

International **Comparative** Legal Guides



Corporate Investigations **2020**

A practical cross-border insight into corporate investigations

Fourth Edition

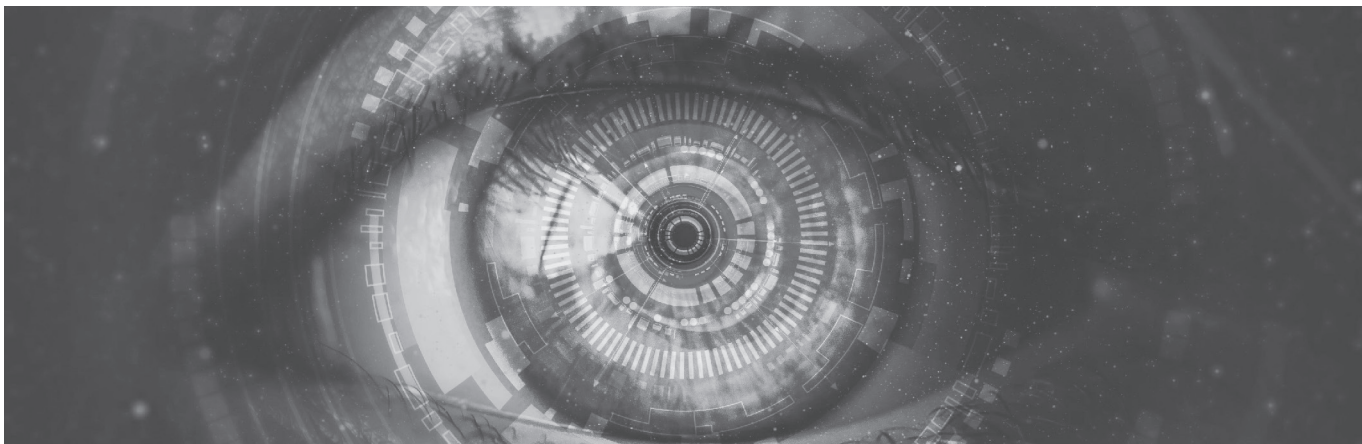
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1 The Decision to Conduct an Internal Investigation

1.1 What statutory or regulatory obligations should an entity consider when deciding whether to conduct an internal investigation in your jurisdiction? Are there any consequences for failing to comply with these statutory or regulatory regulations? Are there any regulatory or legal benefits for conducting an investigation?

There are no specific statutory or regulatory obligations to conduct an internal investigation under Japanese law even when there is suspicion of wrongdoing, except for certain consumer product matters, where reporting to relevant ministers is required in case of recall or serious accident when the relevant minister in Japan orders the entity to do so.

Accordingly, the decision to commence an internal investigation is entirely at the discretion of the company. In reality, however, many companies decide to conduct internal investigations when they discover potential breaches so that they can assess their exposure ahead of formal investigations by the regulators and ensure that directors and senior management discharge their duties to the company. Entities generally conduct a preliminary internal investigation as soon as they become aware of the possibility of past or ongoing misconduct to assess its seriousness and the impact on their business in order to decide whether to conduct a full-scale investigation as the next step. It is standard practice in Japan to involve outside counsel in both the preliminary internal investigation and the full-scale investigation.

A director's duty of care to the company could force senior management to decide to commence internal investigations. Under the Companies Act of Japan (Act No. 86 of July 26, 2005), a director owes a duty of care to the company and if a director fails to conduct an investigation despite being aware of the possibility of misconduct, such a director may be found to be in breach of his duty to mitigate losses or damage suffered by the company. Further, industry-specific statutes or regulations may indirectly compel an entity to conduct investigations. For example, when an entity learns about issues relating to the efficacy or safety of its pharmaceuticals or medical devices, it is obliged to report the issue to the authorities and, in order to observe such obligation, an investigation, even preliminary, must be conducted beforehand.

Some self-regulatory organisations such as the Japan Exchange Regulation have established their own guidelines setting forth obligations to make efforts to conduct investigations in case a listed company becomes aware of misconduct.

