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Business

Brazil Company Wants to Pay Executives to Confess to Corruption

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18 de abril de 2019 06:00 BRT Updated on 18 de abril de 2019 10:50 BRT

- ▶ Toll-road operator CCR caught up in Carwash investigation
- ▶ Company wants to pay executives to admit to wrongdoing

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31.52 USD
▼ -0.44 -1.38%

CCR SA, Brazil's largest toll-road operator, is heading to a first-of-its kind shareholders' meeting on a prickly subject: corruption.

The Sao Paulo-based company is asking its investors to

approve a deal it closed with a Brazilian court to clear it of corruption charges. As part of the agreement, CCR will pay a total of 71 million reais (\$18 million) to 15 former executives so they reveal details of wrongdoing they were involved with to prosecutors.

Paying executives to confess to involvement in corruption is a controversial move, and hasn't attracted much sympathy. Shareholder-advisory firms Glass Lewis and Institutional Shareholders Services Inc. both recommended investors vote against the compensation agreement, which was approved by the company's board last year. CCR already began doling out payments, and shareholders are scheduled to meet on April 22.

CCR Chief Executive Officer Leonardo Vianna sees the proposal as the only way to move past corruption charges that threaten to cut into the company's major source of business. He argues the executives had no incentive to confess to illegal acts and that without their testimonies,

CCR wouldn't have been able to work out a deal with prosecutors and would risk being barred from bidding in auctions for public works.

"It's a consensus that the agreement with the court is good and necessary for the company," Vianna said in an interview at the company's headquarters this week. "And there would be no agreement without their plea deals."

CCR was caught up in the Carwash corruption probe in February 2018, one of several companies that allegedly paid bribes to get contracts with the government or state-owned firms. The multiyear investigation has forced builders like Odebrecht SA and Queiroz Galvao SA to downsize dramatically after top executives were thrown in jail and public works -- as well as financing from Brazil's development bank -- dried up.

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Those builders, which aren't publicly traded, eventually stitched together leniency agreements and pledged to pay large fines in Brazil and other countries where they did business. While the deals ensured most of the executives were released from jail, some of the companies are still struggling -- Odebrecht is reportedly asking bondholders for a massive haircut to restructure its debt.

CCR lawyer Sebastiao Tojal says that unlike Odebrecht, where corruption was so ingrained there was a department responsible for managing bribes, the cases at CCR were one-offs and stopped in 2015, the early days of the Carwash probe.

"It would be impossible for the company to reach an agreement without the collaboration of these people, many of them former executives," Tojal said. "This incentive program is absolutely imperative."

Andrade Gutierrez Concessoes SA, Camargo Correa Investimentos em Infra Estrutura SA and Soares Penido Concessoes SA hold 45 percent of CCR and are on board with the plan. But the company, which manages almost 4,000 kilometers (2,500 miles) of roads in Brazil, still has the hard task of persuading holders of at least another 5 percent of its shares to move forward with the agreement.

"CCR appears to be the first case in which a company has proposed to 'pay' administrators to collaborate with the investigations" as well as their legal fees, ISS said in a report, adding that the terms proposed "do not appear to be in the best interest of the company's unaffiliated shareholders."

Lazard Ltd., which has a 6 percent stake in CCR according to data compiled by Bloomberg, declined to comment, as did BlackRock Inc., which holds 3.7 percent.

CCR rose less than 1 percent to 11.67 reais at 10:38 a.m. in Sao Paulo. The shares had climbed 3.3 percent this year through Wednesday, trailing the 6.1 percent gain of the benchmark Ibovespa gauge.

"We're concerned because the company pleaded guilty to corruption and presented a proposal that eliminates the responsibility of the ones involved," said Mauro Cunha, president of the Capital Markets Investors' Association known as Amec. "It sends a bad message."

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