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Citi in \$100 Million Pay Clash

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By MICHAEL SCIONOLFI and ANN DAVIS

A top Citigroup Inc. trader is pressing the financial giant to honor a 2009 pay package that could total \$100 million, setting the stage for a potential showdown between Citi and the government's new pay czar.

The trader, Andrew J. Hall, heads Citigroup's energy-trading unit, Phibro LLC -- a secretive operation, run from the site of a former Connecticut dairy farm, that occasionally accounts for a disproportionate chunk of Citigroup income.

Mr. Hall's pay package puts Citigroup in a tight spot. Ripping up the contract could trigger Mr. Hall's departure and a potentially messy legal fight. But making any large payouts, even if they're based on previously agreed contracts, could subject Citigroup to political and investor fallout.



PatrickMcMullan

Star trader Andrew Hall could set up a showdown with U.S. pay czar.

Earlier this year, American International Group Inc.'s bonus payments of \$165 million to some executives caused an outcry, given the insurer's U.S.-government bailout. Citigroup has received some \$45 billion in bailout money.

It will be an early test for Kenneth Feinberg, the Treasury Department's pay czar, who was appointed last month to a new position with the power to help set pay for top executives and highly paid employees at seven firms receiving the most government financial aid. Banks and others have a mid-August deadline for submitting pay requests to Mr. Feinberg.

"Companies will need to convince Mr. Feinberg that they have struck the right balance to discourage excessive risk-taking and reward performance for their top executives," a spokesman for Mr. Feinberg said.

Mr. Hall is contractually obligated to receive pay based on Phibro's profits, and some observers on Wall Street believe Citigroup has a better chance at repaying the U.S. money with its Phibro unit humming.

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Critics, however, argue that pay agreements like these need to be redrawn in light of Citigroup's taxpayer-funded bailout. Soon the U.S. government will be a 34% owner of Citigroup.

Citigroup said in a statement: "Retaining and attracting the best talent is very important to the success of Citi and all its stakeholders. Citi continues to examine ways to ensure its employee-compensation practices are competitive in this very challenging market environment."

Mr. Hall has long operated with remarkable independence. In late 2007 he shot down Citigroup executives who wanted to merge Phibro with the bank's asset-management arm, which could have clipped his ability to make big investment bets.

A far cry from the buttoned-down Wall Streeter, Mr. Hall leaves the office most afternoons to go rowing or to practice calisthenics with a ballet teacher. Outside the energy markets, Mr. Hall ranks among world's top collectors of contemporary art, favoring often-shocking works that explore subjects including the human toll of the Nazis.

Mr. Hall owns a nearly 1,000-year-old castle in Germany where he displays his art collection. For a time, the lawn of his home in Southport, Conn., featured a controversial, 80-foot-long concrete sculpture; he was eventually forced to remove it after a legal battle with the neighbors.

Last year Mr. Hall received pay of more than \$100 million, people familiar with the matter say. With this year barely half over, Mr. Hall's specific 2009 pay hasn't yet been set. Citigroup doesn't break out detailed financial reports for Phibro, but traders say the firm is having a good year.

Wall Street pay has been a hot-button issue in the wake of the financial crisis. Goldman Sachs Group Inc. and Morgan Stanley recently disclosed that they have set aside a total of more than \$17 billion in compensation and benefits for their employees this year. Some big banks that received government bailouts in the U.S. and Britain, including Citigroup, Bank of America Corp. and Royal Bank of Scotland, are offering handsome pay packages to lure stars.

Hanging in the balance in the Hall matter is an important source of profits for Citigroup, which is trying to rebound after a disastrous 2008. Phibro, with a small core group of traders, has generated hundreds of millions of dollars in profit for Citigroup over the years. This spring, after the new pay curbs were unveiled, Mr. Hall and others on his team threatened to leave if their pay was cut by the new compensation rules, people familiar with the matter said.

Citigroup is considering spinning off Phibro as a separate operation, among other options, in hopes of preserving some payoff from Phibro's profits, people familiar with the matter say.

These kinds of pay conflicts represent uncharted territory for the government and Wall Street alike. If the government pressures banks to abrogate pay contracts, traders and bankers could sue to enforce the pacts. That has its own risks: Amid recession and taxpayer-funded bank bailouts, suing over millions of dollars in pay could expose traders to widespread ridicule and political backlash.

Meanwhile, J.P. Morgan Chase & Co. told investment-banking employees Thursday that it will raise salaries and reduce bonuses for about half of them. Bonuses can entice some Wall Street traders to take big investment risks.

Mr. Hall's pay contract has multiple parts. He has long had a profit-sharing contract with Citigroup and its predecessor banks entitling him to a large percentage of Phibro's gains. The percentage he and his small team of traders get under the contract terms currently stands below 30%.

Mr. Hall's pay and independence from Citigroup's home office reflects a track record of making sizable, successful investment bets. A few years ago, for instance, Mr. Hall, 58 years old, anticipated an important shift in the way the world valued oil, and correctly bet that long-term and short-term energy prices would abandon their historical relationship with each other. In making that investment, Citigroup gave Mr. Hall more leeway to take on risk than it usually gives entire teams, according to traders.

Until this year, Phibro's calendar year ended in September. Now, Phibro's pay will be calculated to a full calendar year, so the pay period for Mr. Hall and others at Phibro ending in December will cover 15 months.

Citigroup executives have been meeting periodically with Mr. Feinberg since last month. Lewis Kaden, a Citigroup vice-chairman, has been handling most of the discussions with the pay czar, trying to capitalize on the two men's longtime friendship, according to people familiar with the matter.

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The results represented a sliver of Citigroup's \$52.8 billion in net revenue last year. But considering that Citigroup reported a 2008 net loss of \$27.7 billion, Phibro's contribution was especially important. In 2007, Phibro contributed \$686 million to Citigroup, and \$487 million in 2006, according to the annual report.

In recent months, Citigroup has told about five former top executives that it won't pay them tens of millions of dollars in promised severance payouts, according to people familiar with the matter. Citigroup already has paid more than half the roughly \$100 million it promised to the former executives. But company officials decided not to proceed with the remaining payments to avoid the possibility of a public backlash, people familiar with the situation said.

Phibro has one of the most colorful histories on Wall Street. It was founded by the Philipp Brothers nearly a century ago and in 1981 bought Salomon Inc., becoming Phibro-Salomon. (At the time, Phibro had to pay millions of dollars in bonuses to retain Salomon Brothers employees.)

—Deborah Solomon, David Enrich and Dan Fitzpatrick contributed to this article.

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