One example of legal benefit of conducting an internal investigation is that a company (cartelist or bid rigger) may decide to apply for leniency in cartel cases under the Antimonopoly Act (Act No. 54 of April 14, 1947) and reach out to the Japan Fair Trade Commission (JFTC). As a result of a successful leniency application, administrative fines (surcharges) can be exempted or reduced depending on the applicant's ranking. Accordingly, when an entity detects possible cartel conduct, it is critical to conduct an internal investigation without delay to gather sufficient information to assess and determine the possibility or the benefit of a leniency application. In some cases (first applicant), criminal prosecution can be avoided in this context. Another example of legal upside is the reduced penalty in misleading representation cases granted to entities which voluntarily report their misconduct under the Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962).

1.2 How should an entity assess the credibility of a whistleblower's complaint and determine whether an internal investigation is necessary? Are there any legal implications for dealing with whistleblowers?

It is common for entities to become aware of possible corporate misconduct through whistleblowing. Once an entity receives a whistleblower's complaint, it should carefully consider the information reported by the whistleblower and conduct a preliminary investigation to assess the credibility of the complaint, unless it is clearly groundless.

The Whistleblower Protection Act of 2004 (WPA) protects those who expose corporate or government misconduct from unfair treatment and retribution (for example, dismissal, demotions or salary cuts). Under the WPA, a "public interest disclosure" involves the disclosure of the Relevant Disclosure Information (as defined below) by a worker to his employer, a government agency or official having jurisdiction, or any other person, to prevent a matter from occurring or worsening. Disclosures cannot be made for illegitimate purposes. "Relevant Disclosure Information" means information regarding criminal conduct or statutory violations relating to the protection of consumer interests, the environment, fair competition and generally the life, body and property of the public.

1.3 How does outside counsel determine who “the client” is for the purposes of conducting an internal investigation and reporting findings (e.g. the Legal Department, the Chief Compliance Officer, the Board of Directors, the Audit Committee, a special committee, etc.)? What steps must outside counsel take to ensure that the reporting relationship is free of any internal conflicts? When is it appropriate to exclude an in-house attorney, senior executive, or major shareholder who might have an interest in influencing the direction of the investigation?

When conducting an internal investigation, the identity of “the client” will depend on many factors such as the nature of the suspected misconduct, the person or the department within the entity suspected of being involved in the misconduct and who or whose body/department has commenced the investigation. The board of directors or board of corporate auditors often become the client. When a member of the board of directors is the target of an investigation, the client may be the director in charge of legal and/or the compliance department.

In order to avoid internal conflicts and ensure due process and the fairness and credibility of the internal investigation, the person or department suspected of being involved in the misconduct is typically excluded from internal reporting lines when an internal investigation is conducted. To achieve complete independence from internal reporting lines, outside counsel may recommend setting up a Third-Party Committee (see question 4.1 below). This has been a trend in Japan in recent years for companies and other organisations to set up Third-Party Committees in cases of serious misconduct in order to ensure the fairness and impartiality of investigations.

2 Self-Disclosure to Enforcement Authorities

2.1 When considering whether to impose civil or criminal penalties, do law enforcement authorities in your jurisdiction consider an entity’s willingness to voluntarily disclose the results of a properly conducted internal investigation? What factors do they consider?

In general, enforcement authorities such as the JFTC (especially in the context of the new leniency rules and administrative surcharges policy to be implemented in 2020), Consumer Affairs Agency (CAA), Financial Services Agency (FSA), Securities and Exchange Surveillance Commission (SESC), Personal Information Protection Committee (PPC), and Public Prosecutors Office (PPO) take into account the willingness of the entities involved to cooperate as a mitigating factor when considering whether to impose penalties and the severity of the penalties. Therefore, the voluntary disclosure of the results of an internal investigation to the enforcement authorities is generally considered as a positive step and a mitigating factor.

Even if the results of a duly conducted internal investigation disclosed by the entity to the enforcement authority show that there is no misconduct, this would still be considered a favourable point by the enforcement authority. Even if evidence supporting the existence of misconduct is found in the course of the internal investigation, it is generally advisable to disclose such evidence to the enforcement authorities to prove one’s willingness to come clean.

Furthermore, Japan has introduced a judicial dealing system (*Shiho Toribiki Seido*) for certain crimes including white-collar crimes (similar to the US plea bargaining system) in 2018. Under this system, an enterprise or individual accused of a

violation may enter into an agreement with the prosecutor under which the accused agrees to cooperate through the provision of evidence or testimonies that can help convict a third party (enterprise or individual) and in exchange the prosecutor agrees to drop or reduce criminal charges.

2.2 When, during an internal investigation, should a disclosure be made to enforcement authorities? What are the steps that should be followed for making a disclosure?

