World Development.115 In a 1997 publication following a conference on corruption, Kimberly Ann Elliot, noted “Corruption is by no means a new issue but it has only recently emerged as a global issue.”116 This philosophical shift was reinforced in the OECD Anti-Bribery Convention, which was drafted in 1997 and became effective in 1998.117 The literature on corruption is extensive and expands on these themes in numerous articles.118

Two examples capture not only the cost of corruption and bribery in human terms, but also the waste of poor decision-making in economic terms. In 1995, Transparency International reported that pervasive bribery resulted in the Ecuadorian government purchasing locomotives that were too heavy for the rails and therefore inoperable. The fiasco certainly distorted the development process.119 The scale of this diversion of funds to non-functional transportation underscores how bribery can deprive a society of a desperately needed resource. Moody-Stuart notes that certain projects are ideal for hiding bribes, most notably those that are complex.120 Indeed, the more complex, the greater the opportunity to obfuscate and enable officials to line their pockets and the less opportunity to discover wrongdoing.121 The second example was described by Dennis McInerney, then Chief of the DOJ Fraud Section, in a speech at an ABA meeting in Washington, D.C. in 2010.122 Flashing a photo of a charred baby incubator on the

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113 Susan Rose-Ackerman, Corruption: A Study in Political Economy (1978); see also Earle, supra note ___ [19].
118 Insert reference to all the presentations
120 Moody-Stuart, supra note ___, at _____.
121 Id.
122 Dennis McInerney, then Chief, Dep’t Justice Fraud Section, Luncheon Speaker at The Third Annual Institute
screen, he referred to the purchase of defective incubators by certain unnamed government entities. The picture offered a dramatic illustration of the real costs of bribery. Needed funds would be spent on defective warmers that could cause serious harm to infants. The presumption is that McInerney was talking about China.

Perhaps no story more demonstrates the cost of corruption and its impact on individuals and societies than of Tunisia’s Mohammed Bouazizi. After facing harassment for bribes and confiscation of his street vendor equipment, Mohammed simply set himself on fire in 2010 to protest the corruption that made his life unbearable and to signal that people would no longer silently endure the treatment. His act set in motion events that led to the end of the twenty-three-year-long rule of Tunisia’s President.

The connection between bribery and the creation of political instability in Tunisia is no doubt very well appreciated in China. Many commentators have observed that China has begun to take the control of corruption very seriously in the last two years. Nate Bush, of O’Melveny and Meyers in Singapore and formerly in Beijing, recently argued that these last two years represent the biggest change in China since the Cultural Revolution. Premier Xi Jinping has instituted the “Four Comprehensives” (adding one to the original three):

- Comprehensively build a moderately prosperous society
- Comprehensively deepen reform
- Comprehensively govern the country according to law
- Comprehensively apply strictness within party.

The last is a reference to the previously announced “Tigers and Flies” anti-corruption campaign aimed at both powerful and small bureaucrats.

Like Tunisia, China understands how quickly one event can catch a populations’ imagination and destabilize a sitting government. This campaign in China is part of their public pledge to crack down. China has sent messages before about a zero tolerance as when it executed Zheng Xiaoyu, head of State Food and Drug Agency, in July 2007 after his conviction just two years on the Foreign Corrupt Practices Act, AMERICAN BAR ASSOCIATION, Washington, D.C. (Oct. 22, 2010) (notes on file with authors).

Id.

Id. See also Earle and Cava, supra note [32] at 156.


Tania Branigan, Xi Jinping Vows to Fight ‘Tigers’ and “Flies” in Anticorruption Drive, THE GUARDIAN, Jan. 22, 2013, http://www.theguardian.com/world/2013/jan/22/xi-jinping-tigers-flies-corruption. Deng Xiaogang, an Associate Professor of Sociology at the University of Massachusetts, commented about how China had been concerned about the impact of corruption on the stability of communist rule. “The party realizes the impact of (abuses of power) on their legitimacy and maintaining their rule” but there is now a “sense of urgency.” Id.
months earlier for accepting bribes that led to tainted food products in the marketplace. While not suggesting that China’s use of the death penalty is wise, we note that it certainly signals a government’s desire to send a message to the population about its intolerance for corruption—at least in some instances.

There is not unanimity on the cost of corruption. Some argue that cost of stamping out international bribery as it is being pursued globally is too high. Critics focus on the dollar cost of compliance and suggest that it neither makes sense nor is proportionate to the alleged crime. A 2015 headline in The Economist captures this view: “Daft on Graft: A hard line on commercial bribery is right. But the system is becoming ridiculous.” The article continues:

As corrosive as bribery is, the response must be proportional. Investigations that drag on are a waste of management and public resources. The starting point for up to half of all is a firm’s voluntary disclosure, but if the costs continue to rise then firms may be more tempted to bury the bad news. Anti-corruption campaigners would have nothing to cheer if the cure ended up being more harmful than the disease.

Against the backdrop of the enforcement climate and an understanding of all the costs of corruption, we turn to look at the mechanism of declinations as way to ameliorate this second cost of corruption - the cost of compliance.

II. Declinations

A. The Difficulty Defining Declinations

What are declinations? While this seems to be an obvious question, there is no obvious answer. A working definition may be “decisions by the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC) to conclude formal and informal investigations into potential violations of the FCPA without bringing enforcement actions.” But while this may

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132 See generally discussion in note 131.

133 Daft on Graft, ECONOMIST, May 9, 2015.

134 Id. at 14.

135 Do long footnote with reference to a number of presenters at UC Davis especially

136 Christopher M. Matthews, What Does an FCPA Declination Letter Look Like?, WALL. ST. J., Feb. 24, 2012, http://blogs.wsj.com/corruption-currents/2012/02/24/what-does-an-fcpa-declination (noting the Chamber Of Commerce asked for information about this: “In particular, to the extent that a declination decision is based on the robustness of a company’s compliance program, information about that program would help provide a standard against which other companies may measure their own programs”).

help to frame what declinations are, declinations are truly defined by what they are not: enforcement actions. And for the purposes of avoiding enforcement actions, this definition gives little guidance. Declinations are part of prosecutorial discretion. The US Attorney Manual states:

The principles of Federal prosecution set forth herein are intended to promote the reasoned exercise of prosecutorial discretion by attorneys for the government with respect to:

1. Initiating and declining prosecution;
2. Selecting charges;
3. Entering into plea agreements;
4. Opposing offers to plead nolo contendere;
5. Entering into non-prosecution agreements in return for cooperation; and
6. Participating in sentencing.  

