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What's News

Business & Finance

Toshiba expressed doubt for the first time that it can continue as a going concern in light of huge losses at its U.S. nuclear subsidiary, which filed for bankruptcy last month. **A1**

◆ China's regulators issued a fresh warning to banks not to engage in speculation that creates unhealthy asset bubbles. **B6**

◆ Foreign companies with business operations in China would be required to apply for permission to transfer data out of the country under draft rules. **B1**

◆ China's Best Logistics Technologies is planning to raise around \$1 billion in an IPO in the U.S. this year. **B1**

◆ Altice USA filed paperwork to go public, in an offering that would raise more than \$1 billion. **B2**

◆ The Fed's Yellen indicated that the era of extremely stimulative monetary policy is coming to an end. **A6**

◆ Pon Holdings proposed to buy Accell for about \$898.2 million, forming one of the world's biggest bicycle makers. **B3**

◆ An El Niño weather phenomenon will likely occur again this year as the Pacific Ocean warms, Australia's weather bureau said. **B10**

◆ After a big bounce into the new year, natural rubber futures in Tokyo hit a four-month low. **B10**

◆ Growth in China's car sales slowed to 1.7% during March **B3**

World-Wide

◆ Trump said he would take unilateral action to blunt the threat of North Korea if China doesn't take steps to do so. **A3**

◆ South Korean officials sought to tamp down concerns over the possibility of a pre-emptive U.S. military strike on North Korea. **A3**

◆ Secretary of State Tillerson arrived in Moscow seeking to convince Russia to back away from its support of Syria's Assad. **A1**

◆ At least eight people were killed on a tourist island in the Philippines during a gunbattle between suspected militants and government forces. **A3**

◆ Jean-Luc Mélenchon has surged into contention in France's presidential election, making the contest a four-way race. **A4**

◆ Parents were the most frequent victims of killings within families in Japan, according to a study. **A3**

◆ A blasphemy case brought against Jakarta's Christian governor for allegedly insulting Islam was put on hold. **A5**

◆ Grief for victims of an attack in Egypt boiled over into anger over the government's inability to protect its Christian minority. **A4**

◆ The Russian programmer arrested in Spain on accusations of cyberfraud is one of the world's most sophisticated hackers. **A4**

CONTENTS Markets Digest... B8
Business News.... B3 Opinion..... A10-11
Crossword..... A12 Property Report... B9
Head on Street. B10 Technology..... B4
Life & Arts.... A912 U.S. News..... A6-7
Management.... B5 Weather..... A12
Markets..... B11 World News..... A2-5

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Tillerson Presses Russia on Assad

Secretary of state is seeking to convince Moscow to back away from Syria's president

By FELICIA SCHWARTZ

MOSCOW—Secretary of State Rex Tillerson arrived in Moscow to face what might be his toughest test yet as chief diplomat as he seeks to convince Russia to back away from its support of Syrian President Bashar al-Assad.

The visit, Mr. Tillerson's first as secretary of state,

comes as hopes for a broader U.S.-Russian rapprochement have dimmed and as ties between the two former Cold War foes have further soured over President Donald Trump's decision last week to strike a Syrian air base in response to Mr. Assad's suspected deadly chemical-weapons attack on April 4.

He arrived Tuesday following a two-day stop in Italy for a meeting among top officials of the Group of Seven member countries—the U.K., France, Germany, Italy, Canada and Japan, as well as the U.S. Before leaving Italy, he

issued a new U.S. demand for the eventual removal of Mr. Assad, who is blamed by the U.S. and West for the long-running war in Syria.

"It is clear to all of us that the reign of the Assad family is coming to an end," Mr. Tillerson told reporters following a two-day meeting of foreign ministers.

U.S. officials said the strike and renewed pressure from the international community could help Mr. Tillerson make his case to Russia.

Ahead of Mr. Tillerson's arrival, the Russian Foreign Ministry in a statement

blamed the U.S. for pursuing a policy of "American exceptionalism," that tried to punish Russia economically and limit its influence in international affairs.

"Russia, of course, is not going to surrender its legitimate interests and accepts cooperation only on an equal basis, which is not to everyone's liking in Washington," the statement read. "We, however, have always been and remain open to the most frank dialogue with the U.S. on any issues on the bilateral and international agenda and for joint work in areas where

the goals coincide."

Although the State Department began planning Mr. Tillerson's trip before the deadly chemical-weapons attack last week in Syria, that event and the U.S. response have fueled tensions between Moscow and Washington and have raised the stakes of the secretary's visit.

"The most important factor for Putin is not loyalty to Assad, but stability of the Syrian regime, which enables Russia to hold a significant geopolitical position in the Middle East. He could con-

Please see RUSSIA page A4

U.S. Issues New Warning to a Defiant Pyongyang



KRT/ASSOCIATED PRESS (2) IN COMMAND: North Korean leader Kim Jong Un, top, raises his party membership card as he presides over parliament, above. U.S. President Donald Trump said he would take unilateral action to blunt the North Korean threat if China didn't take steps to do so. **A3**

United Tries To Control Damage

By SUSAN CAREY
AND DOUG CAMERON

Oscar Munoz, the chief of United Continental Holdings Inc., spent the past year back on the job after a heart transplant cajoling the carrier's 85,000 employees to work together.

This week, that focus on his workforce may have cost him the trust of the airline's customers.

After airport police in Chicago forcibly removed a paying passenger from United Express Flight 3411 on Sunday evening, Mr. Munoz apologized.

Please see UNITED page A2

◆ Chinese social media allege race played role in incident... A2

FOR VIDEOGAME MAKERS, HIRING IS A LAST RESORT

Staffers do the most critical jobs while outside labor comes and goes

BY LAUREN WEBER

SAN DIEGO—The hit videogame "Rocket League" pits jet-powered race cars against one another in an antic soccer match. The big winner is creator Psyonix Inc., which has just 81 employees yet has amassed more than 29 million players in less than two years.

Employees at the San Diego company dream up new themes and car designs, program software, troubleshoot technical issues and watch over a network of contractors scattered around the world. The outside workers test "Rocket League" for bugs, translate it into foreign languages, transfer the software to new types of consoles and handle customer service.

"The smaller we can be, the better," said Chief Executive Dave Hagewood, even though relying on contractors means less control

over the speed and quality of the work needed to keep "Rocket League" humming.

Overall, 40 or 50 of the 120 people who work on "Rocket League" are contractors, he estimates. It had \$110 million in revenue in its first year alone.

As outsourcing sweeps through almost every industry in the U.S., the videogame business looks a lot like the workplace of the future. A lean core of in-house employees focuses on the most important jobs, with the rest hired out to layers of contractors and subcontractors. Outside workers come and go based on project cycles.

Consulting firm Accenture PLC, one of the world's largest outsourced labor providers, calls it the "liquid workforce," which can be turned on and off like a faucet.

More than 300 of the roughly 2,000 people who built Activision Blizzard Inc.'s "Call

Please see GAMES page A8

Murder in the Family

A new Japanese police study of intrafamily murder cases from 2014 highlights the burden of those taking care of elderly parents in a rapidly aging society.

Victim's relationship to attacker



Motive for attack



Note: 272 cases investigated, including 168 murders, 74 attempted murders and 30 assaults resulting in deaths. Victims and attackers lived together in 84% of cases.

Source: Japan National Police Agency

THE WALL STREET JOURNAL.

A Deadly Side Effect Of Japan's Graying

CARE GIVERS' BURDEN: Parents were the most frequent victims of killings within families in Japan, a study found. Accounts of care givers killing a parent or spouse occasionally make national headlines. **A3**

Toshiba Admits Doubt About Its Survival

BY TAKASHI MOCHIZUKI

TOKYO—Toshiba Corp. on Tuesday expressed doubt for the first time that it can continue as a going concern in light of huge losses at its U.S. nuclear subsidiary, which filed for bankruptcy last month.

The company issued the warning alongside its latest earnings report, which came two months late and without the approval of its auditor.

Toshiba, which traces its roots to 1875, is fighting for survival because of back-to-back blows—an accounting scandal in 2015 and then cost overruns at U.S. nuclear-reactor projects being built by its Westinghouse Electric Co. subsidiary.

Westinghouse's bankruptcy filing March 29 is likely to push Toshiba into a net loss of ¥1.01 trillion (\$9.1 billion) for its fiscal year ended March 31, Toshiba reiterated Tuesday.

"[T]here are material events and conditions that raise substantial doubt about the company's ability to continue as a going concern," Toshiba said.

But the company said it has a comeback plan that includes selling its semiconductor unit and asking its banks for forbearance.

The semiconductor business, which makes flash-memory chips for smartphones and computer servers, has drawn a bid of up to ¥3 trillion from Taiwan's Foxconn Technology Group, people familiar with the bid said earlier this week.

"I believe our financial standing is solid, despite the numbers we put out, if we consider the value of the unit for sale," Toshiba Chief Executive Satoshi Tsunakawa said at

Please see DOUBT page A2

◆ Heard: Foxconn aims to overwhelm Toshiba..... B1

Goethe's Biggest Fan Is a South Korean Conglomerate

* * *

Lotte Group executives find solace in gloomy German literature

By JONATHAN CHENG

SEOUL—The past two years have been bleak for Lotte Group, a Korean-Japanese conglomerate that has suffered a run of misfortune.

To get through, Lotte's top executives have found succor in an 18th-century German

tragic romance.

"The Sorrows of Young Werther," written by German literary giant Johann Wolfgang von Goethe in 1774, tells the tale of a young man, Werther, who kills himself after the beautiful woman with whom he has fallen in love, Charlotte—or Lotte, for

short—marries another man. It was a world-wide sensation that spurred a genre of novels, poetry and fashion.

Reading the story while studying in wartime Japan, Lotte Group's Korean-born founder, Shin Kyuk-ho, was so moved he eventually named

Please see LOTTE page A8

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WORLD NEWS

Long Wait for Houses Tests South Africa

Corruption allegations, infighting and slow delivery on promises undermine poor people's support for ruling ANC

BY GABRIELE STEINHAUSER
AND NTHABISENG GAMEDE

BLOEMFONTEIN, South Africa—When construction trucks laden with bricks and mortar rolled up her dirt road on a sunny fall day, Patricia Makhetha thought she was about to receive something that has eluded generations of black South Africans: her own house.

That day was 5½ years ago. Today, the gray facade of what Ms. Makhetha hoped would be a home for her and her two children stands crumbling. During daylight hours, children use the rubble as a playground; after dark, teens gather to smoke nyaope, a concoction of heroin, rat poison and other chemicals.

The local housing department hasn't told her if the builders will return. "They just tell me to be patient," she said.

Ms. Makhetha's little-house-that-wasn't is a symptom of the governance crisis now enveloping South Africa's ruling African National Congress and roiling the continent's most developed economy 23 years after the end of white minority rule.

The party of Nelson Mandela has sought to radically transform the South African economy through affirmative action and extensive social policies, including a housing program whose annual budget has climbed above 30 billion rand (\$2.3 billion).

But the ANC's ambitions have been undermined by allegations of corruption and patronage and controversies have consumed the presidency of ANC leader Jacob Zuma, including an internal revolt and debt downgrades triggered by his dismissal this month of his popular finance minister.



Patricia Makhetha at her unfinished RDP home outside Bloemfontein. Many households are still waiting for homes that are part of a program conceived in 1994.

In December, the Free State housing department in Bloemfontein accused 106 contractors and materials suppliers of embezzling as much as 631.4 million rand meant for the construction of low-cost houses, according to documents seen by The Wall Street Journal.

A motion filed by the department with the state's High Court says its own yearslong investigation found that the majority of the 14,769 houses contracted to those named were never begun or, like Ms. Makhetha's home, never completed.

Such allegations of fraud are sapping the trust of the ANC's base of mostly black, and mostly poor, voters. In

local elections in August the party's support in Bloemfontein dropped to 57% of the vote, from 66% in 2011.

A spokeswoman for the ANC declined to comment on the examples cited in this article, but said that "as the ANC, we have a standing position of zero tolerance against corruption." Mr. Zuma's office and the national Department of Human Settlements, which runs the housing program, didn't respond to requests for comment.

RDP houses—named after the Reconstruction and Development Program that conceived them in 1994, just as South Africans were negotiating their new democracy—are the most visible among

the country's postapartheid social policies.

Since then, for a population now at around 54 million, some 4 million rudimentary, one-story homes, often with solar panels on top, have transformed cities and townships and handed many of the poorest South Africans a durable asset to pass on to younger generations. A right to adequate housing was enshrined in the 1996 constitution.

Yet many households are still waiting for RDP houses, some for over 20 years: The housing department says it aims to build 1.5 million housing units by the end of 2019 in an effort to clear the backlog. Ms. Makhetha said she no

longer believes the ANC's promises of a better life, and has stopped voting.

"When it is election time, the ANC is visible. They come to us and make empty promises just to get our votes and then they forget about us after the elections," she said.

In the Diepkloof section of Johannesburg's Soweto township, Rina Mohlala, 66, has been waiting for her RDP house since 1996.

Two years ago, when she inquired about her house at the local housing department, an official pulled Ms. Mohlala aside and made her an offer: "He said if we give him 30,000 rand he will make things fast for us," re-

called her granddaughter, Tshepiso, 29, who accompanied her to the department.

"I told them I don't have money to give you," Ms. Mohlala said.

Ms. Mohlala still votes for the ANC, she said, because she would starve without her monthly pension of 1,510 rand. But her granddaughter, who is unemployed, says she is done with the party of liberation.

"Now they say we have freedom," she said, "but freedom for what? We have nothing."

Notice to Readers

Andrew Browne's China's World column is on hiatus.

Storm Gives Bangkok a Charge



LIGHTING UP THE SKY: An electrical storm passed after sunset in the Thai capital on Tuesday.

UNITED

Continued from Page One
gized for denying seats on the flight to the man and three others in favor of United employees needed at the plane's destination, Louisville, Ky. Mr. Munoz said he regretted the need to "re-accommodate" the bumped passengers.

Hours later, in an email to employees, he struck a more defensive tone as video of the passenger's removal went viral.