As disclosing the results of internally conducted investigations is not a legal obligation, the timing will depend on the facts of the case.

Where the authority has already commenced an investigation and the target entity reasonably believes that there are no grounds for alleging or suspecting any misconduct or the authority is mistaken in making allegations, the entity should consider voluntarily notifying the authority and submitting supporting evidence at an early stage. It will become difficult for the authority to change the direction of the investigation once it has spent some time on it or overturn any decisions it has already made.

In certain cases, the entity should disclose the results of an internal investigation to the authority before the authority commences its investigation to enjoy the benefit of making a voluntary disclosure. For example, in misleading representation cases, in order for the entity to be eligible to a reduction in penalty, it must report to the CAA misconduct punished by the Act against Unjustifiable Premiums and Misleading Representations (Act No. 134 of 1962) before the entity becomes aware of the investigation commenced by the CAA.

In any case, it is advisable to consult with outside counsel before making any disclosure to a regulatory authority, as disclosure could lead to documents shared with them being subject to document production requests by the other party in Japanese litigation, or a loss of client-attorney privilege where it can be protected (in countries such as the US (please see questions 5.1 and 5.5 below)).

2.3 How, and in what format, should the findings of an internal investigation be reported? Must the findings of an internal investigation be reported in writing? What risks, if any, arise from providing reports in writing?

The findings do not have to be presented to the authorities in writing, however the authorities may request the entity to report the findings in writing. Further, written form may be the most suitable way depending on the nature of the findings. Sometimes the format is prescribed by the regulator (e.g., for leniency applications to be made with the JFTC).

One of the risks of providing reports in writing to the enforcement authority voluntarily is that the entity may be forced to submit it as evidence in litigation. Under Japanese law, a party in a litigation may petition to the court to issue an order against the other party or a third-party to submit documents in its possession when the other party refuses to voluntarily provide such documents as evidence or a third-party refuses to cooperate. This is a limited process subject to stringent conditions that has not much to do with discovery in the US. One of the important exceptions applies to documents prepared exclusively for the use of the person in possession thereof (an “own-use document”) (Article 220 (iv)(d) of the Code of Civil Procedure (Act No. 109 of 1996)). In July 2019, although this was still a lower court decision, the Osaka High

Court ruled that an internal investigation report in general did not qualify as an “own-use” document if such a report was shared with the enforcement authorities on a voluntary basis.

3 Cooperation with Law Enforcement Authorities

3.1 If an entity is aware that it is the subject or target of a government investigation, is it required to liaise with local authorities before starting an internal investigation? Should it liaise with local authorities even if it is not required to do so?

There is no legal obligation to liaise with the authorities before starting an internal investigation. The timing is left to the discretion of the entity.

However, in certain cases, the entity should liaise with the authorities, not necessarily before starting the internal investigation but in the course of the investigation, to move the internal investigation in the right direction. Where an entity learns of possible misconduct through the launching of a government investigation, the entity does not always have knowledge of the specific allegations or the detail of the suspected violation. Therefore, the target entity should contact and try to hold regular meetings with the authorities to find out what the allegations or suspected breaches are in order to properly conduct its internal investigation and collect appropriate evidence to support its position regardless of whether it will be denying or admitting any allegation or suspicion of wrongdoing.

It is also advisable to contact the enforcement authorities as they take into account the entity’s willingness to cooperate as a mitigating factor when deciding whether to impose penalty or if they do, at what level.

3.2 If regulatory or law enforcement authorities are investigating an entity’s conduct, does the entity have the ability to help define or limit the scope of a government investigation? If so, how is it best achieved?

While there is no formal system under which the target entity may request the authorities to limit the scope of the investigation, in practice, the target entity may do so by close cooperation with the authorities and outside counsel. For example, the JFTC may open an investigation into a case of abuse of superior bargaining position based on reports by businesses that allege they are being subject to abuse, however, the JFTC itself may not be clear which specific actions of the target entity may be deemed an abuse at an early stage of the investigation. Therefore, through proper explanations and the supply of appropriate materials to help the JFTC to accurately understand its business, the target entity may influence the JFTC’s next steps in limiting the scope of the investigation and circumscribing the allegations and their legal qualification.

3.3 Do law enforcement authorities in your jurisdiction tend to coordinate with authorities in other jurisdictions? What strategies can entities adopt if they face investigations in multiple jurisdictions?