However, the US Attorney Manual also states:

A. Whenever the attorney for the government declines to commence or recommend Federal prosecution, he/she should ensure that his/her decision and the reasons therefore are communicated to the investigating agency involved and to any other interested agency, and are reflected in the office files.
B. Comment. USAM 9-27.270 is intended primarily to ensure an adequate record of disposition of matters that are brought to the attention of the government attorney for possible criminal prosecution, but that do not result in Federal prosecution. When prosecution is declined in serious cases on the understanding that action will be taken by other authorities, appropriate steps should be taken to ensure that the matter receives their attention and to ensure coordination or follow-up.

This underscores that the government already tracks Declinations at least theoretically.

As a practical matter, a declination is a formal notice by the DOJ or SEC that they do not plan to proceed against the company and will close the case—at least for the moment. It is different from a non-prosecution agreement and deferred prosecution agreement. The

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138 See, e.g., Nathaniel Edmonds et al., FCPA Declinations, How to Maximize Your Chance to Get a Pass When a Corruption Problem Occurs, STAY CURRENT (PAUL HASTINGS) (2011) (“A declination occurs when a viable criminal investigation or prosecution exists, but DOJ determines that no further action should be taken.”).
139 USAM § 9-27.110(A).
140 USAM § 9-27.270.
141 Id.
142 The DOJ and SEC may both resolve investigations through the use of DPAs and NPAs. Under a DPA, the “DOJ files a charging document with the court, but it simultaneously requests that the prosecution be deferred . . . for the purpose of allowing the company to demonstrate its good conduct.” Resource Guide, supra note ___ at 74. Under an NPA, the DOJ “maintains the right to file charges but refrains from doing so to allow the company to demonstrate its good conduct during the term of the NPA.” Id. at 75. A DPA by the SEC is “a written agreement between SEC and a potential cooperating individual or company in which the SEC agrees to forgo an enforcement
company does not have to admit to facts or agree to stipulations. Nor do the DOJ or SEC have to reveal what led to the decision to decline an enforcement action.

Neither the DOJ nor the SEC has presented a clear definition of what declinations are nor have they presented clear guidance on the contours of declination decisions. The term is not defined by statute, nor is it defined in the U.S. Attorneys’ Manual or the SEC Enforcement Manual. The Guide does not offer a concise definition, but rather describes a declination as a decision by either the DOJ or SEC to “decline to bring an enforcement action under the FCPA.” Though the Guide goes on to discuss some of the factors that affect declination decisions, these factors are broad and it is difficult to understand how and when those factors are present without context.

Professor Mike Koehler, writer of the influential blog FCPA Professor, has raised concerns regarding a common understanding of exactly what is a declination. Before the release of the Guide, he acknowledged that there was “a range of opinions” on what the term declination meant in the context of the FCPA. Koehler defined a declination as “an instance in which the DOJ has concluded it can prove beyond a reasonable doubt all the necessary elements of a cause of action, yet decides not to pursue the action.” “Anything less,” Koehler argues, “ought not be termed a ‘declination.’ It is really no different [than] saying a police officer ‘declined’ to issue a speeding ticket in an instance in which the driver was not speeding. This is not a declination, it is what the law commands, and such reasoning applies in the FCPA context as well.”

The Guide, though useful, failed to address the discrepancy of opinions as to how a declination is defined or what defines a declination. Koehler continues

The discussion of so-called declinations in the Guidance raises once again the pressing question of how the enforcement agencies actually define a declination. To my knowledge, DOJ has never offered a definition, but perhaps in an effort to portray a fair and balanced FCPA enforcement program, DOJ appears to be advocating an expansive definition. However, in the criminal context, the term declaration should be reserved for instances in which DOJ concludes that it can prove beyond a reasonable doubt all the necessary elements of a cause of action,

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144 Resource Guide, supra note ___ 75 (DOJ), 77 (SEC).


146 Id. A similar definition was used by the firm Wilmer Hale in a client alert issued shortly after the Resource Guide was released: “the concept of a declaration is supposed to be reserved for instances in which the offense is chargeable but the government declines in its own discretion to bring a case.” WILMER HALE, DOJ and the SEC Issue Much Anticipated FCPA Guidance, Foreign Corrupt Practices Act Alert, at 9, Nov. 19, 2012, available at http://www.wilmerhale.com/uploadedFiles/WilmerHale_Shared_Content/Files/Editorial/Publication/DOJ%20and%20the%20SEC%20Issue%20Much-Anticipated%20FCPA%20Guidance.pdf.

yet decides not to pursue the action.\textsuperscript{149}

Koehler’s definition is imperfect as well. In The FCPA Blog Marc Alain Bohn argues that Koehler’s proposed definition “represents the ideal,” but still fails to capture how the term is used by the agencies responsible for issuing the declinations.

As a practical matter[,] the definition runs into difficulties, primarily because of the dearth of information surrounding decisions by the DOJ and SEC to conclude investigations without pursuing enforcement actions.

Outside of a handful of exceptions, the agencies have not publicly acknowledged these decisions, much less explained the reasoning behind them. As a result, it is nearly impossible for those not directly involved in a matter to conclude why the agencies have decided not to pursue an enforcement action—even those directly involved may not have a full understanding. . . .

Without more transparency from the agencies on the rationale behind their enforcement decisions, I think it is appropriate to apply the short-hand label “declination” more broadly to each instance where the DOJ or SEC has notified a company that it does not intend to bring an enforcement action. Including all such agency decisions is really the only way to consistently and systematically track possible declinations writ large.\textsuperscript{150}

Business may prefer this information blackout because of concerns about privacy and bad publicity. Increasingly, a business will disclose either that an investigation has been commenced or that there has been a declination in SEC filings or, occasionally, in news reports.\textsuperscript{151} Experienced lawyers have observed and commented on the increase in declinations.\textsuperscript{152} Clearly, it could be extremely useful to companies if information on declinations could be made available in a timely manner to the public without exposing the companies or individuals unless they themselves chose to publically disclose. In fact, the Chamber of Commerce has asked for this information on behalf of business members.\textsuperscript{153}


\textsuperscript{151} See generally discussion in III C 4.