"This situation was unfortunately compounded when one of the passengers we politely asked to deplane refused and it became necessary to contact Chicago Aviation Security Officers to help," he wrote. "While I deeply regret this situation arose, I also emphatically stand behind all of you."

Describing the incident in his note, Mr. Munoz said the passenger "raised his voice and refused to comply with crew member instructions. He was approached a few more times after that in order to gain his compliance to come off the aircraft, and each time he refused and be-

came more and more disruptive and belligerent."

Public-relations executives and some lawmakers said his response misjudged the public outcry against the airline's treatment of the passenger.

"Dragging your customer down an aisle is disturbing," Sen. Bob Menendez (D., N.J.) wrote on Twitter. "You need a better explanation than an empty apology for 're-accommodating.'

The situation came to light after fellow passengers took videos of the man's removal and posted them to social media.

dia, which exploded with more than 937,000 Twitter conversations on Monday alone.

United declined to release any information on the passenger, who was treated in a Chicago-area hospital on Sunday night.

News reports identified the passenger as ethnically Chinese, and public anger spread on Tuesday to China, where United is the leading U.S. carrier and has a code-sharing relationship with Air China Ltd., one of the country's biggest airlines.

United has also recently

added nonstop routes from San Francisco to internal Chinese cities including Chengdu, Xi'an and Hangzhou.

United on Monday said it had asked for four volunteers to leave the airplane Sunday evening because of overbooking. After agents couldn't attract volunteers to leave in exchange for compensation, United used what it said were its own protocols to choose four passengers to remove.

Three complied without incident, but law-enforcement personnel removed the fourth passenger.

drew more than 160 million views and about 100,000 comments by early Tuesday evening. The flurry of online activity comes amid a growing awareness of consumer rights by Chinese citizens, who have taken to social media to complain about everything from bad customer service to poor-quality products.

Many of the comments on the United incident focused on alleged discrimination, noting reports by fellow passengers that the man was a doctor who claimed he was selected for removal because of his race.

The incident Sunday night was the No. 1 trending topic on China's Twitter-like microblogging service, Weibo. The topic

"This is inherent arrogance," said Song Hongbing, a popular Chinese author, on his verified Weibo account. "I don't think a 69-year-old white doctor would be treated like this."

Apple Inc. was chastised by netizens in China several years ago after a state-media broadcast accused Apple of being biased against Chinese consumers in its warranty and customer-service policies.

A United representative couldn't immediately be reached to comment on the reaction in China.

—Wayne Ma

DOUBT

Continued from Page One
a news conference on Tuesday. He declined to comment on the status of the sale.

Analysts say the memory-chip market is likely to keep growing, and Toshiba's latest results suggested the business is healthy.

The memory-chip business posted an operating profit of ¥102 billion in the April-December period of 2016, up 9% from the year-earlier period, Toshiba said, thanks in part to strong demand from Chinese smartphone makers.

Toshiba has the second-largest market share in terms of revenue for widely used NAND flash-memory chips, according to IHS Markit, though it is well behind market leader Samsung Electronics Co.

Westinghouse's bankruptcy removed the unit from the Toshiba group's balance sheet, and Toshiba has said it believes it can wall itself off from any further losses connected to nuclear-reactor projects Westinghouse has undertaken in Georgia and South Carolina.

Toshiba had to postpone the announcement of its nine-month results on two occasions due to differences with its auditors. On Tuesday, it pushed ahead with the release even though the auditors refused to sign off.

The auditors, PricewaterhouseCoopers Arata LLC, said they couldn't be certain that earlier accounting for Westinghouse was proper.

Mr. Tsunakawa said Toshiba believes its figures are solid, and he expressed frustration about the standoff.

"They asked us to prove that we didn't have anything wrong in our bookkeeping process, and that is quite a burden," he said.

Getting the approval of auditors is customary for an earnings filing in Japan but isn't mandatory.

A Tokyo Stock Exchange spokeswoman said the bourse

would look into why auditors didn't sign off on Toshiba's results.

The exchange has put Toshiba on a watch list and has been reviewing its governance following the earlier accounting scandal in 2015.

That review could result in delisting, although the exchange would likely give careful consideration before delisting a company of Toshiba's size.

\$9.1B

Net loss that Toshiba expects for its fiscal year ended March 31

Mr. Tsunakawa said that in May, Toshiba plans to release its results for the full fiscal year ended March 31.

While Toshiba is still talking with its auditors, it may again go without their approval in the May release, he suggested.

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WORLD NEWS

Trump Sends New Warning to North Korea

Pyongyang says nation is 'unfazed' by the prospect of any U.S. military action

By CAROL E. LEE

WASHINGTON—President Donald Trump said Tuesday he would take unilateral action to blunt the threat of North Korea if China doesn't take steps to do so, a new warning that comes as a U.S. aircraft carrier makes its way toward the western Pacific.

Mr. Trump also linked the U.S. demand for China's help on North Korea to trade negotiations between Washington and Beijing.

Writing on Twitter, Mr. Trump said he had explained to Chinese President Xi Jinping during their meetings in Florida last week "that a trade deal with the U.S. will be far better for them if they solve the North Korean problem."

"North Korea is looking for trouble," Mr. Trump wrote. "If China decides to help, that would be great. If not, we will solve the problem without them! U.S.A."

Mr. Trump's comments came as North Korea is expected to conduct another mis-



Crew work on the flight deck of the aircraft carrier USS Carl Vinson, which, along with its strike group, is nearing the Korean Peninsula.

MASS COMMUNICATION SPECIALIST 3RD CLASS MATTHIAS BROWN/U.S. NAVY/REUTERS

sile test launch to mark the anniversary of the birth of the country's founder on April 15.

On Tuesday, a spokesman for North Korea's Foreign Ministry said the country was "unfazed" by the prospect of any U.S. military action, despite the deployment of the aircraft carrier.

"We will hold the U.S.

wholly accountable for the catastrophic consequences to be entailed by its outrageous actions," the spokesman said, according to Pyongyang's Korean Central News Agency, warning that the country "is ready to react to any mode of war desired by the U.S."

Mr. Trump's decision to launch airstrikes against a Syr-

ian air base last week, in response to Syrian President Bashar al-Assad's regime's suspected use of chemical weapons in the conflict there, was meant to send a signal to China and North Korea of his willingness to use force, according to administration officials.

Meanwhile, South Korean officials sought Tuesday to

tamp down concerns over the possibility of a pre-emptive U.S. military strike on North Korea.

"Be careful not to be fooled by exaggerations about the security situation on the Korean Peninsula," Moon Sang-gyun, a spokesman for South Korea's Ministry of Defense, said.

The remarks came a day af-

ter a spokesman for the South Korean Ministry of Unification said that Washington had signaled its support for Seoul's pursuit of peaceful Korean unification.

Over the weekend, top officials in Mr. Trump's administration strengthened their warning to North Korea, with National Security Adviser H.R. McMaster saying the GOP president has ordered him to prepare "a full range of options" for North Korea. U.S. Secretary of State Rex Tillerson outlined the administration's approach toward Syria following U.S. airstrikes there last week in comments that also appeared aimed at other countries.

"If you violate international agreements, if you fail to live up to commitments, if you become a threat to others, at some point a response is likely to be undertaken," he said on ABC.

The new warning came as the USS Carl Vinson and its strike group nears the Korean Peninsula after it was redirected there because of threats of North Korean weapons tests. The Vinson is traveling with other ships including two guided-missile destroyers.

—Dion Nissenbaum and Jonathan Cheng contributed to this article.

South Korea Minimizes Rising Tension on Peninsula

By JONATHAN CHENG

SEOUL—South Korean officials sought to tamp down concerns over the possibility of a pre-emptive U.S. military strike on North Korea, as a U.S. aircraft carrier headed toward the Korean Peninsula and Pyongyang threatened to "react to any mode of war desired by the U.S."

U.S. Secretary of State Rex Tillerson said the Syria attack showed that "President Trump is willing to act when governments and actors cross the line," in remarks widely regarded as being directed in part at Pyongyang.

On Sunday, Washington redirected the USS Carl Vinson aircraft carrier toward the Korean Peninsula, in what President Donald Trump's national security adviser, Lt. Gen. H.R. McMaster, called a "prudent" move given the North Korean threat.

Recent satellite imagery has suggested activity is taking place at North Korea's nuclear test site ahead of the April 15 birth anniversary of North Ko-

rean leader Kim Jong Un's grandfather, state founder Kim Il Sung, the biggest holiday on the country's calendar.

On Monday, China and South Korea's top negotiators on the North Korea nuclear issue told reporters after a meeting in Seoul that Beijing and Seoul had discussed the possibility of additional measures in the event of further escalation in tensions by

Pyongyang, such as a nuclear test or the test launch of an intercontinental ballistic missile.

"We shared the view that strong, additional measures should be taken if North Korea pushes ahead with strategic provocations like a nuclear test or an ICBM launch in defiance of international warnings," Kim Hong-kyun, South Korea's point person on the

entailed by its outrageous actions," the spokesman said, according to Pyongyang's Korean Central News Agency, warning that the country "is ready to react to any mode of war desired by the U.S."

Rodong Sinmun, North Korea's biggest newspaper, warned that it, too, could launch a pre-emptive strike on the U.S. and warned the Trump administration to give up on any plans for such a strike.

Relations with North Korea tend to be particularly tense this time of the year, as Seoul and Washington conduct their largest annual joint military drills in the spring. Pyongyang regularly complains about the exercises and calls them a prelude to invasion, a charge the U.S. and South Korea deny.

Separately on Tuesday, North Korea and Syria reaffirmed their close ties as they neared potentially direct confrontations with the U.S.

—Min Sun Lee in Seoul and Te-Ping Chen in Beijing contributed to this article.



A police officer directs traffic in central Pyongyang, North Korea.

DAMIR SAGOLZADEH/REUTERS

Shootout Shatters Philippine Resort

By JAKE MAXWELL WATTS

At least eight people were killed on a popular tourist island in the Philippines during a gunbattle between suspected militants and government forces, far from territory where insurgent groups normally operate.

Two soldiers, a policeman and at least five suspected Abu Sayyaf militants were killed in the shootout on the central Philippine island of Bohol, a police spokesman confirmed.

Filipino troops recovered four rifles and a homemade bomb from the slain gunmen, who took cover in three houses as the fight broke out, the Associated Press said.

The attack took place dur-

ing Holy Week, a busy period in the days before Easter when many Filipinos travel home to be with family.

A Philippine Armed Forces spokesman confirmed the assault had taken place after local residents alerted authorities to 10 armed men with three small boats along the riverside near the town of Inabanga. Armed police and soldiers assaulted the men, who took shelter in three houses and returned fire.

If the men are confirmed to be from the Islamic State-linked Abu Sayyaf group, their presence in Bohol would mark an unusual move farther afield. Abu Sayyaf fighters rarely venture far from the mountainous area they control in the southern island of

Mindanao.

Bohol, known for its rolling "chocolate" hills and coral reefs, is close to Cebu, one of the most-visited islands by tourists in the Philippines. On Sunday, the U.S. Embassy in the country said it had received unsubstantiated yet credible information of a possible kidnapping attempt in the Cebu and Bohol area. It didn't elaborate.

Abu Sayyaf, a radical Islamic State-linked group, has made a lucrative business out of abducting foreigners, sometimes tourists, for ransom. In February, militants beheaded a German hostage after a ransom deadline expired.

Kidnapping and executions by the group—desig-



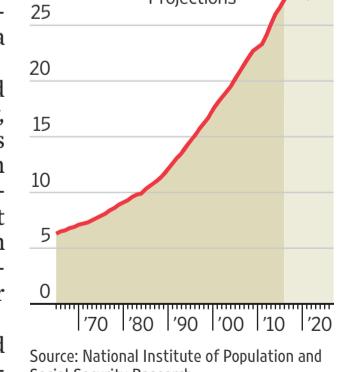
Exercisers marked Japan's 'Respect for the Aged Day' in the fall.

Mom, Dad Most Targeted In Japan's Family Murders

By ALASTAIR GALE

Graying Populace

Percentage of Japanese who are 65 or older



Source: National Institute of Population and Social Security Research

THE WALL STREET JOURNAL



Police and soldiers take positions in a deadly gunbattle with suspected Abu Sayyaf militants on the central Philippine island of Bohol.

AGENCE FRANCE PRESSE/GETTY IMAGES

The study of cases reported in 2014, released Tuesday, showed a third of 272 murders or attempted murders within family groups that year involved an attack on a parent by their offspring. Attacks on spouses or children each accounted for around a quarter of cases.

The most commonly cited motive: "concern about the future," accounting for a third of all cases. Reasons given within that category included caregiving and financial worries.

Japan is one of the world's fastest-aging nations, a phenomenon that creates social and economic stresses as pension and welfare demand rises. Japanese longevity adds to the burden, with around 300,000 elderly waiting for places in nursing homes, according to latest government data.

Prime Minister Shinzo Abe has promised to build more elder-care facilities.

Accounts of caregivers killing a parent or spouse occasionally make national news headlines. This month, a 73-year-old man in southern Japan confessed to killing his 74-year-old wife, saying he was exhausted by providing her with nursing care at home.

WORLD NEWS

French Far-Left Crusader Joins Vote Fray

BY JOSHUA ROBINSON
AND WILLIAM HOROBIN

FENAINE, France—Far-left firebrand Jean-Luc Mélenchon, campaigning as an antiglobalist champion of a forgotten working class, has surged into contention in France's presidential election, transforming the contest into a four-way race.

Strong performances in TV debates and an ability to draw massive crowds with his promises of higher wages and fewer working hours has propelled Mr. Mélenchon into third place in some polls, ahead of conservative François Fillon and within striking distance of National Front leader Marine Le Pen and upstart centrist candidate Emmanuel Macron.

"He brings something new, new ideas, compared to the candidates we've had for a number of years," said Bruno Bastin, a 25-year-old working in his family's funeral parlor in Fenain, a town in France's deindustrialized north where Mr. Mélenchon is hunting for votes.

The surge in support for Mr. Mélenchon, who dons a Mao jacket on the campaign trail, is scrambling the math of an already erratic French presidential election campaign that has sidelined traditional political parties.