Cases of coordination have increased over the years.

The JFTC has entered into international co-operation agreements on the enforcement of competition laws with the US, EU and Canada. The JFTC is actively cooperating with competition authorities in several jurisdictions. Memoranda on competition have been made with many countries and the

partnership agreements to which Japan is a party include competition-related provisions (Chapter 16 of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and Chapter 11 of the Agreement between The European Union and Japan for an Economic Partnership). Under Article 43-2 of the Antimonopoly Act, the JFTC can exchange information with foreign competition authorities for the enforcement of their own antitrust laws under strict conditions and provided the exchange of information does not interfere with the implementation of the Act or conflict with the interests of Japan. For criminal procedures, the Act on International Assistance in Investigations and Other Related Matters of 1980 serves as a basis for cooperation between the Minister of Justice and its foreign counterparts.

It is prudent to presume that the local enforcement authorities may at one point, during their investigation, get hold of information in the possession of foreign authorities and therefore entities that conduct business in multiple jurisdictions should pay attention to the consistency of their position generally regarding suspected breaches and of their position with the information they provide to authorities in several jurisdictions.

4 The Investigation Process

4.1 What steps should typically be included in an investigation plan?

Typical steps an entity should take once it becomes aware of actual or suspected misconduct are: (i) conduct a preliminary investigation in order to assess the risks and elaborate an overall plan to deal with the misconduct; (ii) determine whether to conduct the investigation internally or to set up a Third-Party Committee; (iii) preserve, collect and assess relevant documents, e-mails and other data (both hard and soft copies) and interview relevant persons such as employees and directors; and (iv) (if the existence of misconduct is confirmed) analyse the causes of the misconduct, consider preventive measures and implement such measures.

A Third-Party Committee is an independent and neutral body consisting of external experts with no conflict of interest with the entity generally tasked by the entity to investigate, analyse the causes of misconduct and propose preventive measures or remedies. Companies in Japan generally set up a Committee in cases where the misconduct involves directors and senior management, or where the misconduct is of such magnitude that it will have repercussions in the public. This step is needed to ensure transparency and accountability towards stakeholders and avoid reputational and credibility risks.

If the entity decides to set up a Third-Party Committee, the assessment of documents and interview of employees/directors (see (iii) above) are conducted by the Committee. For step (iv) above, the Committee will prepare a report in which it analyses the causes of misconduct and recommends preventive measures. This report may be addressed to the entity itself or the board of directors or statutory auditors, depending on which body is heading the investigation and has decided to set up the Committee.

In addition to the Third-Party Committee, in case the assessment of directors’ or statutory auditor’s civil liability is required, it is standard practice in Japan to set up a Liability Investigation Committee consisting of independent outside counsel/attorneys with no conflict of interest either with the entity, the target of the investigation, or the board of directors and/or the board of statutory auditors. The Committee will report the results of the investigation to either the board of directors (when statutory auditors’ liability is at stake) or the

board of auditors (when directors' liability is at stake) and these results are used as a basis for their decision on whether or not to commence legal actions against directors or statutory auditors.

4.2 When should companies elicit the assistance of outside counsel or outside resources such as forensic consultants? If outside counsel is used, what criteria or credentials should one seek in retaining outside counsel?

It is standard practice for companies in Japan to obtain assistance from outside counsel and set up an Internal Investigation Committee or a Third-Party Committee when conducting investigations in order to ensure adequate accountability and transparency for the benefit of stakeholders. Under very limited circumstances, where only a minor type of misconduct is suspected, investigations may be carried out internally, but such cases are rare.

Consulting a forensic expert and IT consultant is also frequent depending on the volume of digital data that needs to be reviewed for the investigation.

5 Confidentiality and Attorney-Client Privileges

5.1 Does your jurisdiction recognise the attorney-client, attorney work product, or any other legal privileges in the context of internal investigations? What best practices should be followed to preserve these privileges?

Attorney-client privilege and protection under the attorney work-product doctrine are currently not recognised in Japan. However, when an investigation is conducted globally, Japanese entities should pay attention to the handling of information which may be privileged when submitted in other jurisdictions. For example, under US laws, if an entity waives the privilege by disclosing certain attorney-client privileged communication, it may be considered that it has also waived privilege to other information which relates to the same subject matter as the communication which has been disclosed. Therefore, it is crucial that Japanese entities carefully examine which information is privileged or protected in foreign jurisdictions and take measures to protect important information under the legal privileges.