\textsuperscript{152} Tillen & Bohn, supra note ____ (“… there has been a less publicized trend that has paralleled this increase [in enforcement]: decisions by the [DOJ] and the [SEC] to conclude formal and investigations into potential violations of the FCPA without bringing enforcement actions.”). \textit{See also} Nicholas M. McLean, \textit{Cross National Patterns in FCPA Enforcement}, 121 YALE L.J. 1970, 1997, n. 82 (2012) (discussing declinations and referencing Marc L. Miller & Ronald F. Wright, \textit{The Black Box}, 94 IOWA L. REV. 125 (2008) and Michael Edmund O’Neill, \textit{When Prosecutors Don’t: Trends in Federal Prosecutorial Declinations}, 79 NOTRE DAME L. REV. 221 (2003)).

\textsuperscript{153} Letter to the Honorable Lanny A. Breuer (Assistant Att'y Gen., Criminal Division, Dep't of Justice) & Robert Khuzami (Director of Enforcement, U.S. Securities & Exchange Comm'n) from the U.S. Chamber of Commerce et al., Feb. 21, 2012 (hereinafter “Chamber of Commerce Letter”) (“We also request that the Department reconsider its practice of not providing information about its decisions to close FCPA-related investigations with no enforcement action. An understanding of the real-world circumstances that result in a declination would be tremendously useful
Despite the lack of a clear definition, companies receive declination letters from the SEC or the DOJ indicating that no action will be taken against the company. An example of such a letter is referred to in the public domain and is illuminating. Sent by the DOJ to Allianz in 2012, it states:

The Department of Justice received an allegation that your client, Allianz SE, may have violated the Foreign Corrupt Practices Act of 1977, 15 U.S.C. 78 dd-1 et seq., in connection with securing sales of its insurance products in Indonesia.

On behalf of your client, you have provided certain information to the Department and described certain inquiries that have been made to determine the veracity of the allegations. Based upon our investigation and the information that has been made available to us to date, we presently do not intend to take any enforcement action and have closed our inquiring into this matter. If however, additional information or evidence should be made available to us in the future, we may reopen our inquiry.\(^\text{154}\)

Certainly, any individual or organization under investigation would welcome the news that the investigation is being closed without any enforcement action. But unless the government offers clear guidance regarding what exactly leads to a declination, determining what steps can be taken to achieve such an outcome can be puzzling. Although the Guide does not offer a clear definition of what a declination is, it does offer guidance regarding what goes into a declination decision. First, the Guide discusses general factors that weigh into an official decision whether to bring or decline an enforcement action. Then, the Guide provides six examples of past declinations by the DOJ and SEC. These are helpful, but as discussed below in further detail, this information still does not allow FCPA experts to accurately pin down and succinctly define the term declination.

Commentators argue about whether it can be a declination if there was not a strong case in the first instance. For example,

In Cobalt, the SEC issued a Wells Notice - which is an initial indication by the SEC that the Commission intends to bring an enforcement action. Cobalt, unlike so many other D's fought back by responding to the Wells Notice and based on public statements by the company's CEO called the SEC's case B.S. I think it is reasonable to conclude that the SEC concluded - upon being determined that it was likely to lose the case against a D that was going to fight.\(^\text{155}\)

Professor Koehler further comments: “Curiously, some are suggesting that Cobalt received a “declination” from the SEC. This is like suggesting that the loser of this Sunday Super Bowl declined to win.” His analogy tries to make the point that not all outcomes are declinations

\(^\text{154}\) Matthews, \textit{supra} note \text{__}\. Although the letter did not give reasons, Matthews notes Reuters’ speculation that jurisdiction over Allianz, “Europe’s largest insurer,” would be complicated, as it is no longer listed on the U.S. stock exchange. \textit{Id}.  
\(^\text{155}\) Email on file with author.
any more than the Seahawks decided to lose the Super Bowl. Koehler is suggesting that
government did not have enough information to bring a case so how can that be a declination?
This analogy equates the government and the Seahawks and that the government realized it
couldn’t win and did not have a case which is different than the Seahawks which tried but lost.
Just as the Seahawks did not decline to win, Koehler argues this isn’t a “real” declination.
However, just because Professor Koehler does not think the government had a case, it doesn’t
change that the government thought they had a case but decided not to go forward, making it a
declination—and a “real” one, too.

It is not a declination if the SEC or DOJ has minimal information and decides not to even
do an investigation. Indeed, there must be such an investigation before there is a declination to
prosecute. If a matter is not even worthy of an investigation, it would not be worth tracking. In
that case, neither the DOJ nor SEC would either inform the company or individual.
Hypothetically, the DOJ might decide not to investigate a report alleging Walmart is bribing
ministers in country X where Walmart stores neither exist nor are contemplated. The decision to
avoid that would not be a declination.

However, a declination occurs when the agency decides not to pursue charges after an
investigation is begun and the party is notified. This was the scenario in the Cobalt case. Just
because an individual disagrees and does not think the DOJ could win the case does not negate
that it is a declination. FCPA cases are different from other types of crimes. The breadth of
activity the statute covers allows the government to take a broad view of what constitutes a
violation. At a recent conference, a DOJ attorney acknowledged the FCPA is a different kind of
statute than other criminal statutes when he stated, “You don’t get a declination in a bank
robbery case.” Accordingly, given that the government wants to encourage self-reporting in
the FCPA context, it makes sense to ask the authorities to clarify the factors leading to the
decision to decline to prosecute.

B. Factors that Affect Declination Decisions

The confusion surrounding declinations is even more peculiar given the “broken
windows” approach to FCPA enforcement discussed earlier. If the SEC has adopted a policy
of “pursuing all types of violations of our securities laws, big and small” and the DOJ is using
FCPA enforcement as a broad foreign policy tool, how do organizations structure their
behavior to avoid punishment? Because of the breadth of activity the FCPA covers, narrowly
defining a declination may be an impossible task. Further, because a declination is the best
possible outcome for a company under investigation, narrowly defining the qualifications for a
decision could reduce the government’s leverage in negotiations. The Guide leaves it to the
reader to interpret exactly what a declination is, but provides guidance to allow for a reasonable
inference.