The changing landscape has spooked investors. On Tuesday, the extra yield investors demand to hold 10-year French government debt over safe-haven German bonds rose to nearly 0.75 percentage point, nearing a 2017 high reached in mid-February, as they fled French assets.



Far-left candidate Jean-Luc Mélenchon visited Marseille, where he said Sunday he might advance to the decisive runoff vote May 7.

wage by taxing all income over the level of €400,000 (\$423,000) a year.

For workers, Mr. Mélenchon says he would grant a sixth week of annual vacation, encourage a four-day, 32-hour workweek, raise the minimum wage and reduce the retirement age. He would also abolish the labor law socialist President François Hollande introduced last year that gives more power to companies to negotiate conditions with workers.

Mr. Mélenchon wants to pull France from the North Atlantic Treaty Organization and radically overhaul Europe—points that overlap with the anti-Euro rope platform of Ms. Le Pen.

Mr. Mélenchon says he would devalue the euro, restructure public debts, increase protectionism and authorize the European Central Bank to lend directly to states. If he doesn't achieve those aims in negotiations, Mr. Mélenchon says he would implement a "Plan B" to pull France out of the euro, impose capital controls and stop contributing to the EU budget.

Mr. Mélenchon's surge has surprised his own supporters. Mohamed Ben Nasr, a Mélenchon-backing truck driver from Lyon who has voted for the left in every election since 1981, said last week he hated that the election "seems decided in advance. The ones we all like are in last place."

But even as he spoke, the situation was changing. Mr. Ben Nasr's vote for Mr. Mélenchon no longer looks like a first-round footnote. "He's the one who tells the truth," Mr. Ben Nasr said.

At a rally in Marseille on Sunday, Mr. Mélenchon told a crowd of about 70,000 that his rising popularity means he might advance beyond the April 23 first-round vote to the decisive runoff on May 7.

"You can hear it. You can feel it. Victory is within reach of our efforts," Mr. Mélenchon said.

A nationally representative poll by Kantar Sofres-Onepoint published Sunday showed Mr. Mélenchon at 18%, overtaking Mr. Fillon at 17% and only six points behind Ms. Le Pen and Mr. Macron. The previous comparable poll in mid-March had Mr. Mélenchon at only 12%.

Benoit Hamon, candidate of the ruling Socialist Party, has

fallen so far out of contention that over the weekend he said he would vote for Mr. Mélenchon in the second round of the election.

In a runoff against Ms. Le Pen, Mr. Mélenchon would win with 57% of the vote, the Kantar Sofres-Onepoint survey projected.

"Given Mélenchon's momentum he could well become the biggest surprise of this volatile election," said Antonio Barroso, an analyst at political-risk consultancy Teneo Intelligence.

Mr. Mélenchon is seeking to build momentum at his next major rally Wednesday in Lille, the northern bastion of the French left 25 miles north of

Fenain. His message of restricting layoffs and handing power from shareholders to workers is expected to resonate in an area suffering from plant closures and deindustrialization.

Mr. Mélenchon already ran for president in 2012 after quitting the Socialist Party in 2008. Polls at the time also showed a surge in the closing weeks of the campaign, although he scored only 11% in the actual vote.

This time, the far-leftist who rails against austerity and the European Union has led a more innovative election campaign, using a hologram of himself in February to stage a rally simultaneously in Paris and Lyon. He

plans to repeat the stunt in seven locations at once for one of his final rallies before the first round of voting.

The plan is aimed at bringing back voters who had written him off. Thibault Ducrot, an unemployed 31-year-old from Lyon, said he planned to vote for the centrist Mr. Macron for practical purposes, despite his natural inclination to vote for Mr. Mélenchon. But now, "if he has a chance to get through, I'd think about it," Mr. Ducrot said.

Mr. Mélenchon is running on a similar soak-the-rich program as five years ago. He has pledged to raise taxes on inheritance and capital, outlaw stock-options and create a maximum

RUSSIA

Continued from Page One
ceivably achieve that in a post-Assad scenario. So there is room for negotiation on that point," said Matthew Rojansky, a Russia expert at the Wilson Center in Washington.

Trump administration officials have sent mixed signals on Syria policy in recent days. Mr. Tillerson and others have repeated that the U.S.'s first priority is fighting Islamic State. But the White House on Monday left open the possibility of further strikes against Mr. Assad if he uses chemical weapons or barrel bombs.

Mr. Tillerson's visit is his first official trip to Moscow, but he had close ties to Russian President Vladimir Putin while CEO of Exxon Mobil. Mr. Tillerson is set to meet Russia's foreign minister Sergei Lavrov. A Kremlin spokesman said Monday that a meeting between Mr. Tillerson and Mr. Putin wasn't on the Russian leader's calendar, despite ear-



Secretary of State Rex Tillerson arriving in Moscow on Tuesday.

lier U.S. expectations of such a session.

Current and former officials who have planned such trips said it isn't unusual for a meeting with Mr. Putin to remain uncertain until the last minute, but that usually the Russian leader grants an audience to the U.S. secretary of state.

Mr. Tillerson also is expected to raise Russia's interventions in Ukraine, its violations of a Cold War pact that prevents the use of certain missile technology and Russian interference in Western elections, including those in the U.S.

—Nathan Hodge contributed to this article.

Spain Holds Hacking Suspect

BY DAVID GAUTHIER-VILLARS

The Russian programmer arrested in Spain on accusations of cyberfraud over the weekend is one of the world's most sophisticated hackers, one who operated a vast network of compromised computers for malicious purposes, U.S. authorities alleged in court documents released on Monday.

The U.S. Department of Justice said Pyotr Levashov, a Russian national who was detained in Barcelona on Friday, allegedly spread a potent malware known as Kelihos since about 2010, harvesting login credentials, and gaining control of hundreds of thousands of computers.

Mr. Levashov, who was vacationing with his wife and son, has been notified he would be kept in custody pending a ruling on a U.S. extradition request, a spokeswoman for Spain's high court Audiencia Nacional said.

A lawyer for Mr. Levashov

couldn't be reached. In an interview with Russian TV channel RT over the weekend, Maria Levashova over the weekend confirmed her 36-year-old husband had been arrested.

Russia's Foreign Ministry didn't respond to a request to comment.

U.S. says a Russian spread a potent malware, Kelihos, since about 2010.

U.S. authorities hailed the case as a landmark in the fight against cybercrime but dismissed talk it was related to investigations into alleged foreign interference in the 2016 U.S. elections.

"The case is a criminal matter without apparent national security connection," a Justice Department official

said.

Answering a question that has long puzzled many cybersecurity experts as well as U.S. investigators, U.S. authorities said they believed Mr. Levashov was the human figure behind "Peter Sevora," the online moniker used by the alleged creator of powerful spam viruses.

Spamhaus, a nonprofit organization tracking cyberthreats, was among the first to publicly claim that "Peter Sevora" was an alias of Mr. Levashov, describing him as "one of the longest operating criminal spam lords on the internet."

In a January 2008 indictment, the Justice Department had cited "Peter Sevora, a Russian of unknown age," along with 10 other individuals, saying it considered the group responsible for a series of illegal spamming and a stock-fraud scheme.

—Thomas Grove contributed to this article.

Grief Turns to Anger in Egypt Attacks

BY MARIA ABI-HABIB
AND DAHLIA KHOЛАIF

TANTA, Egypt—As family and friends gathered to bury a university student killed in the suicide attack on worshipers here on Palm Sunday, grief boiled over into anger over the government's inability to protect Egypt's Christian minority.

Fadi Ramsis, 22 years old, was laid to rest Monday in the northern Egyptian town of Tanta just months before he was to graduate from university there. Mr. Ramsis was one of more than 40 people killed in twin suicide blasts targeting Tanta's main church and a cathedral in the nearby city of Alexandria. It was the latest episode of mounting violence against Egypt's Christian minority at the hands of Islamic State militants.

"We no longer see a future for us in Egypt, but we won't leave," said Hoda Ibrahim, a 20-year-old university student. "Yes, we're very angry at the government. After each attack, they make the same promises only for it to happen all over again."

Egypt's government is bogged down in endemic economic, social and security problems, leaving the country's Christians feeling insecure about the government's capacity to defend them against a bubbling insurgency

that has zeroed in on the community as a vehicle to challenge the state.

Islamic State has exploited a vacuum created by Egypt's overstretched security services to publicly urge the targeting of Christians. In February, the extremists forcefully displaced Christians from al-Arish, the largest city in the restive Sinai Peninsula. They also have deployed suicide bombers to hit churches across the nation.

The group, fast losing its core territory in Syria and Iraq, is expected to step up attacks in the Middle East as heightened security in Europe makes it more difficult to launch terror attacks there. "We are not able to send our soldiers to Europe, so the new tactic is to hit more in the region and anywhere we

can infiltrate," a midlevel Islamic State leader in Syria told The Wall Street Journal in January, explaining the group's devastating attack on a church in Cairo that killed over two dozen worshippers in December. "As the situation gets harder in Syria, the Islamic State will hit wherever it hurts the crusaders and the apostates."

Egyptian authorities are struggling to keep the government afloat and stamp out growing discontent from a population frustrated by the failure of the 2011 revolution to bring about meaningful political and social freedoms. Terror groups like Islamic State have taken advantage of stretched security forces to attack soft targets such as the Christian community.

Among the hundreds of

mourners gathered Monday afternoon outside the Mar Girgis church in Tanta, there was a sense of hopelessness. Boy and Girl Scouts affiliated with Tanta's Christian community patted down mourners, distrustful of the state's ability to secure the funeral.

"It seems they fixed the metal detectors, finally," muttered one woman lining up to enter.

Some stopped to pay their respects to the 27 worshippers killed and buried on the church grounds Sunday evening, hours after the blast. The bishop's office building was turned into a mausoleum to house the dead, its windows hastily covered up with red brick and the cement still drying when Mr. Ramsis' funeral began. Mr. Ramsis died Monday morning from wounds sustained in Sunday's attack.

Youths sobbed on the sidewalk as they waited to enter the church, some clutching white flower wreaths shaped like crosses. Others had come immediately from class, textbooks in hand.

Ms. Ibrahim showed photos on her phone of 11 friends killed on Sunday. Her Muslim classmates also attended the funeral, women wearing the hijab embracing friends donning crucifix necklaces, crying alongside them.

—Nour Alakraa contributed to this article.

Mourners at the funeral of a victim of the Alexandria bombing.

ANWAR DALSH/REUTERS

Holiday Update

The Asia edition of The Wall Street Journal will not be printed on Friday, April 14 in observance of Good Friday holiday.



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WORLD NEWS

U.S.-Mexico Frayed Ties On the Mend

Earlier this year, U.S.-Mexican relations hit their worst crisis in decades when Presidents Donald Trump and Enrique Peña Nieto quarreled over who would pay for a pro-

By David Luhnow
in Mexico City and
Jacob Schlesinger
in Washington

posed border wall, prompting the Mexican president to call off a trip to Washington.

But then a funny thing happened: Mr. Trump, at the urging of senior aides, stopped attacking Mexico on Twitter and in public statements, opening up space to officials from both countries to markedly improve ties since then, U.S. and Mexican officials say.

"The relationship is much more constructive," a senior Mexican government official said. A senior U.S. official agreed, saying the greater contact between the sides had improved ties.

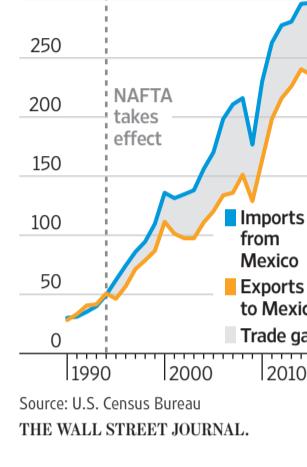
Mexican officials say they are more confident now that the two countries can strike a deal to renegotiate the North American Free Trade Agreement, which Mr. Trump attacked repeatedly on the campaign trail as the worst trade deal the U.S. ever signed.

"We've gone from panic to concern," another top Mexican official said. The White House declined to comment.

Financial markets are also more sanguine. Mexico's peso has been the world's best-performing currency since Mr.

Trade Gap

Mexico's trade surplus with the U.S. reached \$63 billion last year.



Source: U.S. Census Bureau
THE WALL STREET JOURNAL.

Trump's Jan. 20 inauguration, up nearly 16%. And the country's stock market set a record on Monday.

"The radio silence from the president's Twitter feed has been extremely important to provide breathing room [to both sides]," said Arturo Sarukhan, Mexico's former ambassador to the U.S., who advises the Mexican government.

Many people in Mexico City remain nervous about Mr. Trump's trade stance. But the cautious sigh of relief there that his administration may not disrupt the world economic order as much as once feared is echoed in capitals around the world, and in Washington. Mr. Trump had, by public accounts, a calm two-day summit with Chinese



Mexicans demonstrating against U.S. President Donald Trump at a rally in Mexico City in February, when relations were at a low ebb.

President Xi Jinping, where the American leader raised concerns about Chinese behavior but didn't repeat the stinging public rhetoric he has had previously launched at Beijing.

Mr. Trump's strike on Syria last week also signaled a turn from his rhetoric of isolationism, while his action to date on trade has mainly revolved around calls for more study of the U.S. trade deficit rather than urgent, radical action to shrink it.

Government and business officials on both sides of the Rio Grande credit the improved mood over U.S.-Mexican ties to a variety of factors. They cite numerous face-to-face meetings between top officials, a behind-the-scenes pro-Nafta lobbying effort from big U.S. firms and farmers, and the Trump administration's progress along the learning curve facing any new crew in Washington.

At least seven top-level meetings between various cabinet members of both governments have occurred in the past eight weeks, U.S. and Mexican officials say. Mexican Foreign Minister Luis Videgaray and Economy Minister Ildefonso Guajardo have met repeatedly with Secretary of State Rex Tillerson, Homeland Security Secretary John Kelly and Commerce Secretary Wilbur Ross.

