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Rosbank Bribery Scandal Highlights Need for Ethics Enforcement

By Alexander Bratersky

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Golubkov during the ministry bust.

A bribery scandal at French lender Societe Generale's Russian entity Rosbank shows that stricter measures should be implemented by both Western and Russian companies to enforce compliance with their codes of conduct, experts said.

The Investigative Committee said Thursday that they have opened a criminal case into Rosbank chief executive Vladimir Golubkov and senior vice president Tamara Polyanitsina on bribery charges.

Golubkov worked at Rosbank, the country's ninth largest bank, since 1999 and was appointed CEO in September 2008.

Golubkov is suspected of having taken a bribe, while Polyanitsina has been named as an intermediary in the case.

"Golubkov, through his subordinate, demanded over $1 million from a commercial organization and received that amount in several installments from 2012 to 2013," Investigative Committee spokesman Vladimir Markin said.

Investigators believe that Golubkov demanded the money from a group of businessmen who received an $80 million loan from the bank and asked him to lower the interest rate and extend the repayment term.

A video of the raid on the Rosbank office on Wednesday and detention of Golubkov, who was held overnight, was made available on the Interior Ministry's website.

Golubkov, meanwhile, has denied wrongdoing, his lawyer Dmitry Kharitonov said Thursday. He added that his client would have no comment to make about the case.

Golubkov was detained while receiving 5 million rubles ($160,000) in cash as the last installment of a total payment of $1.5 million, which he had demanded, an Interior Ministry statement said.

Russian media reported that several banking officials spoke positively about Golubkov, describing him as a very honest man. Billionaire-turned-politician Mikhail Prokhorov, who said Golubkov is an "honest professional," appealed to law enforcement officials not to keep the banker in pre-trial detention, Interfax reported Thursday.

Code of Conduct

The detention of Golubkov, an executive of a Western company, draws attention to how companies implement their ethical codes of conduct, which is now required under legislation passed by the State Duma in January.

The amendments to the law "On Preventing Corruption" passed in January require companies to designate officers responsible for fighting corruption, collaborate with law enforcement officials who battle corruption, and design and implement a set of standards of ethical business practices.

Several big domestic companies, including Sberbank, Rosneft, LUKoil and others have established their own codes of conduct in recent years. In January, soon after the law took an effect, Kamaz, the country's leading truck maker, implemented similar anti-corruption measures.

Kamaz spokesman Oleg Afanasiev said at that time that the company had set up an ethics compliance office with 25 employees so it could comply with "international requirements."

Societe Genarale, the owner of Rosbank, has it's own code of conduct approved in 2005 which states, "any act of bribery is prohibited." Their code also says "any gift offered to clients must remain within stated limits."

It's not clear if Rosbank used its parent company's code of conduct or if Golubkov had signed it.

Playing by the Rules

While the majority of Western companies follow similar practices, the recent scandal did not surprise some anti-corruption experts who said foreign firms in Russia do not operate in a vacuum.

"How can a company be different from the whole state system, where corruption has become an ideology of it's own?" said Kirill Kabanov, head of the National Anti-Corruption Committee watchdog.

"A Western company should play by the [local] rules if it wants to make money in Russia," Kabanov said.

Although Russian government officials have repeatedly said that fighting corruption is a priority, the country has not signed Article 20 of the UN anti-corruption convention, which makes illicit enrichment of public officials a crime.

Russian officials have said the article contradicts the constitution, which guarantees a presumption of innocence until proven guilty. They have also said same anti-corruption principles are included in the new law regarding the personal expenditures of senior officials that was passed in 2012.

Lawyers who welcomed the new legislation that mandates corporate anti-corruption measures also noted that the law lacks any sanctions against companies who fail to comply.

United Russia party deputy Viktor Zubarev who is also a deputy president of the Delovaya Rossiya business lobbying group said that the "formulations of the law content should be more strict."

"It has to be more clear and concise," Zubarev said.

Shared Liability

Clifford Chance international law firm wrote in a brief in May dedicated to the new amendments that if company employees become subjects of criminal liability, "administrative proceedings against an organization could be based on the same facts."

"Failure to implement the ... measures required by the anti-corruption law could be interpreted as suggesting knowledge of involvement in illegal activity by a manager or an employee," Clifford Chance wrote in the note.

Under the Administrative offenses code, a company might pay a fine of from 15 to 70 times the value of a bribe if caught.

According to Egorov, Puginsky & Afanasiev Partners law firm, in this situation Rosbank could be liable to pay a fine of up to $105 million, Vedomosti reported.

A Moscow-based senior Western lawyer, who spoke on condition of anonymity because of the sensitivity of the subject, said the very fact that the legislation obliges a company to have a code of conduct is a "very aggressive approach."

He said that in the United States and Britain, companies were not obliged by law to have ethics codes.

"If Russian authorities will check companies compliance with the law, it will be the most aggressive regime in the world," the lawyer said.

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