1. Principles of Federal Prosecution

156 Remarks by Matthew S. Queler, Asst. Chief, Fraud Section, DOJ Criminal Division, Year in Review and
Enforcement Trends, Practicing Law Institute, Seminar, The Foreign Corrupt Practices Act and International Anti-
157 See supra, Section ___ [I.A.?]
158 Id.
The first set of factors guiding the determination whether to bring or decline an enforcement action is found in the U.S. Attorney’s Manual. The Principles of Federal Prosecution provides

The attorney for the government should commence or recommend Federal prosecution if he/she believes that the person's conduct constitutes a Federal offense and that the admissible evidence will probably be sufficient to obtain and sustain a conviction, unless, in his/her judgment, prosecution should be declined because:

1. No substantial Federal interest would be served by prosecution;
2. The person is subject to effective prosecution in another jurisdiction; or
3. There exists an adequate non-criminal alternative to prosecution.159

Of these, the first category is the vaguest, as it requires both prosecutors and possible defendants with the task of determining what constitutes a substantial Federal interest. The Manual gives seven relevant considerations the attorney for the government should weigh in “determining whether prosecution should be declined because no substantial Federal interest would be served by prosecution:”160

1. Federal law enforcement priorities;
2. The nature and seriousness of the offense;
3. The deterrent effect of prosecution;
4. The person's culpability in connection with the offense;
5. The person's history with respect to criminal activity;
6. The person's willingness to cooperate in the investigation or prosecution of others; and
7. The probable sentence or other consequences if the person is convicted.161

The Comment to Section 9-27.230 discusses each of these factors in more detail and even offers an eighth factor that can be taken into consideration: the person’s personal circumstances.162 Business organizations are subject to all of these considerations as well as a number of other factors that specifically relate to businesses.

2. Principles of Federal Prosecution of Business Organizations

Corporate liability can be far murkier than individual liability. An organization may be infected with a culture of corruption from the top-down or could have corrupt individual employees that surreptitiously evade internal compliance mechanisms. The artificial nature of a corporation makes the enforcement of criminal laws more complicated than in the case of individuals, but the Manual calls for similar treatment.

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159 USAM § 9-27.220.
160 USAM § 9-27.230 (A).
161 Id.
162 USAM § 9-27.230 (B).
Corporations should not be treated leniently because of their artificial nature nor should they be subject to harsher treatment. Vigorous enforcement of the criminal laws against corporate wrongdoers, where appropriate, results in great benefits for law enforcement and the public, particularly in the area of white collar crime. Indicting corporations for wrongdoing enables the government to be a force for positive change of corporate culture, and a force to prevent, discover, and punish serious crimes.  

The Manual requires prosecutors to consider the same factors listed in the *Principles of Federal Prosecution* when determining whether to bring or decline to bring an action against a business organization. However, because of the legal fiction of the corporate “person,” the Manual lists nine additional factors prosecutors should consider when “conducting an investigation, determining whether to bring charges, and negotiating plea or other agreements:”

1. the nature and seriousness of the offense, including the risk of harm to the public, and applicable policies and priorities, if any, governing the prosecution of corporations for particular categories of crime (see USAM 9-28.400);
2. the pervasiveness of wrongdoing within the corporation, including the complicity in, or the condoning of, the wrongdoing by corporate management (see USAM 9-28.500);
3. the corporation's history of similar misconduct, including prior criminal, civil, and regulatory enforcement actions against it (see USAM 9-28.600);
4. the corporation's timely and voluntary disclosure of wrongdoing and its willingness to cooperate in the investigation of its agents (see USAM 9-28.700);
5. the existence and effectiveness of the corporation's pre-existing compliance program (see USAM 9-28.800);
6. the corporation's remedial actions, including any efforts to implement an effective corporate compliance program or to improve an existing one, to replace responsible management, to discipline or terminate wrongdoers, to pay restitution, and to cooperate with the relevant government agencies (see USAM 9-28.900);
7. collateral consequences, including whether there is disproportionate harm to shareholders, pension holders, employees, and others not proven personally culpable, as well as impact on the public arising from the prosecution (see USAM 9-28.1000);
8. the adequacy of the prosecution of individuals responsible for the corporation's malfeasance; and
9. the adequacy of remedies such as civil or regulatory enforcement actions (see USAM 9-28.1100).

As indicated, each of these factors is discussed in further detail in the Manual. Not only is each one vaguely worded, but also the Manual does not adequately explain the weights to

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165 Id.
166 USAM §§ 9-28.400–1100.
be given to the factors in relation to one another. Rather, the Manual states: “The nature and seriousness of the crime, including the risk of harm to the public from the criminal misconduct, are obviously primary factors in determining whether to charge a corporation.”167 Other passages single out concerns that should carry more weight than others. 168 Cooperation, for example, is a significant mitigating factor, but “[t]he government may charge even the most cooperative corporation pursuant to these Principles if, in weighing and balancing the factors described herein, the prosecutor determines that a charge is required in the name of justice.”169 The Manual makes clear that no single factor is dispositive and leaves it up to prosecutors to weigh the nine factors: “Of course, prosecutors must exercise their thoughtful and pragmatic judgment in applying and balancing these factors, so as to achieve a fair and just outcome and promote respect for the law.”170 This leaves considerable room for interpretation. Understanding more about how these factors are applied is critical to understanding the nature of declinations.

3. SEC Enforcement Manual

The SEC acknowledges that it can be more difficult to close an investigation where there has been no enforcement action than to close an investigation when enforcement actions are taken.171 Unlike the DOJ, the SEC does not distinguish between individuals and corporations in determining “factors that should be considered in deciding whether to close an investigation.”172 These factors include:

1. the seriousness of the conduct and potential violations;
2. the resources available to SEC staff to pursue the investigation;
3. the sufficiency and strength of the evidence;
4. the extent of potential investor harm if an action is not commenced; and
5. the age of the conduct underlying the potential violations.173

Each of these factors, like the factors listed in the U.S. Attorneys’ Manual, provides significant room for interpretation. The known cases where declinations were issued provide guidance regarding these factors in the same manner case law provides guidance regarding statutory law. Much of the language used in the manuals is purposefully ambiguous; because the language is intended to give officials rather broad discretion, examples are needed to give provide clarity for businesses. The Resource Guide provides six examples, but as discussed further below, these examples do not provide the guidance necessary to accurately define a declination, let alone secure one.