The sides are also getting better acquainted personally. Mr. Videgaray has cultivated a close relationship with Mr. Trump's son-in-law and key aide, Jared Kushner. And after a recent meeting between Mr. Guajardo and Mr. Ross, the men met for dinner, joined by Mr. Ross's wife, at an upscale Georgetown restaurant.

At the same time, big American companies—in consultation with Mexican and Canadian officials—have

launched an aggressive, behind-the-scenes effort to explain what they consider to be Nafta's benefits to the Trump White House and trade-related agencies.

Union Pacific CEO Lance Fritz published an op-ed in the Journal of Commerce on March 1 titled "U.S. must modernize Nafta, not withdraw," and Cargill Inc. CEO David MacLennan defended the trade pact in a February speech in St. Paul, Minn.

U.S. farm groups have also lobbied against changes to the pact that could restrict access to their No. 1 market for export products like corn, grown mostly in states that voted for Mr. Trump. Upping the ante, Mexico has threatened to buy more grain and corn from other producers such as Brazil and Argentina.

The lobbying could be paying off. A recent draft memo from the U.S. Trade Represen-

tative's office to Congress outlined mostly modest changes to the 23-year-old trade pact, although the White House later distanced itself from the memo.

Members of Congress have also begun to defend Nafta and ties to Mexico. In a rare bipartisan move, six senators—three Republicans and three Democrats—recently introduced a resolution "recognizing bilateral cooperation that advances the national security and national interests of both countries."

A realization has also grown within the new administration that attacking Mexico was prompting a nationalist backlash south of the border. Analysts say Mr. Trump's rise has aided the political fortunes of leftist Andrés Manuel López Obrador, who has vowed to take on Mr. Trump more forcefully if he wins 2018 presidential elections.

More Than 100 Candidates Register to Run in Iran's Presidential Election



More than 100 prospective candidates signed up on the first day of candidate registration for Iran's May 19 presidential elections, according to the official IRNA news agency.

Registration will remain open until Saturday, and any Iranian national man apply. The applicants will be vetted by the Guardian Council, a clerical body that will announce a final list of candidates by April 27. The council normally does not approve dissidents or women for the formal candidate list.

President Hassan Rouhani, a moderate, is eligible to run for another term. Ebrahim Raisi, a hard-line cleric close to Supreme Leader Ayatollah Ali Khamenei, and Hamid Baghaei, a close ally of former hard-line President Mahmoud Ahmadinejad, have announced plans to run. Both have vowed to fight poverty and corruption. (At left, photographers waited for the arrival of conservative politician Mostafa Mir-Salim to register at the Interior Ministry.)

The vote is seen as a referendum on the 2015 agreement with world powers, under which Iran agreed to curb its uranium enrichment in exchange for the lifting of international sanctions.

The nuclear deal was engineered by the Rouhani administration and went into practice in 2016.

—Associated Press

WORLD WATCH

INDONESIA

Jakarta Governor's Trial Is Postponed

A blasphemy case brought against Jakarta's Christian governor for allegedly insulting Islam was put on hold Tuesday amid tensions surrounding a runoff election next week in which he is facing a candidate backed by hard-line Islamic groups.

The court hearing the case against Gov. Basuki Tjahaja Purnama postponed further proceedings until the day after the April 19 vote, the climax of an election that has roiled the world's largest Muslim-majority country for months.

Police had expressed security concerns about the court proceedings being held so close to the vote.

Prosecutors had been scheduled to make sentencing requests, a step under Indonesian law that can take place before judges render a verdict of guilty or innocent. Mr. Purnama faces

a maximum possible sentence of five years imprisonment if convicted. Legal experts said the court's decision reflected a desire to avoid fanning the flames at a time of high tensions in the capital.

"Whatever recommendations the prosecutors give, [Mr. Purnama's opponents] will react. It will spark protests," said Tobias Basuki, a political researcher at the Center for Strategic and International Studies.

Around 300 people gathered outside the courtroom in Jakarta on Tuesday and demanded that Mr. Purnama be jailed, local police said.

The gubernatorial election has been marked by the largest rallies in the capital in decades comprising hundreds of thousands of Muslim hard-liners, reflecting their growing strength as a political force. President Joko Widodo, an ally of Mr. Purnama, has been rallying moderate religious leaders to counter their rise.

Mr. Purnama, who is also a



Protesters gathered outside the Indonesian court hearing Gov. Basuki Tjahaja Purnama's trial on blasphemy charges.

member of the long-persecuted ethnic Chinese minority, is accused of insulting Islam by lightly referring to a verse in the Quran that some religious leaders interpret to mean Muslims shouldn't elect leaders of other faiths. Mr. Purnama has said he intended no offense and apologized.

—Anita Rachman

GERMANY

Obama to Visit Berlin As Private Citizen

Former U.S. President Barack Obama will visit Germany in May for his first official overseas appearance since leaving the White House.

Mr. Obama will take part in

a panel discussion on May 25 in Berlin with German Chancellor Angela Merkel at an annual gathering of the Protestant church, the organizers said Tuesday. The Obama Foundation will co-host the event.

The former president's appearance will be a coup for the Protestant church and Germany, which are hoping for a high-profile celebration to mark the 500th anniversary of the Reformation (the split from the Roman Catholic church) in 16th-century Europe.

Mr. Obama and Ms. Merkel's panel discussion is expected to cover Christian values in politics and the meaning of democracy, and to take place in front of the iconic Brandenburg Gate. The event will be part of the Kirchentag—a large assembly of senior figures from the Protestant church, politics and charities.

"Two people will be talking to each other who stand behind their Protestant background and for whom Christian values were

always guiding in their politics," Kirchentag President Christina Aus der Au said in Berlin.

Mr. Obama was invited by Heinrich Bedford-Strohm, chair of the Council of the Evangelical Church in Germany. The bishop said Ms. Merkel helped secure Mr. Obama's attendance, highlighting the strong relationship between two of the world's most famous politicians. He said Mr. Obama wouldn't be paid for attending.

The ex-president is a popular figure in Germany. Some 200,000 people gathered to hear him speak in Berlin when he was candidate for U.S. president in 2008 and polls show two thirds of Germans regret the end of his term.

He made his last presidential trip to the country in November 2016, when he said he would like to return soon in a private capacity.

President Donald Trump is less popular among Germans, polls show.

—Ruth Bender

U.S. NEWS

Trump Tells Aides to Stop the Fighting

President wants his agenda to take center stage as 100-day mark draws nearer

By MICHAEL C. BENDER
AND ELI STOKOLS

WASHINGTON—President Donald Trump has told his senior advisers to prioritize his agenda, not infighting, as the White House focuses on what accomplishments it can tout during the president's first 100 days in office, administration officials said.

Less than three weeks before the April 29 milestone—a largely media-driven moment that all modern administrations face—Mr. Trump is seeking to project himself less as a disruptive force in the capital and more as a leader who can minimize the tumult in the West Wing and work constructively with the powers that be in Washington, the officials said.

After weighing a staff shake-up last week, he told chief strategist Steve Bannon and senior adviser Jared Kushner, Mr. Trump's son-in-law, to find a way to work together, aides said. The two men have agreed to put aside their differences to try to implement the president's agenda, a senior administration official said. "That's the plan," the official said, while cautioning that it is unclear whether the detente will hold.

Aides said the 100-day mark is taking on significant importance for the president, who has already referenced coming cable-television specials in conversations with aides. The milestone moment comes as some White House officials pri-



Trump advisers Steve Bannon, left, and Jared Kushner, the president's son-in-law, have agreed to put aside their differences.

vately note that the first months have been chaotic internally and that many early policy goals have missed the mark, including two versions of a travel ban that were quickly struck down by the courts and an 18-day effort to repeal the Affordable Care Act that never reached a vote.

Mr. Trump, a Republican, hit the lowest approval rating, 38%, in modern history for a president so early into his tenure, according to polling firm Gallup. It rose to 40% on Monday. Multiple investigations continue into Russia's alleged inter-

ference in the 2016 presidential election and whether any associates of Mr. Trump colluded with the Russian government. Russia has denied meddling in the election, and the White House has denied any collusion.

Mr. Trump initially believed he could bend the presidency to fit his pugnacious, freewheeling style, aides and friends said. And he at times has reveled as a manager surrounded by deputies fighting for favor, his friends said.

Now Mr. Trump is slowly conforming to a more traditional approach to the office

after recognizing that the infighting has been detrimental, they said. "He loves chaos when it's beneficial to him, but not so much when it's to his detriment," one friend said of Mr. Trump.

At the same time, the president understands that signature achievements so far have relied on Washington's traditional pillars, friends say.

It was the Republican-controlled Senate that changed the rules last week to confirm the president's nomination of Neil Gorsuch to the Supreme Court. And last week's missile strikes

on a Syrian air base, which garnered rare support from centrist members of both major parties, were overseen by Mr. Trump's senior military appointees, who are taking on an increasingly powerful role in the administration, according to aides.

"He's seeing that you have to work with people," said one White House official, who described how Mr. Trump and his small inner circle of advisers remained in the combative mode of last year's campaign after taking office in January. "That is sort of passing."

Still, White House press

secretary Sean Spicer said Monday that the president continues to be a "disruptive figure" in Washington.

Spokeswoman Sarah Sanders pointed to Mr. Trump's ban on administration officials from ever lobbying for a foreign government and a five-year prohibition on other lobbying as examples in which Mr. Trump has shaken up the status quo. "He's doing what he can to take steps to drastically change the way Washington operates," she said.

Whether Mr. Trump can minimize internal friction and work the levers of power in Washington but also maintain support from those who voted for radical change remains to be seen. Mr. Trump has regularly shifted focus from his governing record to explosive controversies. And internal divisions within the White House—and with the GOP establishment—are likely to re-surface as new policy battles loom.

A case in point: changes to the tax code.

Mr. Trump's aides hope legislation on taxes can pass Congress by August. They say the date could slip but said that if the effort spills into 2018, it could fail as midterm congressional elections approach.

The White House has said it would like to take a lead role in managing the tax-overhaul effort. But one Republican lawmaker who met with administration officials last week said there appeared so far to be no detailed proposal, though Capitol Hill Republicans have a blueprint.

—Peter Nicholas
and Carol E. Lee
contributed to this article.

Yellen Signals Monetary-Policy Shift

By DAVID HARRISON

ANN ARBOR, Mich.—Federal Reserve Chairwoman Janet Yellen indicated that the era of extremely stimulative monetary policy was coming to an end.

In a public discussion at the University of Michigan on Monday, Ms. Yellen said the Fed was moving away from its efforts to revive a recession-scarred economy and focusing instead on maintaining the gains of the past few years. That will change the central bank's policy-making stance, she said, noting that Fed officials plan to continue gradually raising interest rates unless the economy begins to deteriorate.

"Where before we had our foot pressed down on the gas pedal trying to give the economy all the oomph we possibly could, now [we're] allowing the economy to kind of coast and remain on an even keel," she said. "To give it some gas, but not so much that we're pressing down hard on the accelerator."

That means the Fed's benchmark short-term interest rate will continue to move up to its



Janet Yellen said the Fed is focused on maintaining economic gains.

long-term average, she said. Fed officials raised rates in March for only the third time since the financial crisis, to a range between 0.75% and 1%. They have penciled in two more rate increases this year, followed by three in 2018. They are also considering reducing the Fed's \$4.5 trillion portfolio of cash and securities, acquired during three rounds of asset purchases aimed at lowering long-term borrowing costs after the recession.

Ms. Yellen said the Fed is "doing pretty well" in meeting its congressionally mandated goals of low and stable inflation and a full-strength labor market.

In February, inflation rose 2.1% over the previous year after running below the Fed's 2% target for almost five years. Meanwhile, the unemployment rate fell to 4.5% in March—below what the Fed considers a sustainable long-term average.

Overall, Ms. Yellen said the

economy had been growing "at a moderate pace."

Fed officials expect it will take until 2019 for interest rates to rise to their long-term sustainable level. But even then, the bank's benchmark federal-funds rate will end up only at around 3%, lower than in the past because of long-term changes to the U.S. economy.

That lower long-term interest rate has led some economists and policy makers to consider letting inflation rise above the 2% target to give officials more room to raise rates higher during good economic times and drop them during periods of recessions. San Francisco Fed President John Williams has proposed studying raising the inflation target.

Ms. Yellen suggested Monday that she preferred to hold the goal at 2%, largely because that is the level that markets and consumers expect.

"Evidence suggests that the population roughly expects inflation in the vicinity of 2%," she said. "We're focused on making sure that inflation expectations and actual inflation stay very well anchored."

Texas Voter-ID Law Has Discriminatory Intent, Judge Rules

By SARA RANDAZZO

A federal judge ruled for a second time that Texas legislators intended to discriminate against minority voters through a state voter-identification law, the latest episode in long-running litigation over the voter requirement.

The 2011 law, which required limited forms of photo identification for in-person voting, was passed at least in part with discriminatory intent, U.S. District Judge Nelva Gonzales Ramos said Monday.

"Proponents touted SB 14 as a remedy for voter fraud, consistent with efforts of other states," the judge wrote in the ruling. "As previously demonstrated, the evidence shows a tenuous relationship between those rationales and the actual terms of the bill."

Marc Rylander, a spokesman for Texas Attorney General Ken Paxton, a Republican who defended the law, said: "We're disappointed and will seek review of this ruling at the appropriate time."

Judge Gonzales Ramos reached a similar conclusion in 2014, prompting an appeal. The Fifth U.S. Circuit Court of Appeals in New Orleans asked her in July to re-examine the decision, finding that while the law appeared discriminatory, some of the evidence used by the judge wasn't relevant.

The law requires voters to present a state driver's license, personal-identification card, concealed-handgun license, military-identification card, U.S. passport or citizenship certificate to prove their identity.

The requirement unfairly hurt black and Latino voters, the court found, a voter base that largely swings Democratic.

The judge also noted that the law unnecessarily restricted many forms of photo identification. Other states allow voters to use such identification as student or employee IDs and utility bills.

Judge Gonzales Ramos wrote in the ruling that "there was no substance to the justifications offered for the draconian terms" of the law and that its passage couldn't be explained on nonracial grounds.

The Justice Department under the administration of former President Barack Obama, a Democrat, had opposed the law, but this year the administration of President Donald Trump, a Republican, dropped part of its opposition.