For cartel investigations, the JFTC will establish new procedures for administrative investigations in order to address concerns regarding attorney-client privilege. Attorney-client privilege will be protected in administrative investigations into unreasonable restraint of trade prohibited under Article 3 of the Antimonopoly Act (e.g. cartels), whereby confidential communications between an enterprise and its attorney that address legal issues and satisfy certain conditions may not be accessed by the investigators and must be returned to the enterprise. The JFTC will establish rules under Article 76 of the Act and Guidelines.

5.2 Do any privileges or rules of confidentiality apply to interactions between the client and third parties engaged by outside counsel during the investigation (e.g. an accounting firm engaged to perform transaction testing or a document collection vendor)?

Communication between the client and third parties other than attorneys are not privileged under Japanese law.

Although not a privilege strictly speaking, attorneys, doctors and other professionals and experts to whom confidential information has been disclosed may refuse to testify and give evidence (Code of Civil Procedure, Article 197-1(2)) or refuse to submit documents (Article 220) regarding facts that have come to their knowledge in the performance of their duties. However, Art. 197-1(2) does not apply where the witness is released from his or her professional duty of secrecy under Art. 197. The attorneys' obligation to keep secret information obtained in confidence in the course of their professional duties is also stated under Article 23 of the Lawyers' Law (Law No. 205 of 10 June 1949).

5.3 Do legal privileges apply equally whether in-house counsel or outside counsel direct the internal investigation?

No legal privilege is recognised under Japanese law.

5.4 How can entities protect privileged documents during an internal investigation conducted in your jurisdiction?

As mentioned in question 5.1 above, it is important for entities that are subject to global or multijurisdictional investigations to be aware of legal privilege rules in force in each relevant foreign jurisdiction and take measures to protect privileged information. Entities should advisably consult with counsel to first understand the scope of the legal privileges, then mark privileged documents and data accordingly and store them separately from other documents or data.

5.5 Do enforcement agencies in your jurisdictions keep the results of an internal investigation confidential if such results were voluntarily provided by the entity?

While enforcement authorities are not legally obliged to keep the results of internal investigations voluntarily submitted by the entities, they may negotiate with the authorities and request them not to disclose the results to third parties (except for the JFTC in anti-trust investigations, where JFTC officials are under a duty to keep confidential any confidential information that comes to their knowledge in the course of their duties under the Antimonopoly Act (with certain exceptions)).

Generally speaking, entities should keep in mind that the court may issue an order to submit documents to a third party (see question 2.3 above) as well as request a third party, upon petition from a party, to voluntarily provide documents in its possession for submission as evidence. Such third party may also include enforcement authorities. Once submitted as evidence in litigation, results of the internal investigation would generally become available to the public.

6 Data Collection and Data Privacy Issues

6.1 What data protection laws or regulations apply to internal investigations in your jurisdiction?

The Act on the Protection of Personal Information (the APPI) (Act No. 57 of 2003) is the principal Japanese data protection legislation in the private sector. The PPC has adopted guidelines to ensure the proper and effective implementation of the APPI by businesses. The PPC's general guidelines supplement the APPI and separate guidelines apply to specific sectors such as

the finance, medical and telecommunications sectors. These laws and regulations apply to internal investigations as well.

6.2 Is it a common practice or a legal requirement in your jurisdiction to prepare and issue a document preservation notice to individuals who may have documents related to the issues under investigation? Who should receive such a notice? What types of documents or data should be preserved? How should the investigation be described? How should compliance with the preservation notice be recorded?

It is not a legal requirement to prepare and issue a document preservation notice in Japan. However, as collection of objective evidence such as documents and data are important in effectively conducting an investigation, an entity could issue a notice to specific individuals or relevant departments or bodies within the entity to preserve documents and data relevant to the investigation.

6.3 What factors must an entity consider when documents are located in multiple jurisdictions (e.g. bank secrecy laws, data privacy, procedural requirements, etc.)?

An entity in Japan should check whether documents located in foreign jurisdictions include personal data as transfer of such documents may be subject to cross-border transfer restrictions under the data protection laws and regulations of those foreign jurisdictions.

6.4 What types of documents are generally deemed important to collect for an internal investigation by your jurisdiction's enforcement agencies?