167 USAM § 9-28.400(A).
168 See, e.g., USAM § 9-28.500(B) (“Of [the pervasiveness of wrongdoing] factors, the most important is the role and conduct of management.”);
169 USAM § 9-28.720 (a). “Put differently, even the most sincere and thorough effort to cooperate cannot necessarily absolve a corporation that has, for example, engaged in an egregious, orchestrated, and widespread fraud. Cooperation is a relevant potential mitigating factor, but alone it is not dispositive.” Id.
170 USAM § 9-28.300(B).
171 SEC Enforcement Manual § 2.6.1
172 Id.
173 Id.
C. Known and Unknown Declinations

1. 83 Closed Investigations (1983)

In 1983, well before the FCPA was amended in 1988, a House committee requested information about FCPA closed investigations in order to gain a better understand of the DOJ’s FCPA enforcement program. The DOJ responded with a list of eighty-three closed investigations and a paragraph describing each one. This trove of information must be understood in a context of pre-OECD Convention, pre-international concern about this issue—especially in Europe, China, South Korea and Brazil—and pre-internet, when it was less likely to find information as easily via text and email. Many of these eight-three cannot be considered declinations; rather, the DOJ simply did not have enough information to open an investigation in a relatively hostile climate and with no dedicated resources. That was a vastly different era. Currently, there are dedicated FCPA units in the SEC and DOJ and over thirty new FBI agents dedicated to FCPA enforcement added in 2015.

It is important to note, however, that some of the eighty-three cases might be prosecuted today because the international climate is no longer so hostile. For example, in case No.1, the facts state:

A major American tobacco producer entered into a contract with a South American country and a charity of that country in which the tobacco producer agreed to pay several millions of dollars in donations and was to receive in return pricing concessions from the country’s price controls on cigarettes. The wife of the country’s President was the head of the charitable organization. This matter was declined since there was no evidence of any illegal payments to government officials.

Today this kind of conduct is looked at very seriously. The ongoing so-called “princeling” investigation is currently looking at numerous banks that hire sons and daughters of government officials arguably to curry favor and receive business. Whether the DOJ declines, as they did here, or finds a prosecution appropriate remains to be seen.

Case 38, which involved a European subsidiary, evidence of a $100,000 bribe, and savvy employees who refused to come to the United States for the investigation, offers another interesting example. Currently, international cooperation and the increasing number of

177 DOJ FCPA Cases Closed (1983), supra note ____.
179 DOJ FCPA Cases Closed (1983), supra note ____.
countries with similar or even stricter laws means this outcome would no longer be likely. Others were declined because of difficulties with prosecution (72) or de minimis value (76).

2. Congress Wants Numbers (2011)

In the more recent past, The House of Representatives Judiciary Subcommittee on Crime, Terrorism and Homeland Security held hearings on issues pertaining to the FCPA. On June 22, 2011, it followed up by requesting “information on cases brought to the attention of the DOJ, but your agency decided, for one reason or another, not to investigate or pursue prosecution within the last year along with the rationale for those decisions.” The Committee also asked for the “numbers.” On August 3, 2011, Assistant Attorney General Ronald Welch responded by referencing the nine factors found in the US Attorney’s Manual, although he listed only five: “the nature and seriousness of the offense; the pervasiveness of wrongdoing within the corporation; the corporation’s history of similar conduct; the existence and effectiveness of the corporation’s pre-existing compliance program; and the adequacy of the remedies, such as civil and regulatory enforcement actions.”

The letter then itemizes eight instances in the last two years when they did not pursue charges:

- A corporation voluntarily and full disclosed potential misconduct
- Corporate principals voluntarily engaged in interviews with the Department and provided truthful and complete information about their conduct
- A parent corporation voluntarily and full self-disclosed information to the department regarding alleged conduct by subsidiaries
- A parent company conducted extensive pre-acquisition due diligence of potentially liable subsidiaries, and engaged in significant remediation efforts after acquiring the relevant subsidiaries


Today, in the Criminal Division, we are capitalizing on the cooperative relationships we have developed with foreign prosecutors, law enforcement and regulatory agencies to better access evidence and individuals located overseas. Even more significantly, we have dramatically increased our coordination with foreign partners when they are looking at similar or overlapping criminal conduct – so that when we engage in parallel investigations, they complement, rather than compete with, each other.

And in today’s Criminal Division, we are vigorously employing proactive investigative tools that may not have been used frequently enough in white collar cases in past years: tools like wiretaps, body wires, physical surveillance, and border searches, to name just a few.

DOJ FCPA Cases Closed (1983), supra note ___.

A company provided information to the department about the parent’s extensive compliance policies, procedures and internal controls which the parent had implemented at the relevant subsidiaries.

A company agreed to a civil resolution with the SEC, while also demonstrating that a declination was appropriate for additional reasons (presumably from the DOJ).

A single employee, and no other employee, was involved in the provision of improper payments.

The improper payments involved minimal funds compared to the overall business revenues.\textsuperscript{185}

The DOJ provided no further details on any of the cases. As opposed to the substantial information provided to Congress in 1983, Welch’s response to Congress was a total of two pages. Without details, it is difficult to determine how a company in a situation should adequately respond. But the DOJ specifically stated that it would not release more details about issued declinations.

In order to protect the privacy rights and other interest of the uncharged and other potentially interested parties, the Department has a long-standing policy of not providing non-public information on matters it has declined to prosecute. Consequently, the Department cannot comment more specifically about FCPA matters where prosecution was declined.\textsuperscript{186}

Needless to say, without more information on the specifics of the declinations, it is difficult to learn from them.\textsuperscript{187} General guidelines are useful, but without specifics, companies cannot effectively structure their responses. A company that can point to an example of similar conduct can take similar remedial action in hopes of receiving a similar outcome. For example, a company is more likely to self-report if it was some ability to gauge the costs and benefits of self-reporting, particularly the strong benefit of self-reporting.


In February of 2012, the US Chamber of Commerce and other groups wrote to the DOJ suggesting what might be included in the greatly anticipated Guidance.\textsuperscript{188} They appealed for a policy of transparency and disclosure when the government decides not to proceed with an enforcement actions, stating:

6. Declination Decisions: If the DOJ made known their decisions about declining

\textsuperscript{185} Id.

\textsuperscript{186} Id.