The Justice Department didn't go back on its prior claim that the law had a discriminatory effect on minority voters, but said in February that it no longer planned to argue that the state had intended to discriminate.

The Republican-backed state law remained in effect for several elections beginning in 2013. Following the Fifth Circuit decision, Texas loosened its requirements for the 2016 general election while the case continued.

The U.S. Supreme Court declined in January to hear the case, with Chief Justice John Roberts saying in a brief statement accompanying the ruling that the case wasn't ripe for the court's consideration because it was still ongoing in lower courts.

Once the trial judge issued a final judgment, the chief justice wrote, "the issues will be better suited for...review at that time."



A sign informs voters of ID requirements at a Texas polling site.

U.S. WATCH

HEALTH

Panel Alters Guidance On Prostate Test

A high-profile federal panel backed away from its 2012 recommendation against prostate-cancer screening for men ages 55 to 69, concluding in a new opinion that the risks and benefits of screening are "closely balanced" for those men and that they should seek a doctor's advice.

In men age 70 and older, the group continues to conclude that any benefits of screening "do not outweigh the harms, and these men should not be screened."

The U.S. Preventive Services Task Force, in a draft recommendation weighing the usefulness of the blood test called PSA, slightly upgraded its views on the test for men 55 to 69. In the 2012 opinion, the task force had also recommended against the test for the 55-to-69 age group, saying the possibility that it lowered deaths from prostate cancer was "very small."

Now, the panel, made up of private doctors advising the government, said additional medical evidence from some clinical studies increased its certainty about the PSA test reducing the risk of dying of prostate cancer

and of metastatic disease.

Even so, it said, the balance between pluses and minuses is close, and it advised men from 55 to 69 that they should consult their doctors in deciding whether to get the PSA, which stands for prostate-specific antigen.

About 26,000 men died of prostate cancer in the U.S. in 2016. Still, the decision to be screened is a complex one.

Among 1,000 men who get screened, an estimated 240 likely would get a positive result. But some share of those would be false positives, leading some to have unnecessary biopsies.

People who are treated for prostate cancer run the risk of developing incontinence and impotence as a result of surgery or other treatment. Moreover, the task force said, about 20% to 50% of men with prostate cancer have a form that doesn't grow, spread or harm them.

—Thomas M. Burton

ECONOMY

Hiring Falls Slightly, Layoffs Unchanged

The rate at which employees left positions or employers filled new ones was little changed in February, according to the Labor

Department's monthly Job Openings and Labor Turnover Survey, the latest piece of data to underscore how difficult it is to bolster an economy as large as that of the U.S.

The hiring rate fell slightly to 3.6% in February from 3.7% in January. The layoffs rate was unchanged at 1.1%, and the rate of voluntary job separation fell to 2.1%. All three rates have changed little over the past six months.

The report, known as Jolts, tracks the monthly churning of the U.S. economy, with millions of workers leaving one job, or starting a new one, and millions of new openings being posted. The net increase in the number of jobs is reported separately, in the Labor Department's primary monthly employment report. That report, released Friday, showed that employers added 98,000 jobs in March.

While the stock market has soared in recent months and measures of consumer confidence have climbed since the election, Tuesday's report shows little evidence that this is translating into increased vigor in the labor market, underscoring other hard data on economic activity that have been little changed in recent months.

The number of job openings

climbed to 5.7 million in February from 5.6 million but remain somewhat lower than levels reached over the past two summers.

—Josh Zumbro

FLORIDA

Wildfires Prompt State of Emergency

Governor Rick Scott declared a state of emergency because of the number of wildfires burning around Florida.

Mr. Scott issued the order Tuesday morning.

Officials said wildfires in Florida had already burned substantially more terrain in the first three months of 2017 than during the year-earlier period. There were more than 100 active wildfires across more than 20,000 acres in the state.

Agriculture Commissioner Adam Putnam said Florida hasn't seen this active of a wildfire season since 2011.

Declaring a state of emergency allows Mr. Scott to deploy any firefighting forces or resources needed and to help distribute supplies and materials.

—Associated Press

U.S. NEWS

Gorsuch Battle Blurs Law, Politics

By JESS BRAVIN

The bruising partisan process that preceded the swearing-in of Neil Gorsuch on Monday to the U.S. Supreme Court recalled less the stately self-image of the federal bench than the sharp-elbowed, much criticized retail politics most states use to elect their judges.

Unlike any of its recent predecessors, the Gorsuch appointment explicitly was tied to the election cycle, beginning within hours of Justice Antonin Scalia's February 2016, death when Senate Majority Leader Mitch McConnell (R., Ky.) posted on Facebook that the "vacancy should not be filled until we have a new president."

The fight over President Donald Trump's nominee was fueled by millions of dollars spent by political organizations promoting and attacking the two federal judges nominated for the seat: Justice Gorsuch this year; and last year Merrick Garland, whose chances died when Senate Republicans refused to consider anyone proposed by then-President Barack Obama.

Advertising directly targeted voters, urging them to pressure senators either to approve or reject the nominees.

"It certainly brings us all a lot closer together, doesn't it?" said Michael Wolff, a retired chief justice of the Missouri Supreme Court who said federal judges sometimes exhibit a condescending attitude toward their state counterparts. "You can't look quite that far down your nose at state judges," he said.

Perhaps more important, legal experts say, the significance of third-party advertising could trigger ethical concerns or even recusals at the Supreme Court if funders bring cases there. The high court itself has found that under the Constitution's Due Process Clause, extraordinary levels of independent spending in a state judicial race can force a judge off a case.

The Judicial Crisis Network,



Justice Neil Gorsuch leaving the Rose Garden with his wife, Louise, after taking the oath of office from Justice Anthony Kennedy.

an advocacy group that heavily advertises conservative candidates in state judicial elections, says it spent \$7 million supporting last year's Republican line against granting Judge Garland a hearing and \$10 million since January to push Justice Gorsuch's confirmation. A liberal advocacy group, the Constitutional Responsibility Project, says it spent \$1 million in an effort against the Trump nominee.

Neither group is legally required to disclose its donors, and neither does.

Nowadays, "the bare-knuckled side of judicial elections sometimes spills over into the generally more dignified process of selecting federal judges," said Brent Benjamin, a former justice of the West Virginia Supreme Court of Appeals. "The danger is that we move away from an emphasis on 'Will he be a good justice?' to the more polarized questions, 'Will he be my good justice' or 'Will he be their good justice?'"

Mr. Benjamin knows these concerns firsthand. In 2004, he ousted an incumbent through a campaign notable for the \$3 million a powerful litigant, Massey Energy Chief

Executive Don Blankenship, spent on Mr. Benjamin's behalf.

Three years later, Justice Benjamin joined a 3-2 majority overturning a \$50 million verdict against Massey for misconduct against rival coal executive Hugh Caperton. Mr. Caperton appealed to the U.S. Supreme Court, which in 2009 held that Justice Benjamin should have recused himself from the case.

It didn't matter, the opinion by Justice Anthony Kennedy found, that Mr. Blankenship's spending complied with state law, or that nothing suggested collusion with Justice Benjamin.

"Though not a bribe or criminal influence, Justice Benjamin would nevertheless feel a debt of gratitude to Blankenship for his extraordinary efforts to get him elected," the court said. Precedent required rules to guard against "a judge who simply misreads or misapprehends [his own] real motives at work in deciding the case...under a realistic appraisal of psychological tendencies and human weakness."

Justice Kennedy may not have imagined such issues ap-

plying to federal judges, said Dmitry Bam, a law professor at the University of Maine. One reason is life tenure. While all judges may feel gratitude toward those who helped secure their jobs, federal judges don't need to raise funds for re-election. Still, Mr. Bam said, "intuitively there's not much difference" between political ads for state and federal judicial candidates.

"The public would see it as problematic that the very interests who spent money on your candidacy or your confirmation hearing are now appearing before you as a litigant," he said.

Carrie Severino, policy director for the Judicial Crisis Network, says her organization's spending shouldn't trigger such concerns.

"JCN is not a party before the court, so it's a very different situation," she said.

That may not be true, however, for groups like the National Rifle Association, which said it spent \$1 million on pro-Gorsuch ads and is deeply involved in litigation seeking to expand access to guns.

"President Trump chose a pro-gun judge for the Supreme Court," said an NRA ad that ran in North Dakota. "Tell Heidi Heitkamp: Say no to Chuck Schumer and the liberal elites. Vote to confirm Judge Neil Gorsuch. The North Dakota men and women of the National Rifle Association are responsible for the content of this advertising."

Sen. Heidi Heitkamp was among three Democrats to join 51 Republicans voting for Justice Gorsuch.

A Gorsuch representative couldn't be reached for comment. Responding to senators' questions, the nominee said he would recuse himself from "cases that might give rise to an actual or apparent conflict of interest," although the Supreme Court has no code of conduct and each justice decides for himself whether to recuse in a particular case.

A spokeswoman for the NRA had no comment.

In Engineering, Gender Gap Sticks

By MELISSA KORN

Computer science and engineering are gaining in popularity as undergraduate and graduate courses of study. But in a trend that could further solidify for decades a gender-based earnings gap, men continue to flock to those lucrative disciplines in significantly larger numbers than women.

Nearly half of all bachelor's degrees earned in the sciences and engineering in the 2015-2016 academic year went to women, according to new data from the National Student Clearinghouse Research Center. That is in large part because of the popularity of psychology, biology and social-science programs. Women earned 21% of undergraduate engineering degrees and an even smaller share in computer science.

More than twice as many women received bachelor's degrees in psychology last year as they did undergraduate degrees in computer science, engineering and the physical sciences combined. Women accounted for 77.6% of all bachelor's degrees in psychology last year and earned 57.6% of all undergraduate degrees across disciplines in the 2015-16 academic year.

Overall, schools awarded 552,458 bachelor's degrees in science and engineering last

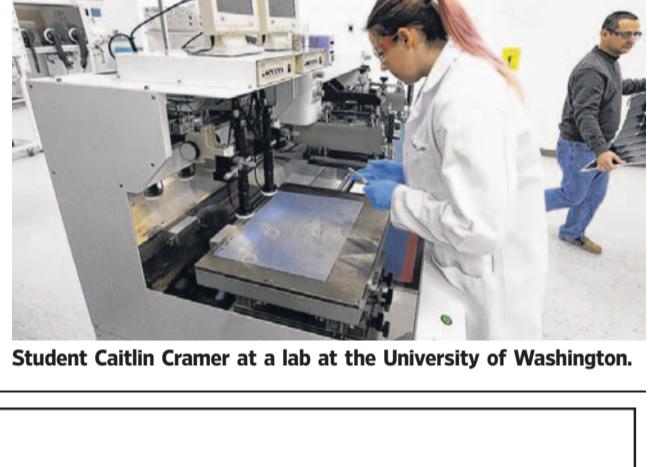
year, up 44% from a decade earlier. They handed out another 142,503 master's and doctoral degrees last year, an equivalent increase on a percentage basis.

Doug Shapiro, executive research director of the National Student Clearinghouse Research Center, said the split illustrates the importance of tracking outcomes not just for the sciences broadly, but at different degree levels and within specific fields of studies.

The gender split in so-called STEM programs has long frustrated school officials, who increasingly offer special boot camps, internship programs and mentoring opportunities to help boost the ranks of women in those fields. But so far, at least, those initiatives have yielded little fruit in evening out the share of men and women who pursue such degrees.

While overall numbers increased, the share of bachelor's degrees earned by women outright fell over the past decade in earth, atmospheric and ocean sciences; mathematics; computer sciences; and biology.

"If we had a silver bullet, it would be solved already," said Erin Cech, an assistant professor of sociology at the University of Michigan who called the biases that eat away at women's confidence in the fields "pernicious" and stubborn."



Student Caitlin Cramer at a lab at the University of Washington.

TED S. WARREN/ASSOCIATED PRESS

THE WALL STREET JOURNAL.

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Janice Lee

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Chairman, Greater China,
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Japan Institute of International Affairs
Ambassador to the U.K. (2004-2008)

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Regions, Honeywell International
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American Chamber of Commerce in Shanghai
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Huiyao Wang

Founder and President,
Center for China and Globalization
Counselor, China State Council

Yuanqing Yang

Chairman and CEO, Lenovo

IN DEPTH

GAMES

Continued from Page One
of Duty: Advanced Warfare," one of the best-selling games of 2014 in the U.S., worked for outside companies or were independent contractors, according to credits listed on the videogame database MobyGames. About 70 contracting firms are in the credits of "Final Fantasy XV," released in November by Square Enix Co.

The videogame industry's contractor-heavy model resembles Hollywood studios, which hire temporary workers ranging from directors to actors to publicists to make a film and have few long-term obligations after its release.

The difference between games and movies is that long-time work practices and unions in Hollywood provide a safety net for many actors and writers, whether on the job or between projects. People who make videogames are often hired quickly through Craigslist and gaming website Gamasutra or by word-of-mouth—and then are let go just as fast.

At the end of some subcontracting chains are 16- and 17-year-olds working from their bedrooms or school libraries. Ryan Morrison, a New York lawyer who represents game companies and developers, said he has drafted about 500 contracts in the past three years that required parental consent.

Companies say the result is just-in-time production fueled with human capital. By outsourcing low-value work or renting high-value expertise needed for a short time, game makers like Psyonix can focus on what they do best.

Outsourcing means studios "can in fact make very large games while still staying small," Anton Wiegert, the head of outsourcing at Guerrilla Games, owned by PlayStation console maker Sony Corp., wrote in an essay in 2014.

Revenue from videogames hit \$75 billion last year, double the world-wide sales from movie tickets, according to PricewaterhouseCoopers LLP, the auditing and consulting firm.

