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State Moves to End Golden Parachute Bonanza

By Yekaterina Yezhova

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Russian authorities are striving to gain control over vertiginous severance payments to top corporate executives, winning cheers from a market eager to see shareholders gain a louder voice in the monetary policies of their companies.

The Central Bank has joined a government initiative to limit the size of payments to dismissed chief executives, with its chairwoman, Elvira Nabiullina, suggesting on Feb. 13 that the amount be capped at two annual salaries.

"It has been proposed to limit a golden parachute to no more than two annual fixed salaries," she said at a government meeting.

"Now there are discussions to set a lower limit for state companies," where the government owns more than 50 percent, "but it is important to make it less than two annual salaries," she said, RIA Novosti reported.

Nabiullina acknowledged, however, that compensation packages were important and needed "to create sufficient work motivation and to attract and retain competent and qualified specialists."

Such a government discussion might provoke an uproar in the West, where companies detest state interference in their internal affairs. Currently the matter of severance pay is unregulated and decided by individual companies in Russia.

But Roman Tkachuk, a senior analyst at Nord-Capital investment bank, said regulations were needed in Russia to protect the interests of shareholders.

"A general director is usually authorized to assign bonuses to top managers, while shareholders are not always able to control the motivation program for the management team," Tkachuk said by phone.

Promsvyazbank chief analyst Yelena Fedotkova said the market would rejoice over limitations on golden parachutes because it shows the government intends to control spending at state companies, including issuers on the bond market.

"Nabiullina's remarks confirm the general trend set forward by the government," Fedotkova said.

In late January, the State Duma approved in a first reading a bill seeking to cap the severance pay of top managers at state companies at six months' salary. To become law, the bill must be approved by the Duma in two more readings, as well as by the Federation Council before being signed by the president.

The bill was initiated by President Vladimir Putin, who stressed last March that steps had to be taken to limit remunerations. The issue arose shortly after the departure of the head of the state-owned, long-distance phone operator Rostelecom, Alexander Provotorov, who received a payment of 233 million rubles ($6.5 million), including a 201 million ruble golden parachute.

Rostelecom minority shareholder Oleg Ashurkov filed a lawsuit in late 2013 against Provotorov's payment, and a St. Petersburg court has scheduled a hearing for early April.

Provotorov's compensation was worth more than six annual salaries, Tkachuk said.

Other state companies have also provided generous payments, including, Tkachuk noted, power company OGK-2, which dismissed 15 top managers in 2008 and offered more than 500 million rubles, or three annual salaries per person. "Gazprom, a shareholder of OGK-2, succeeded in persuading several managers to refuse their golden parachutes, but it failed to make the former head, Mikhail Kuzichev, fully return the money," Tkachuk said.

Finam Management analyst Maxim Klyagin said the Russian government initiative was eagerly anticipated and in compliance with global practices in the field.

"A decrease in one-time payments is primarily aimed at curbing the appetite of top-notch directors," Klyagin said.

The remuneration issue was studied amid a discussion of a corporate governance code by the Central Bank's financial markets agency and supported by Prime Minister Dmitry Medvedev. The code is of an advisory character and is aimed at improving the domestic investment climate, which is fighting against heavy turbulence and huge money outflows.

A money outflow from funds investing in Russian assets reached $116 million in the week of Feb. 13 to 19 and continued for the 10th week in a row, according to Emerging Portfolio Fund Research data.

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