\textsuperscript{187} See DOJ Declines to Get Specific in Declination Responses, FCPA PROFESSOR, Oct. 12, 2011, http://www.fcpaprofessor.com/doj-declines-to-get-specific-in-declination-responses (“Would it not serve the public interest for such factors to be removed from the shadowy world of opaque DOJ decision making and codified in an open and transparent manner in an FCPA compliance defense?”).

\textsuperscript{188} Chamber of Commerce Letter, supra note ___ [161]. Earle & Cava, supra note ___ at nn. 178–192 and corresponding text.
to prosecute albeit without identifying company information, this could be helpful for companies in the same way that Opinion Releases are (at least theoretically) helpful except there are only 56 of these. If every declination were published, companies could follow trends.\footnote{Chamber of Commerce Letter, supra note \ref{note:161}.}

The Guide was finally issued and addressed in small part the Chamber’s request to address declinations although in a limited way. The Guide gave six anonymized examples of declinations.\footnote{Resource Guide, supra note \ref{note:161} at 77–79; see also Earle & Cava, supra note \ref{note:224} at nn. 224–25 and corresponding text.} One included a case where the public company withdrew its bid, terminated employees and “improved its (compliance) program” although some commentators argue this was not even an actual case of FCPA violation.\footnote{Resource Guide, supra note \ref{note:161} at 77–79.} In other examples, the company in question had paid very small bribes for a small profit, fired employees, reorganized compliance, self-reported, and implemented a full remediation. Demonstrating that internal controls worked, installing comprehensive training, carrying out terminations and other disciplinary action were a constant in the declination cases.\footnote{Koehler, supra note \ref{note:161} at 7.}

While the examples given help to shed some light on declinations, critics argue that the Guidance declination examples raise more questions than answers For instance, in three of the examples, it is not even clear based on the information provided that the FCPA was violated. . . . Moreover, in all the declination examples in the Guidance, the factors motivating the declination decision—such as voluntary disclosure and cooperation, effective remedial measures, small improper payments—can often be found in many instances where FCPA enforcement actions were brought.\footnote{See Resource Guide at 56 (“In appropriate circumstances, DOJ and SEC may decline to pursue charges against a company based on the company’s effective compliance program, or may otherwise seek to reward a company for its program, even when that program did not prevent the particular underlying FCPA violation that gave rise to the investigation.”) (citing the Morgan Stanley case).}

To further cloud the issue, the Guide also continues to refer to the decision not to bring an enforcement action against Morgan Stanley in 2012 as a declination.\footnote{Press Release, Former Morgan Stanley Managing Director Pleads Guilty for Role in Evading Internal Controls Required by FCPA, DOJ, Apr. 25, 2012, \url{http://www.justice.gov/opa/pr/former-morgan-stanley-managing-director-pleads-guilty-role-evading-internal-controls-required}.} In the Morgan Stanley case, a former managing director for Morgan Stanley, Garth Peterson, pled guilty for his role in a conspiracy to circumvent Morgan Stanley’s internal controls and “transfer a multi-million dollar ownership interest in a Shanghai building to himself and a Chinese public official with whom he had a personal friendship.”\footnote{Press Release, Former Morgan Stanley Managing Director Pleads Guilty for Role in Evading Internal Controls Required by FCPA, DOJ, Apr. 25, 2012, \url{http://www.justice.gov/opa/pr/former-morgan-stanley-managing-director-pleads-guilty-role-evading-internal-controls-required}.} The facts of this case are known not only because the DOJ touted Peterson’s guilty plea, but because the DOJ and SEC also touted their declinations with regards
to Morgan Stanley.196 There, a Morgan Stanley employee allowed a Chinese official to invest in Morgan Stanley and he co-invested with the official, all contrary to Morgan Stanley policy. The government highlighted Morgan Stanley’s compliance program in the settlements with the employee Peterson, who was sentenced to nine months jail time.197 However, Morgan Stanley was able to keep any “financial benefits of Peterson’s conduct, which were nontrivial.”198 Some commentators have called this declination “politically motivated.”199 Professor Koehler cites

196 Id. (“After considering all the available facts and circumstances, including that Morgan Stanley constructed and maintained a system of internal controls, which provided reasonable assurances that its employees were not bribing government officials, the Department of Justice declined to bring any enforcement action against Morgan Stanley related to Peterson’s conduct.”); Press Release, SEC Charges Former Morgan Stanley Executive with FCPA Violations and Investment Adviser Fraud, SEC, Apr. 25, 2012, http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171488702 (“Morgan Stanley, which is not charged in the matter, cooperated with the SEC’s inquiry and conducted a thorough internal investigation to determine the scope of the improper payments and other misconduct involved.”). For discussion of what Morgan Stanley had in place to show that it had done everything possible to comply with the FCPA, see generally Press Release, April 25, 2012, http://www.justice.gov/opa/pr/former-morgan-stanley-managing-director-pleads-guilty-role-evading-internal-controls-required. According to the release:

Mr. Peterson admitted today that he actively sought to evade Morgan Stanley’s internal controls in an effort to enrich himself and a Chinese government official,” said Assistant Attorney General Breuer. “As a managing director for Morgan Stanley, he had an obligation to adhere to the company’s internal controls; instead, he lied and cheated his way to personal profit. Because of his corrupt conduct, he now faces the prospect of prison time.”

…

According to court documents, Morgan Stanley maintained a system of internal controls meant to ensure accountability for its assets and to prevent employees from offering, promising or paying anything of value to foreign government officials. Morgan Stanley’s internal policies, which were updated regularly to reflect regulatory developments and specific risks, prohibited bribery and addressed corruption risks associated with the giving of gifts, business entertainment, travel, lodging, meals, charitable contributions and employment. Morgan Stanley frequently trained its employees on its internal policies, the FCPA and other anti-corruption laws. Between 2002 and 2008, Morgan Stanley trained various groups of Asia-based personnel on anti-corruption policies 54 times. During the same period, Morgan Stanley trained Peterson on the FCPA seven times and reminded him to comply with the FCPA at least 35 times. Morgan Stanley’s compliance personnel regularly monitored transactions, randomly audited particular employees, transactions and business units, and tested to identify illicit payments. Moreover, Morgan Stanley conducted extensive due diligence on all new business partners and imposed stringent controls on payments made to business partners.