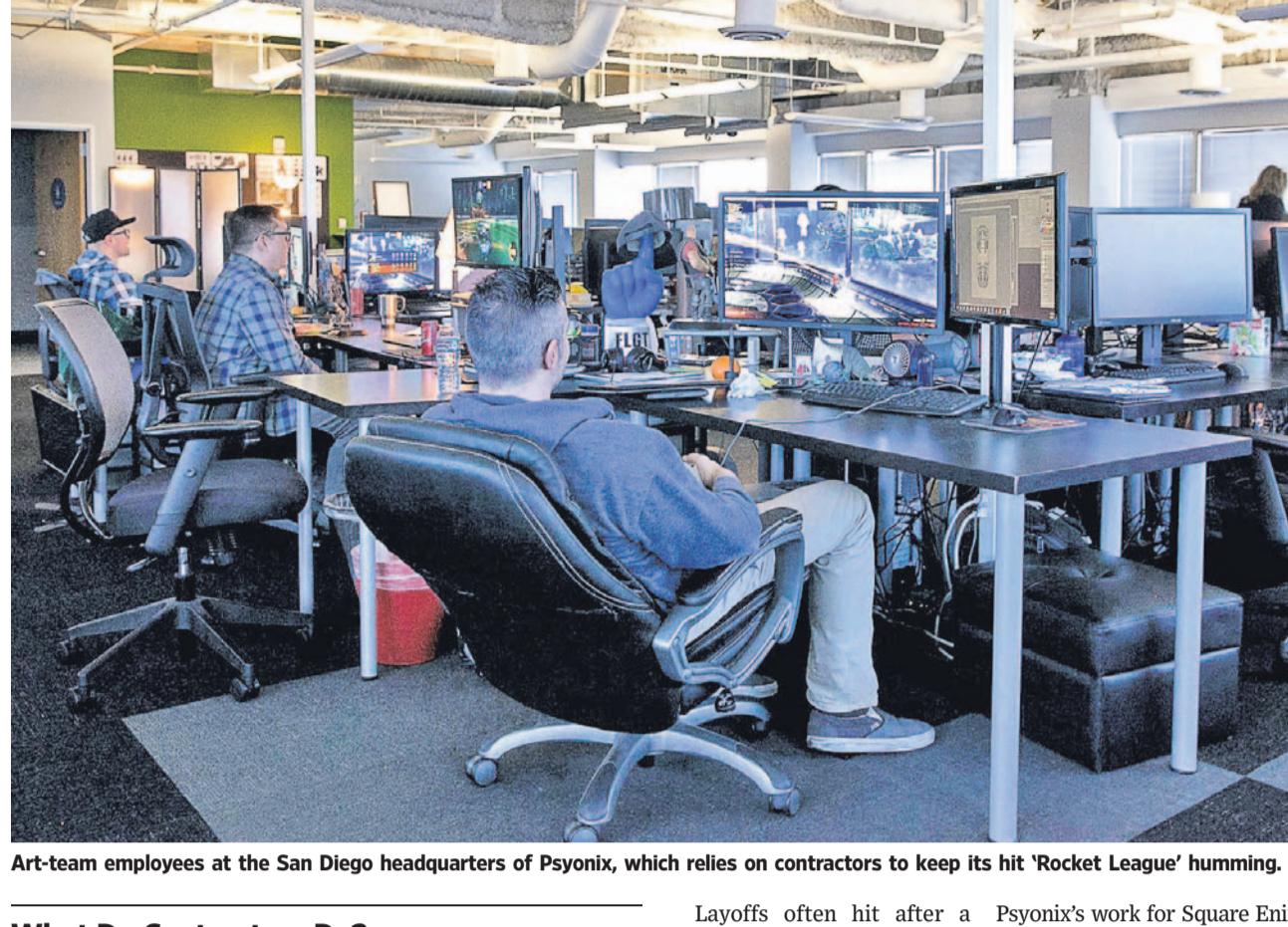
The videogame business is emblematic of a wider shift toward project-based work. Casey O'Donnell, a game developer and game-studies professor at Michigan State University, said the industry "is a decade ahead of where a lot of other industries are going."

Fast shift

In the white-collar world, pharmaceutical companies are already packaging drug development into projects led by a team of employees who oversee a larger, mutable cast of outsourced research firms. Law firms are doing the same thing with complex litigation cases.

The shift is happening so fast that the federal Bureau of Labor Statistics recently proposed adding "project management specialist" next year to the official list of job titles used to track the workforce.

While companies clearly benefit from the flexibility of such arrangements, workers often reap less in the bargain. Adrienne Hunter, 30 years old, said she was a contract worker for Nintendo Co.'s U.S. subsid-

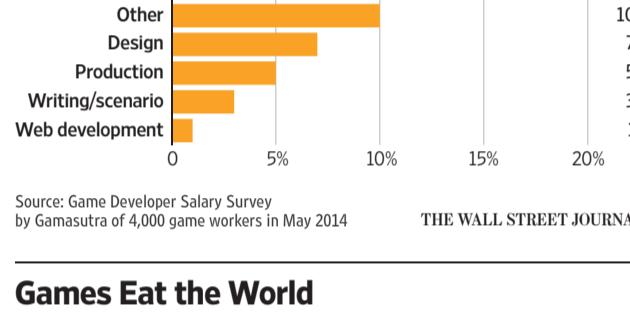


ARIANA DREIFELD FOR THE WALL STREET JOURNAL

Art-team employees at the San Diego headquarters of Psyonix, which relies on contractors to keep its hit 'Rocket League' humming.

What Do Contractors Do?

Many videogame contractors work on art, programming and helping to keep the games running smoothly.

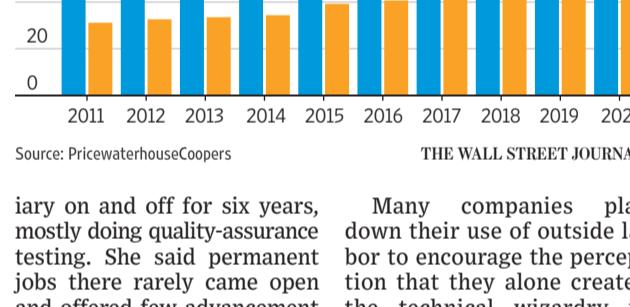


Source: Game Developer Salary Survey by Gamasutra of 4,000 game workers in May 2014

THE WALL STREET JOURNAL.

Games Eat the World

Videogame revenue is nearly twice as large as movie-ticket sales and is expected to grow almost 5% a year through 2020.



Source: PricewaterhouseCoopers

THE WALL STREET JOURNAL.

iary on and off for six years, mostly doing quality-assurance testing. She said permanent jobs there rarely came open and offered few advancement opportunities.

When dozens of testers crowded through the exit of the high-security room to take company-mandated breaks from trying games that were about to be released, the testers sometimes mowed to show they felt like cattle, Ms. Hunter said. She now works as a design director at a virtual-reality startup.

Nintendo spokesman Charlie Scibetta said the company treats "all people with the same respect, regardless of their employment status." The game maker uses a hybrid approach of full-time and contractor positions so we can staff up quickly when needed," he said.

Mr. Scibetta said about one-third of Nintendo's full-time, entry-level positions in the past five years were filled by former contractors.

Many companies play down their use of outside labor to encourage the perception that they alone created the technical wizardry in their games. Game developers said outsiders are sometimes required to sign "secret team" contracts in which they agree to be left out of the game's production credits.

About 20 years ago, when the first versions of "Tomb Raider" and "Grand Theft Auto" were highly popular, companies directly employed almost everyone who worked on their games. Game creators staffed up with artists specializing in 3-D modeling and programmers capable of writing code for game consoles, personal computers and then online.

Teams at some stages of the production process ballooned, but it was tough to keep everyone busy, said Scott Hartsman, chief executive of Trion Worlds Inc., best known for the fantasy role-playing games "Rift" and "Trove."

In recent years, the company has slapped the full "Charlotte" name on premium-label goods, like a brand of chocolate bars.

Starting in 2015, the Lotte Group began experiencing some serious *Sturm und Drang* as it lurched from one mishap to the next. A bruising succession fight between two sons of Mr. Shin, now 94, played out in public view, derailing a planned initial public offering of Hotel Lotte Inc. that was to be South Korea's biggest ever.

Lotte was implicated as one of the conglomerates that donated money to entities allegedly controlled by a friend

"Werther" has played for 15 years.

Lotte Group puts a copy of "The Sorrows of Young Werther" in the night-table drawer of guest rooms in most of its 24 hotels around the world (though not in the Lotte Palace hotel in Midtown Manhattan). At the high-end Lotte Hotel in downtown Seoul, a two-story-tall illuminated gold-hued statue of Charlotte stands in a glass case.

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Layoffs often hit after a game was released, which was hardest on workers who were let go and damaged morale for those who stayed. "It was like 'Welcome to the family!'" he said. "Then we released the game, and it was 'See you later!'" Outsourcing became a solution to the hire-and-fire cycle, Mr. Hartsman said.

Unreal Engine

In 1995, Psyonix's Mr. Hagewood dropped out of North Carolina State University in Raleigh to run a web-hosting company. He wound up working as a "modder," or someone who modifies game code to add custom features, at Epic Games Inc., of Cary, N.C.

Mr. Hagewood, then 28, helped Epic Games modify Unreal Engine, a software tool that helps developers build intricate visual worlds. For two years, he also closely observed CEO Tim Sweeney, other executives and game designers for lessons on how to run his own game maker someday.

"I always liked vehicles that could jump," Mr. Hagewood said.

He started Psyonix in 2001 and kept the fledgling company alive with contract work for larger studios that wanted help satisfying demand for visually dazzling, multiplayer games.

It was hard to ensure a steady flow of work. Mr. Hagewood said clients sometimes canceled games with little notice or failed to meet deadlines. Taking on more projects could swamp his small workforce if too many games went forward at the same time.

Contracting can be a brutal way to make money. Publishers wary of investing too heavily in a game that might never make it to market impose high-pressure requirements on their contractors.

While Psyonix worked for companies like Square Enix and BioWare, now owned by Electronic Arts Inc., a small team at Psyonix remained focused on creating its own games.

"Rocket League is our baby," said Sarah Hebbler, Psyonix's executive producer. Before "Rocket League" was released, she oversaw

Psyonix's work for Square Enix on the multiplayer vampire game "Nosgoth."

Psyonix had inklings that "Rocket League" would be a hit. Players who received test versions of the game raved about it in online discussion boards, and Sony agreed to give free downloads to premium PlayStation subscribers.

"Rocket League" downloads surpassed Psyonix's forecast within hours of its release in July 2015. Servers hosting the game's software crashed.

Mr. Hagewood emailed former colleagues at Epic Games and asked whom they turned to when in need of outsourced help. Psyonix had 36 employees at the time.

As the game's popularity has grown, so has Psyonix's use of outside help. Panic Button LLC, of Austin, Texas, converted the software in "Rocket League" for use on Microsoft Corp.'s Xbox and Sony's PlayStation 4 Pro.

Accenture calls it the 'liquid workforce,' which can be turned on and off like a faucet.

Panic Button has 25 employees, including engineers and artists who work on projects for as many as six clients. Temporary workers on month-to-month contracts plug staffing holes.

"It would be ideal if one project ended while another was beginning, but it doesn't work that way," Panic Button general manager Adam Creighton said.

Less than half of the people doing quality-assurance testing on "Rocket League" are full-time Psyonix employees. The rest work in Montreal for a unit of Keywords Studios PLC, based in Dublin and a global contractor for the game industry. Amazon.com Inc. unit Twitch Interactive Inc. manages a live-events business where spectators pay as much as \$95 to watch "Rocket League" teams compete in venues like the Avalon Hollywood nightclub.

Psyonix is looking for an-

other contracting firm to help manage the game's server capacity. Some players have complained that server problems are kicking them out of the game and making it hard to join matches.

Quality control constantly nags at Mr. Hagewood. He disliked feeling micromanaged when Psyonix did outsourced work for other game makers. But contractors don't always deliver at the pace they promise and sometimes farm out work to another company or group of developers, even though contracts often prohibit subcontracting or require approval, he said.

The company's previous testing contractor, Digital Hearts USA Inc., this month began reclassifying independent contractors as employees.

Eric Kwan, quality-assurance director at the Torrance, Calif., company, a unit of Japan's Hearts United Group Co., said the change will help Digital Hearts retain its best testers.

Until now, "if someone else offered them an employee position, they'd most likely take it, and they'd be smart to take it," Mr. Kwan said.

It can take longer for Psyonix to solve problems because employees and contractors usually don't communicate face-to-face. The contractors are spread across multiple time zones.

From noon to 9 p.m. Central time, Ana Morazán answers players' questions about "Rocket League" from the second-floor study of her family's home in Tegucigalpa, Honduras. She works for 5CA, a customer-service outsourcing firm based in Utrecht, Netherlands, earning \$7 an hour, about double the average in Honduras.

Ms. Morazán, 24, has little contact with Psyonix employees beyond seeing occasional notes from them in a shared database where customer-service agents log information and updates. She often chats online with colleagues and managers at 5CA.

"I don't feel like I'm alone," said Ms. Morazán, who has begun playing "Rocket League" in her off time.

Close-knit culture

Outsourcing helps Mr. Hagewood preserve the close-knit culture at Psyonix. On Friday nights, employees have dinner and "wrap-up" meetings, often staying late to drink beer and battle in Nintendo's "Super Smash Bros." while sprawled on four tattered recliners.

During the workday, employees' dogs, with names like David Bowie and Gary Busey, amble around the office or lay by their owners' feet. Employees catch up in the office kitchen while helping themselves to Red Bull or coconut water from the refrigerator and beef jerky from the walk-in snack closet.

Psyonix said contractors aren't necessarily cheaper than employees because overseeing outsourced labor is so time-consuming.

For every new contract arrangement, Psyonix must hire or assign someone to manage the work. On the other hand, renting labor only when it is needed means the company isn't "paying for someone's downtime," Mr. Hagewood said.

—Sarah E. Needleman contributed to this article.

LOTTE

Continued from Page One
his new chewing-gum company for its character in 1948.

Over the course of nearly seven decades, the company has grown to become one of the region's most ubiquitous brands, spanning chemicals, insurance, construction, movie theaters, luxury hotels and the Korean franchises of 7-Eleven and T.G.I. Friday's.

Two professional baseball teams, one in Japan and one in South Korea, bear Lotte's name, as does a chain of hamburger joints, Lotteria, which has more than 1,000 locations in South Korea alone.