While there are no guidelines, examples of types of documents and data deemed important for an internal investigation are documents requesting internal corporate approvals (*Ringisho*), meeting minutes, schedules, planners, memos, financial records, invoices and receipts, contracts, internal policies and procedures, internal audit reports, internal communication via e-mail or chat, etc.

6.5 What resources are typically used to collect documents during an internal investigation, and which resources are considered the most efficient?

Depending on the volume of digital data, the entities typically retain forensic experts and IT consultants to collect, extract and analyse the relevant data from the entity's server.

6.6 When reviewing documents, do judicial or enforcement authorities in your jurisdiction permit the use of predictive coding techniques? What are best practices for reviewing a voluminous document collection in internal investigations?

There are no restrictions on the use of predictive coding techniques.

Methods for effective review of voluminous data, for example e-mail correspondence, will be to delete duplicated messages, narrow-down by dates and sender/receiver of the messages and use technology assisted review such as keyword search. AI-based

narrowing-down of data is not prevalent in Japanese practice yet. It is important not to limit the scope excessively as preservation and collection of data is done at an early stage of the investigation when the scope and target of the investigation are often set tentatively.

7 Witness Interviews

7.1 What local laws or regulations apply to interviews of employees, former employees, or third parties? What authorities, if any, do entities need to consult before initiating witness interviews?

There are no laws or regulations that apply to interviews of employees, former employees, or third parties in Japan. Further, there is no legal obligation for the entity to consult with the authorities before initiating witness interviews.

7.2 Are employees required to cooperate with their employer's internal investigation? When and under what circumstances may they decline to participate in a witness interview?

In general, employees are required to cooperate with their employers' internal investigation because even if such obligations are not provided for in employment contracts or office work rules and other regulations, employers may order their employees to cooperate as part of the exercise of their authority as employers. However, employees may decline to cooperate with its employer's internal investigation when they have reasonable ground to do so.

7.3 Is an entity required to provide legal representation to witnesses prior to interviews? If so, under what circumstances must an entity provide legal representation for witnesses?

An entity is not legally required to provide legal representation to witnesses.

7.4 What are best practices for conducting witness interviews in your jurisdiction?

Interviews should be conducted subject to consent and the existence and contents of such interviews should be kept confidential. Interviewers should be well prepared and briefed and have sufficient background information on the alleged misconduct before conducting the interviews for more effective results. Further, the interviews should ideally be conducted in the presence of an outside counsel to maintain the fairness of the procedure and the credibility of the results of the interview.

7.5 What cultural factors should interviewers be aware of when conducting interviews in your jurisdiction?

Interviewers should be polite and courteous and explain the purpose of the interview to obtain full cooperation by the interviewees. It is important, when relevant, to clarify that the investigation conducted by the entity is not intended to pursue the employees' liability or penalise them, but that the purpose is to investigate the facts, analyse the causes of misconduct, and identify preventive measures.

7.6 When interviewing a whistleblower, how can an entity protect the interests of the company while upholding the rights of the whistleblower?

To avoid any witch hunt within the entity and discouraging employees from using the whistleblowing system, the entity should inform the interviewed whistleblower that his/her identity will remain confidential and that any information that may lead to the identification of the whistleblower will not be released. However, such confidential information could be disclosed in the litigation.

7.7 Can employees in your jurisdiction request to review or revise statements they have made or are the statements closed?

Employees may request to review or revise their statements. If a revision is made, it should be reflected in the investigation report.

7.8 Does your jurisdiction require that enforcement authorities or a witness' legal representative be present during witness interviews for internal investigations?

There are no such general requirements under Japanese law. However, if the interviewee requests the presence of his/her legal representative during the interview, the interviewer may have to allow them to be present in order to secure the interviewee's cooperation.

8 Investigation Report

8.1 How should the investigation report be structured and what topics should it address?

A typical report conducted by a Third-Party Committee will cover the following topics: (i) purpose and background of the establishment of the Committee; (ii) overview of the target(s) of the investigation; (iii) investigation process such as preservation and collection of documents, interviews, and digital forensic investigations; (iv) facts of the case analysed and issues determined as a result of the investigation; (v) assessment from a legal and/or a tax and accounting perspective; (vi) analysis of the causes of misconduct; and (vii) proposal identifying preventive measures, remedies and legal action/complaints.

In some cases, the Committee produces a full version and a redacted version masking personal information and other business-related confidential information in the publicly available version of the report.



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