See also Lucinda A. Low, Owen Bonheimer & Tom Best, Avoiding FCPA Prosecution for Employee Conduct, STEPTOE & JOHNSON, May 25, 2012 http://www.steptoe.com/publications-8218.html (“These settlements represent the first time that either the DOJ or SEC has publicly declined to bring enforcement actions against a company on the basis of an oft-suggested “rogue” employee action. They also represent the first time that either agency has specifically and publicly enumerated the FCPA compliance steps that they deemed sufficient to warrant a declination.”).


198 See Low, Bonheimer & Best, supra note __ [224], at 2.

Michael Volkov’s comment that “…my intelligence on the case indicated that … [the] DOJ apparently wanted to demonstrate for political reasons that it could recognize a company’s compliance program to decline a case against a company.”200 No doubt, the rogue employee was a factor and his willingness to plead guilty presented a neatly wrapped investigation.

The Guide even suggests that this was one of the “rare occasions in which, in conjunction with the public filing of charges against an individual, it is appropriate to disclose that a company is not also being prosecuted.”201 New Attorney General Loretta Lynch suggests that the publicity of the Morgan Stanley declination is a response to “a common complaint in the FCPA world, and that is the supposed lack of transparency regarding the government’s consideration of a company’s compliance efforts in making charging decisions.”202

But critics suggest that the decision not to bring an enforcement action against Morgan Stanley was not a decision at all, because Morgan Stanley did not break any laws.203 Neither the SEC nor the DOJ could “decline” to bring an action because Morgan Stanley had not committed any violations; in fact, Morgan Stanley had a robust compliance program that Peterson went out of his way to circumvent. The district judge overseeing Peterson’s consent decree even referred to Morgan Stanley as a victim of Peterson.204 While the DOJ and SEC promote the Morgan Stanley case as a prime example of a declination, “based on DOJ’s own allegations and public statements, the likely reason Morgan Stanley was not prosecuted for Peterson’s conduct was because there was no basis to hold Morgan Stanley liable even under lenient respondeat superior standards.”205

Whether the DOJ and SEC issued a declination in favor of Morgan Stanley or whether Morgan Stanley broke no laws may ultimately be immaterial, as the result is the same: no enforcement action. Morgan Stanley faced no charges, while the case “gave DOJ the opportunity to show reasonableness without creating a precedent that would seriously hamper the FCPA enforcement program.”206 The fact that this case—even if it can be considered a declination—has limited precedential value due to the unique facts of the case, makes it a less than ideal example for the purposes of clarifying declinations.207

(Since day one, I called Morgan-Stanley’s so-called declination politically motivated.”).

200 Id.
201 Resource Guide at 75.
202 See Adam Turteltaub, In the Spotlight: Loretta Lynch, COMPLIANCE & ETHICS PROF’L at 68 (2013). Lynch continued, “The lengthy description of Morgan Stanley’s compliance program in the Peterson charging document was a deliberate response to that criticism. The Peterson case was even cited for that purpose in the FCPA Resource Guide prepared by DOJ and the Securities and Exchange Commission (SEC) in November 2012.” Id.
204 See United States v. Peterson, 859 F. Supp. 2d 477, 479 (E.D.N.Y. 2012) (“It is likely that [Morgan Stanley] would be considered a victim and would be eligible to collect restitution if it chose to exercise its rights in a criminal case.”).
205 Koehler, supra note ___ [161] at 8.
4. Recent Declinations Discoverable Through Public Information

The DOJ’s reluctance to publicize declinations is made all the more questionable because information on declinations is often publicly available if one knows where to look. Declinations not released by the DOJ or SEC can be identified if disclosed by the companies involved, either through public filings or press releases.208 The firm Miller Chevalier tracked known declinations from 2008 through 2012, finding twenty-one SEC declinations and twenty-seven DOJ declinations. 209 The FCPA Blog also tracks declinations through disclosed investigations by the DOJ or SEC. In 2013, eleven companies received declinations from either the DOJ, the SEC, or both.210 In 2014, ten companies reported declinations.211 Most recently in 2015 a company Hyperdynamics reported a declination.212

Again, this is so unlike other crime. What bank robber or drug dealer self-reports? But the very nature of the ambiguity of the statute and unpredictability of the outcomes make businesses a prime candidate for being persuaded to self-report—if the calculus makes sense. Indeed, declinations reported by counsel have continued. Kimberly Parker, PLI Chair and partner at Wilmer Hale recently stated: “As we predicted last year, publicly announced declinations were a continued trend in 2014.”213 Nine declinations were identified, with four of those revealing that they self-disclosed: Image Sensing Systems, Layne Christensen, LyondellBasell, and SBM Offshore.214 Several of the cases the parties settled with the SEC, remediated, and secured a declination from the DOJ. Another factor as identified in the Smith and Wesson case involved “firing its international staff.” Baxter specified unidentified punishment of staff and “enhanced monitoring of third parties.” Parker also noted that one case, SBM Offshore, involving conduct in several countries, settled with the Dutch for $240 million and at the same time earned a declination from the DOJ.215

Aside from these three disclosures (1983, 2011 and 2012) mentioned earlier by the government and others that appear in the news as mentioned in this section, government attorneys make statements at different conferences that are parsed for significance and divined for meaning. At a recent ABA National Institute on International Regulation and Compliance,

208 Tillen & Bohn, supra note _____, at 1.
214 Id., n. 112.
215 KIMBERLY A. PARKER & RICHARD W. GRIME, PRACTICING LAW INSTITUTE (PLI):THE FOREIGN CORRUPT PRACTICES ACT AND INTERNATIONAL ANTI-CORRUPTION DEVELOPMENTS 2015, 90 (2015). Parker identified three big trends: International cooperation and use of aggressive law enforcement techniques wire taps wires and fire employees and the bar for cooperation is ever higher and getting higher. Id. at 92.
Kara Brockmeyer, SEC FCPA Unit Chief, stated that a “‘disproportionate number of cases we decline’ involve self-reporting.”216 These disclosures are certainly helpful for practitioners looking for guidance on declination decisions. However, because much of this information comes from the companies themselves, there is not much insight into the decision by the government to forgo action. What these examples do provide, however, is a valid counterpoint to the DOJ’s argument that disclosure would violate the privacy rights of companies that did not engage in wrongdoing. Because the information intended to be protected can often be found by other means—especially as it relates to publicly-traded companies—the government’s argument against disclosure is substantially weakened. In cases where the background facts and the investigation are already known, it would be extremely helpful to gain insight into the resolution from the perspective of the government agency responsible for weighing the mitigating factors.