When Marla Stukenberg, who runs the Korea branch of the Goethe-Institut, Germany's overseas cultural association, arrived in Seoul's airport last year, she was shocked to see the Lotte name on buildings and billboards. "I saw Lotte, Lotte, and I thought, 'What is this? Can it be? Is this just a coincidence?'" Ms. Stukenberg recalls.

As the company navigates one of the rockiest periods in its history, Goethe's anguished tale has served as a spiritual and moral guide," says Park Hyun-chul, chief executive of Lotte Corp., in an interview.

Executives like Mr. Park and the Lotte founder's son, current Chairman Shin Dong-bin, say they were particularly struck by the intensity of the passion that Werther felt for Charlotte, and the fact Charlotte was so beloved that men would die for her. "We want Lotte to be beloved by everyone, just like Charlotte was," Mr. Park says.

The obsession with Goethe's tale of unrequited love has deep psychological roots, say scholars, who point to the Korean concept of *han*, or unresolved sorrow.

One of the country's longest-running musicals, "Werther," was written by a Korean playwright who fell in love with Goethe's tale. Produced by CJ Group, one of the country's biggest conglomerates and a spinoff of the Samsung business empire,

"Werther" has played for 15 years.

Lotte Group puts a copy of "The Sorrows of Young Werther" in the night-table drawer of guest rooms in most of its 24 hotels around the world (though not in the Lotte Palace hotel in Midtown Manhattan).

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Lotte was implicated as one of the conglomerates that donated money to entities allegedly controlled by a friend

of the president, a political scandal that led to the South Korean president's downfall this year. The company denies wrongdoing.

Separately, prosecutors brought corruption charges against five family members, including the chairman and the feuding sons. In both cases, currently in the courts.

While Lotte executives

say Goethe's tale has provided some perspective. At Lotte World Tower late last year, Mr. Park, the Lotte executive, unveiled a 17-foot bronze statue of Goethe, a \$1.4 million replica of a marble statue in Berlin's Tiergarten. Within days, there was a bright spot for the company: Lotte was awarded a new duty-free license by the Korean government.

"It's a good-luck charm," says Mr. Park, who first read "The Sorrows of Young Werther" about 30 years ago. He says he was struck by how unlike a typical love story it was. "I felt the anguish of not

being able to fulfill your dreams," he says.

The elder Mr. Shin has said he was deeply moved by the book's theme of hopeless, tragic, unresolved sadness, a Lotte spokeswoman says.

Despite Werther's impassioned pleas for Charlotte's hand, she marries another. Werther considers challenging her fiancé to a duel, but instead kills himself.

Before the founder became a chewing-gum magnate, he had wanted to be a novelist or a poet, says his son, the younger Mr. Shin, and

LIFE & ARTS

WORK & FAMILY | Sue Shellenbarger

Teen Girls: How to Help

Psychologists and others weigh in on navigating through critical stages

SCREAMING, slamming doors and careening from one emotional outburst to the next—all can be part of life with a teenage girl.

Although girls approaching their teens are often years ahead of boys in gaining height, language and social skills, those

strengths mask some important vulnerabilities.

Questions about helping teen girls thrive are a source of interest for psychologists and neuroscientists, sparking more than three dozen studies in the past year. Here's a guide to the findings:



Ages 10 to 11

Early signs of puberty set in sooner than many parents expect. Girls begin staying up later and having their first crushes. Many are beset by strong, volatile emotions, ending a period of relative calm from ages 6 to 11, says Lisa Damour, a psychologist and director of the Laurel School's Center for Research on Girls in Shaker Heights, Ohio.

Some girls mature faster and begin menstruating at age 10 or 11, compared with an average of 12 to 13. Early-maturing girls are at higher risk of behavior problems and depression. Girls who look older than their years often attract older peers who may lead them into risky behaviors.

Early-maturing girls who hang out with school friends the same age, rather than older friends from outside school, fare better. Also, those who say they're close to parents and can talk with them about many things have a better chance of thriving, research shows.



Ages 14 to 15

Girls' interactions with parents can take a negative turn, and some become pessimistic in the face of challenges. Boys offered a chance to win rewards in a Wheel of Fortune-like game became excited and motivated, while girls said the challenge made them anxious, says a 2017 study of 167 teens with an average age of 14.

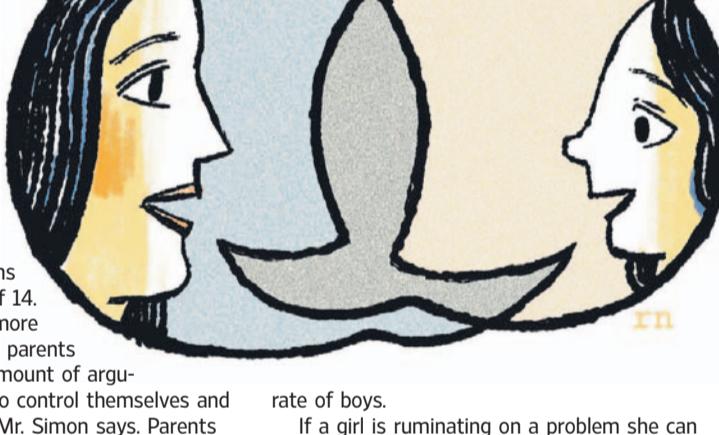
Girls tend to have more negative conflicts with parents than boys. A certain amount of arguing helps teens learn to control themselves and negotiate differences, Mr. Simon says. Parents who can listen with respect and disagree calmly make teens feel as if their opinions matter, helping build a sense of identity.

Some teens, however, unconsciously dump negative feelings on a parent so Mom or Dad will feel bad in their stead, says Dr. Damour, author of "Untangled," a best-selling book on raising adolescent girls. They also tend to make bad feelings worse by ruminating or brooding over them. Rumination is linked to depression in teen girls, who suffer the malady at nearly twice the

rate of boys.

If a girl is ruminating on a problem she can do something about, help her get started on working toward a solution, Dr. Damour says. If it's something she can't change, help her find a happy distraction.

Teen girls who embrace goals that involve helping others also have a higher likelihood of thriving. Such teens tend to have parents who trust them and listen when they talk about problems, says a coming study of 207 girls led by Belle Liang, a professor of counseling and psychology at Boston College.



Ages 12 to 13

Girls typically are more skilled than boys at expressing their emotions and interpreting others' moods at this stage. They're quicker to grasp nuances of humor.

Girls are also more vulnerable to stress than boys. A stress hormone that has a calming effect on teen males and adults may make teen girls more anxious, based on research on female rats. And teen girls are more sensitive to rejection, showing a sharper rise in stress hormones when trained peers in laboratory simulations exclude them from conversations, according to a 2017 study of 59 children and teens led by Laura R. Stroud, a senior research scientist at Brown University's Warren Alpert Medical School.

Girls whose parents give them strategies for solving social problems—by suggesting they join a school club to meet peers with similar interests, for example—have stronger friendships, according to a 2017 study which surveyed 123 middle-schoolers and their parents and teachers twice over 10 months.

Girls also need help managing strong emotions, Dr. Damour says.

One eighth-grade girl screamed in distress after finding out about a bad grade online, as if "she walked into a mass-murder scene," the girl's father told researchers in a 2016 study.

Parents should avoid overreacting. "The No. 1 mistake parents make when their kid is in distress is to jump in to solve the problem," says Michael Y. Simon, an author and school counselor in New Orleans.

Simply helping a girl name what she's feeling and talk about it can have an almost mag-

ical calming effect, Dr. Damour says. Teens who are able to ask for and receive support and problem-solving help from their mothers at age 13 tend to be more independent and better educated at 25, according to a 12-year study of 184 subjects.

Some girls try to cope by sharing too much or attacking others on social media, which tends to amplify bad feelings. Dr. Damour advises curbing social-media use and guiding girls toward face-to-face activities instead.



ILLUSTRATIONS BY ROBERT NEUBECKER

YOUR HEALTH | Sumathi Reddy

THYROID CANCER RATES RAISE NEW CONCERN

TWO NEW STUDIES SHOW that the high incidence of thyroid cancer may be more dangerous than previously thought.

A study published in *The Journal of the American Medical Association* (JAMA) last month raises new questions about why thyroid cancer cases are on the rise. Data from a separate study points to flame retardants as a possible culprit.

The research could cause a shift of doctors' and researchers' long-held beliefs that the fast-growing rate of thyroid cancer cases is the result of unnecessary diagnoses involving small tumors that don't lead to death.

The JAMA study showed that the incidence of thyroid cancer has more than tripled over the past four decades, and this includes larger tumors and patients with more deadly disease. The Duke University and National Cancer Institute researchers also found that mortality for thyroid cancer patients has been rising slightly for the past two decades. Compared with other cancers, though, survival rates for thyroid cancer are still overwhelmingly high.

"Tumors of all sizes are increasing significantly, which goes against overdiagnosis as the sole explanation for the epidemic of the disease," said Julie Sosa, chief of endocrine surgery at Duke University and co-author on the JAMA study.

Thyroid cancer is the fifth most common cancer in women, often striking young and middle-aged women. Patients don't usually have symptoms until it's in an advanced stage, when they may have trouble breathing or swallowing, feel pressure in the neck or notice a change in their voice. Sometimes there is a lump in the front or side of the neck.



The NCI and Duke researchers tracked the number of thyroid cancer cases from 1974 to 2013 and found there was an increase of 3.6% cases a year on average with mortality increasing 1% a year since 1994, said Cari Kitahara, an investigator at the NCI, part of the federal National Institutes of Health, and a senior author on the JAMA study.

The majority of cases diagnosed during

the study period—about 84%—were papillary thyroid cancers. Papillary thyroid cancer is the most-common type of thyroid cancer and generally the slowest growing.

There was a 2.4% average increase a year in papillary thyroid cancer cases involving metastatic tumors that have spread. Additionally, there was a 6% increase in tumors that are large—at least four centimeters in diameter.

The researchers speculated that rising thyroid cancer cases could be related to increasing obesity rates and declining smoking rates since smoking is protective against developing thyroid cancer—though medical experts are quick to note they would never advocate smoking as a prevention tool. A third possible explanation is exposure to endocrine-disrupting chemicals commonly found in household objects. The chemicals are commonly used to reduce the flammability of many household objects, such as furniture and electronics.

In a separate study, whose results were presented at the Endocrine Society's annual meeting in Orlando, Fla., earlier this month, Dr. Sosa and colleagues at the Nicholas School of Environmental Health at Duke University found that higher exposure to three types of flame retardants was associated with papillary thyroid cancer. The data are currently under review for publication.

Bryan Haugen, professor of medicine and pathology at the University of Colorado in Aurora and a thyroid cancer specialist, said the majority of new thyroid cancer cases are still due to detection but the JAMA study clarifies the fact that there's a "small but real component of a real increased incidence."

Still, even with the increase, he noted that thyroid cancer still has a very low mortality rate. "Most people live a good full life with a diagnosis," he said.

OPINION

REVIEW & OUTLOOK

Obama's Debt Interest Bomb

President Obama left his successor many time bombs—think chemical weapons in Syria and the collapsing Affordable Care Act. But a burning fuse that gets less attention showed its first signs of the explosion to come in Friday's Congressional Budget Office budget review for March: Rising net interest payments on the national debt.

The CBO reported that the federal budget deficit rose \$63 billion in the first half of fiscal 2017 (October–March) to \$522 billion from a year earlier. But here's the especially bad omen: Net interest payments rose \$7 billion, or 30%, in March from a year earlier.

If that seems small, consider that interest

Rising interest payments are already showing up in the federal fisc.

This not-so-free Fed lunch is starting to end. The CBO estimates that \$160 billion more spending will be required each year over the next decade if interest rates are merely one percentage point higher than in its current projections. As interest rates rise, the Fed will also have to pay banks more to keep excess reserves parked

at the central bank. After its latest rate increase in March, the Fed now pays banks 1% on reserve balances or about \$20 billion a year, and that will go up.

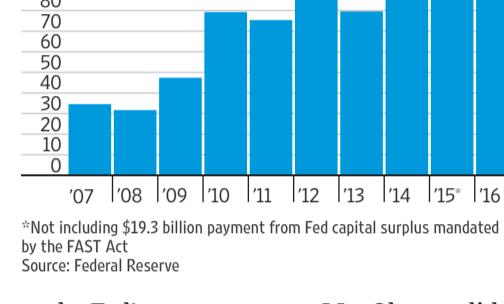
Fed officials are also now hinting that this year they may finally stop buying new securities when the current bonds on its balance sheet come due. This is necessary and long overdue, but it will mean smaller Fed contributions to the federal budget than the more than \$90 billion the Fed has turned over in recent years. (See the nearby chart.)

All of this is set to explode on President Trump's watch, and it will complicate the task for Republicans as they try to reform the tax code within tighter budget constraints.

Mr. Obama didn't expect a Republican to succeed him but we doubt he regrets this result. He was able to live off the eight years of accommodative Fed policy while seeding the federal fisc with ever-higher spending from interest payments and the Affordable Care Act after he leaves office. Mr. Trump is stuck with the bar tab. It's one more mess Mr. Obama left others to clean up.

The Fed's Budget Bonus

Federal Reserve remittances to the U.S. Treasury, 2007–2016, in billions of dollars



*Not including \$19.3 billion payment from Fed capital surplus mandated by the FAST Act

Source: Federal Reserve

While Mr. Obama was doubling the national debt over eight years, the Fed's monetary policies spared him from the fiscal consequences. The Fed's near-zero policy kept interest rates at historic lows that reduced net interest payments even as the overall debt increased. The Fed's bond-buying programs also earned money that the Fed turned over to Treasury each year, reducing the size of the federal budget deficit by tens of billions of dollars.

Behind Le Pen's Ideological Face Lift

Marine Le Pen has spent years trying to clean up the French National Front's image as a party of cranks, anti-Semites and apologists for the Nazi-collaborationist Vichy regime. Then the mask slid back down on Sunday as the far-right Presidential nominee reminded the world that Holocaust revisionism still lives in the Front.