What these separate disclosures about declinations and closures illustrate is that the government could track, anonymize, and disclose these occurrences. It is a myth they it would expose the companies; it can - and has - been done. As more information becomes available in general, the calls for transparency in this area will continue to grow louder. The way to silence these voices, and to silence critics, is for the DOJ and SEC to formally issue declination decisions and clearly indicate the factors that led up to those decisions.

III. Proposal

The FCPA statute provides that Guidelines to be issued by the Attorney General shall “determine to what extent compliance with this section would be enhanced and the business community would be assisted by further clarification of the preceding provisions of this section . . .” and then the Attorney General “shall issue the Guidelines and procedures.”217 The statute also provides for Opinion procedures, which creates a “rebuttable presumption” of compliance with the statute.218 Furthermore there is a commitment to “timely guidance . . . concerning . . . present enforcement policy.”219

At a minimum, the Attorney General - without any changes to the statute or to the Manual - could simply start releasing information on an annual or bi-annual basis without committing to an ongoing practice. A more permanent step might give the business community more confidence in the process, especially given that there will be a new Attorney General in 2017 after the national election, and the whole process could well change again. Modifying the Manual would enshrine the declination release and although it could still be modified would make it more difficult to ignore. It is important to note that the Manual already requires the prosecution to collect “Records of Prosecutions Declined.”220 This would require someone anonymizing and shortening the report for public disclosure on a regular basis.

Knowing the sheer number as well as the basic facts could help companies make their decision to self-report. For example, if there are only five a year, may not incent self-disclosure.

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220 USAM § 9-27.270.
But if there were more, say forty a year, companies might be more willing to think about self-disclosure. Given that the government, despite having increased resources in this area, still relies on the private sector to do a large share of investigating, maintaining a robust self-disclosure pipeline is a lynchpin of continued enforcement success in this area.

Principal Deputy Assistant Attorney General Miller “stated that companies that assist US authorities in identifying employees or external actors responsible for misconduct will be rewarded with cooperation credit, if not a declination.”²²¹ The clear message is the government wants companies and individuals to help hold individuals accountable. Often companies are best able to point at the truly guilty ones. Do doubt doing so also encourages companies to sacrifice at least one employee, trying to paint them as a “rogue” agent, thus helping the company in its own defense. He also stated “‘evidence of individual culpability [is] the first thing [they] talk about when [they] walk in the door to make [a] presentation,’ as well as ‘the last thing they talk about as they walk out.”²²²

This underscores the importance of corporate assistance in naming responsible individuals. Companies may come to believe that they had better be prepared to sacrifice one employee as guilty to make them look better. A cynic might see it as a variant of the strategy of throwing someone to the lions to keep the lions from eating you.

Many practitioners have made calls for more transparency on this matter of declinations.²²³ We are neither the first nor will we be the last. However, this is a propitious time to make a change that will increase transparency, encourage self-reporting and facilitate enforcement of the FCPA.

We conclude this article with the simple proposal that the Attorney General of the United States adopt a policy that commits the DOJ to providing: (1) a count of the number of FCPA declinations issued in the previous year; (2) an anonymized list of the basic facts of the cases; and (3) major reasons for the actions. Done either annually on an appropriate date—for example February 1st—or alternatively on a rolling basis as are the Opinion Releases, this simple improvement would involve very little direct cost but would entail some assignment of staff time for compilation, and would make a difference to companies trying to operate their compliance programs in good faith. The Declination Reports would not have to be as long as the Opinion Releases but could contain more information than was present in the Guide. As mentioned in Section III, the government already has the obligation to collect declination records.²²⁴ This proposal adds two more steps: first, collecting FCPA declinations in one place and second, releasing the anonymized information.

The government already announces DPAs, NPAs and the new remedy of “restitution and remediation.”²²⁵ Given both DOJ’s capacity to issue continuing guidance without any need for new statutory modification, which would move the DOJ from opacity to transparency, we suggest that the DOJ and the SEC commit to providing yearly or bi-yearly updates on

²²¹ WILMER HALE, supra note ___ [221], at 22.
²²³ See DOJ Declines to Get Specific in Declination Responses, supra note ___ [200].
²²⁴ USAM § 9-27.270; supra, note ___ [151].
²²⁵ See, SunTrust Mortgage Agrees to $320 Million Settlement, DOJ July 3, 2014, http://www.justice.gov/opa/pr/suntrust-mortgage-agrees-320-million-settlement (announcing Sun Trust Home Affordable Modification Program restitution and remediation agreement which was also an agreement not to prosecute (although case did not involve FCPA claim)).
declinations.

IV. Conclusion

Declinations offer businesses the incentive that, with appropriate compliance and self-reporting procedures, they have the possibility of emerging from the endless labyrinth of a FCPA investigation with the win of a declination like Morgan Stanley did in 2012. That is a huge incentive and avoids the “boiling the ocean” problem and scope creep that many companies face in conducting an investigation. There is a confluence of events in 2015, including a new attorney general and increased scrutiny on the costs of compliance and the impact on the economy, which make this proposal about declinations particularly opportune.

There has been so much progress since 1977, both in the United States and internationally, in moving the understanding and enforcement of bribery and anti-corruption laws. It makes sense to make this simple change that could assist companies who in good faith are trying to follow the law. It is a recognition that without cooperation there will not be effective enforcement of the FCPA and other nations’ laws prohibiting bribery. The goal will be to regularize FCPA compliance in the same way that taxes are routinely paid. It is a managed cost of doing business. Those that violate the law corruptly will pay the price.

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226 See supra, note ___ [16].
227 Lynch comments, see supra note 11.
228 The Anti-Bribery Business, ECONOMIST, May 9, 2015 (quoting Mike Koehler, about the $800 million spent by Walmart on its internal probe and $1 billion in accountants and lawyers’ fees). The Economist goes further and suggests a four-pronged approach: 1) rein in the excess of the compliance industry/ clearly state the scope; 2) harmonize the laws and coordination; 3) more cases should go to court; and 4) have a compliance defense. Id. at 14.