Ms. Le Pen in an interview said that "France isn't responsible for the Vel d'Hiv," a reference to the rounding up of more than 13,000 Jews—including some 4,000 children—in July 1942. Nazi occupiers, with the help of the Vichy regime of Marshal Pétain, crowded the victims into a cycling stadium before dispatching them to concentration camps. The majority were sent to Auschwitz.

Ms. Le Pen lamented how such historical events had been used to teach French children to be ashamed of the French past. She added: "If there are people responsible, it's those who were in power at the time. It's not France."

This is an historical evasion. Many French fought the Nazis, but the scale of French col-

laboration was vast, with some 350,000 French citizens purged or punished after the war for collaboration. Current French President François Hollande and the center-right former President Jacques Chirac have accepted state responsibility for the Vel d'Hiv episode and apologized.

Ms. Le Pen's remarks suggest backtracking and revisionism, which is why they drew condemnation from France's Jewish leaders as well as Israel's foreign ministry.

The comments echoed the National Front of Ms. Le Pen's father, Jean-Marie. Mr. Le Pen in 1987 described the Holocaust as a "detail in the history of World War II" and more recently suggested that "Mr. Ebola" could solve the world's "demographic" problems.

Emmanuel Macron, the centrist independent who is Ms. Le Pen's main Presidential rival, noted, "Some had forgotten that Marine Le Pen is the daughter of Jean-Marie Le Pen." With the first round of voting less than three weeks away, Ms. Le Pen is alerting voters to what has—and hasn't—changed in her party.

Taiwan Needs Submarines

Taiwan's recent announcement that it will build its own diesel-electric submarines has provoked skepticism across the defense industry. The island's shipyards lack experience constructing pressure hulls, and the local defense industry will struggle to provide the high-tech innards of a modern submarine, such as fire control and propulsion systems. So what is Taipei up to?

Taiwan certainly needs the subs to deter an invasion from mainland China, and the best option would be to buy them from a country with an existing production line. But Beijing has pressured the viable candidates not to sell to Taiwan.

In 2001 George W. Bush's Administration promised to develop and build conventional submarines for Taiwan. But the U.S. Navy and its backers were opposed because it only deploys nuclear-powered subs and it fears that if a U.S. company began to build diesel subs, then it might lobby Congress to acquire them. The Bush proposal also foundered on political opposition within Taiwan to spending the large sums to buy and operate the boats. The U.S. dropped the idea in 2008.

Since then Taiwan's defense situation has grown more dire. In 2009 a RAND study concluded that in the event of a mainland attack, the island would lose air superiority over its territory within a few days. China's armed forces have continued to advance in quality and quantity, while many of Taiwan's weapons are aging or obsolete.

China has also stepped up its bullying. After President Tsai Ing-wen was elected in January 2016, Beijing downgraded economic ties and again threatened to use military force if Taiwan refuses indefinitely to hold talks on reunification. The country's first aircraft carrier conducted a cruise around Taiwan in December and January, sending a pointed message to the island's population.

As China increases its threats, the U.S. can help the island's self-defense.

These moves seem to have shaken Taiwanese politicians out of their complacency. The government recently announced plans to increase military spending by up to 50% in 2018, bringing the island's defense budget up to the goal of around 3% of GDP that the U.S. has been urging for years.

The Trump administration now must decide what arms to sell Taiwan. The Obama Administration gave Beijing a parting gift by blocking a \$1 billion package last December. But merely reviving this deal is inadequate given that the U.S. has kicked the can on Taiwan's defense for two decades. It's also significant that the 2016 Republican Party platform included selling diesel-submarine technology to Taiwan. Building the subs in Taiwan would solve the problem of U.S. Navy opposition. And once the U.S. is involved, Japan and other nations could be convinced to contribute to the project.

Taiwan also needs many other weapons, such as new fighter aircraft to supplement its aging F-16s and Mirage 2000s. But subs are particularly important because they can survive a surprise attack. They would help Taiwan practice the same asymmetric access-denial strategy that the People's Liberation Army is pursuing against the U.S. That would force Chinese military planners to reconsider the viability of invasion scenarios.

The U.S. sale of submarine technology would carry symbolic weight precisely because Beijing has worked so hard to deny Taiwan this capability. Politically, the prospect of the U.S. ramping up support for Taiwan's defense would force China to reconsider its strategy of intimidating the island's population into submission. That would help stabilize the region and reduce the risk of the U.S. having to come to Taiwan's aid in a conflict. While Beijing would undoubtedly find ways to retaliate, the strategic benefits would outweigh the costs.

Paying the Deadly Price For Obama's Mendacity



Last week's cruise-missile strike against a Syrian air base in response to Bashar Assad's use of chemical weapons has reopened debate about the wisdom of Barack Obama's decision to forgo a similar strike, under similar circumstances, in 2013.

But the real issue isn't about wisdom. It's about honesty.

On Sept. 10, 2013, President Obama delivered a televised address in which he warned of the dangers of not acting against Assad's use of sarin gas, which had killed some 1,400 civilians in the Damascus suburb of Ghouta the previous month.

"If we fail to act, the Assad regime will see no reason to stop using chemical weapons," Mr. Obama said. "As the ban against these weapons erodes, other tyrants will have no reason to think twice about acquiring poison gas, and using them. Over time, our troops would again face the prospect of chemical weapons on the battlefield. And it could be easier for terrorist organizations to obtain these weapons, and use them to attack civilians."

It was a high-minded case for action that the president immediately disavowed for the least high-minded reason: It was politically unpopular.

The administration punted a vote to an unwilling Congress. It punted a fix to the all-too-willing Russians. And it spent the rest of its time in office crowing about its success.

In July 2014 U.S. Secretary of State John Kerry claimed "we got 100% of the chemical weapons out." In May 2015 Mr. Obama boasted that "Assad gave up his chemical weapons. That's not speculation on our part. That, in fact, has been confirmed by the organization internationally that is charged with eliminating chemical weapons."

This January, then-National Security Adviser Susan Rice said "we were able to get the Syrian government to voluntarily and verifiably give up its chemical weapons stockpile."

Today we know all this was untrue. Or, rather, now all of us know it. Any-one paying even slight attention has known it for years.

In June 2014 United Nations Ambassador Samantha Power noted "discrepancies and omissions related to the Syrian government's declaration of its chemical weapons program." But that hint of unease didn't prevent her from celebrating the removal "of the final 8% of chemical weapons materials in Syria's declaration" of its overall stockpile.

The following summer, The Wall Street Journal's Adam Entous and Naftali Bendavid reported "U.S. intelligence agencies have concluded that the [Assad] regime didn't give up all of the chemical weapons it was supposed to." In February 2016, Director

of National Intelligence James Clapper confirmed the Journal's story, telling Congress "Syria has not declared all the elements of its chemical-weapons program."

Why did Mr. Obama and his senior officials stick to a script that they knew was untethered from the facts? Let's speculate. They thought the gap between Assad's "declared" and actual stockpile was close enough for government work. They figured a credulous press wouldn't work up a sweat pointing out the difference. They didn't imagine Assad would use what was left of his chemical arsenal for fear of provoking the U.S.

And they didn't want to disturb the public narrative that multilateral diplomacy was a surer way than military action to disarm rogue Middle

The consequences of his administration's lies about Syria are becoming clear.

Eastern regimes of their illicit weapons. Two months after Mr. Obama's climb-down with Syria, he signed on to the interim nuclear deal with Iran. The remainder of his term was spent trying not to upset the fragile beauty of his nuclear diplomacy.

Now we're coming to grips with the human and strategic price of the Obama administration's mendacity. The sham agreement gave Assad confidence that he could continue to murder his opponents indefinitely without fear of Western reprisal. It fostered the view that his regime was preferable to its opponents. It showed Tehran that it could drive a hard diplomatic bargain over its nuclear file, given that the administration was so plainly desperate for face-saving excuses for inaction.

And it left Mr. Obama's successor with a lousy set of options.

Rex Tillerson and Nikki Haley erred badly by announcing, just days before last week's sarin attack, that the Trump administration had no plans to depose Assad. They gave the dictator reason to believe he had as little to fear from this U.S. president as he did from the previous one.

But, unlike their predecessors, the secretary of state and U.N. ambassador deserve credit for learning from that mistake—as does the president they serve. The core of the problem in Syria isn't Islamic State, dreadful as it is. It's a regime whose appetite for unlimited violence is one of the main reasons Islamic State has thrived. To say there is no easy cure for Syria shouldn't obscure the fact that there won't be any possibility of a cure until Assad falls.

Mr. Obama and his advisers will never run out of self-justifications for their policy in Syria. They can't outrun responsibility for the consequences of their lies.

Write bstephens@wsj.com.

LETTERS TO THE EDITOR

Limits on Authoritarianism in Hong Kong?

In your editorial "Hong Kong's New Boss" (March 27), you indicate that Beijing may face negative consequences if it decides to continue ignoring democratic and basic human rights in Hong Kong. What consequences? China remains a totalitarian state with imperial ambitions. Such nations only respond to forces that threaten their existence.

Since the British handover of Hong Kong to China in 1997, Beijing has effectively ignored the provisions of the handover agreement, which was to respect the tradition of democracy and basic human rights established under former British rule. Except for moderate public protests from successive U.K. governments and private cajoling, there hasn't been even the slightest hint of "hard" power from either the

U.K. or the West. Hard power doesn't have to be military force; it could be economic sanctions initially targeting the rulers in Beijing. But the West and the U.K. have made clear no such force will be forthcoming regardless of how China treats Hong Kong.

As for the negative consequences ensuing from the increasing resentment of the youth population in Hong Kong, Tiananmen Square comes to mind. The real negative consequence will be for any Hong Kong residents thinking of seriously challenging Beijing. If push comes to shove, history shows Beijing won't hesitate to apply military force to crush the opposition as the West idly watches, voicing empty protests.

S. LEVIN
Philadelphia

Gresham's Law of Bad Internet Journalism

In "Fake News and the Digital Duopoly" (op-ed, April 6), Robert Thomson describes the effect of a kind of Gresham's Law of Media: Bad "journalism" drives out good journalism.

Google and Facebook want the controversy to focus on the placement of ads near objectionable content, rather than on the often disgusting and hateful content itself. Their claims that they're taking the First Amendment high road by not banning or censoring things such as live streams of sexual assaults or incendiary hate speech ring very hollow.

Old media, such as The Wall Street Journal, which Mr. Thomson's company, News Corp., owns, every day exercise the responsible editorial judgment that Gresham's Law is relentlessly eroding in the online world.

Most of the trash that somehow qualifies as news online would never be allowed to be expressed or presented on a college campus. But it's perfectly fine to show bomb-building instructions on the "new"

The internet and all of its utilities are nothing but an extension of the office rumor mill and grapevine.

What's exceptional is that successful commercial firms would pay to be arbitrarily exposed on YouTube, Facebook and Google. Let it and them go!

Serious journalism is alive and well in spite of it all. Just check out the Journal's website.

AL HATHEWAY
Pasadena, Calif.

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OPINION

What Comes After the Syria Strikes

By Paul Wolfowitz

Strong American action can dramatically change the attitudes of other countries. It makes enemies more cautious, friends more supportive and fence-sitters more cooperative. It provides leverage in negotiations and improves opportunities for coalition building. Last week, President Trump demonstrated America's resolve by retaliating against the Syrian government after Bashar Assad used chemical weapons. Now Mr. Trump must follow through with a broad diplomatic effort to end the country's bloodshed.

With America's credibility restored, Trump should lead a diplomatic effort to replace Bashar Assad.

Among the most interesting reactions to the American strike were two from Iraqi Shiite leaders. On Thursday Prime Minister Haider al-Abadi, a moderate, and the cleric Moqtada al-Sadr, a firebrand, both called for Mr. Assad to step down. Mr. Sadr predictably denounced the U.S. strike. Mr. Abadi indirectly praised it by noting how Iraqis had suffered from Saddam Hussein's chemical weapons.

These calls for Mr. Assad to step down might seem at odds with the conventional wisdom, which puts the Sunni-Shiite conflict at the heart of ev-

erything in the Middle East. Shouldn't Iraq's Shiites naturally side with Iran's Syrian proxy and approve of Mr. Assad's brutal treatment of Sunni opponents? Yet there are issues more important than the sectarian divisions. The people of Iraq know well that the Assad regime has supported the insurgents and suicide bombers who have killed thousands of Iraqis, and hundreds of Americans, since 2003. The Bush administration largely turned a blind eye to that support, and President Obama did so even more.

In August 2009 then-Iraqi Prime Minister Nouri al-Maliki demanded that Syria hand over two Iraqis in Damascus who were believed to be connected to car bombings in Baghdad. The Obama administration, rather than support the Iraqi government—or even demand an investigation—said nothing for a week. The U.S. State Department then announced that America was officially neutral. Last week's decisive action was a different sort of American signal.

The U.S. can now lead the effort to bring some semblance of stability to Syria. Washington should recognize that peace is impossible with Mr. Assad still in power, but also that millions of Syrians—particularly the Christian and Alawite minorities—may feel endangered by the strongman's departure.

The aim should be to replace Mr. Assad's regime with new governance arrangements that can provide assurance to these minorities while also ending the current government's oppression of the country's Sunni majority.



ASSOCIATED PRESS

The destroyer USS Porter launches a Tomahawk missile on Friday.

Fashioning such an outcome would require diplomacy of extraordinary creativity. But the U.S. starts with a distinct advantage. Unlike Iran and Russia, America has no interest in exercising control over or acquiring a military position in Syria. As long as the bleeding stops, the U.S. would be happiest to leave Syria to the Syrians. So how can Washington strengthen its diplomatic effort in Syria and at the same time weaken Iranian influence in Iraq?

First, the U.S. should use public diplomacy to highlight the responsibility of the Assad regime for the suffering of thousands of innocent Iraqis over the past 14 years. This effort should also explain Mr. Assad's efforts to strengthen Islamic State. The dictator has tried to make his regime seem like the only alternative to domination by terrorists. He has done this by at-

tacking Syrian moderates and freeing imprisoned extremists who went on to become Islamic State leaders.

The U.S. should encourage Saudi Arabia to play a constructive role in Iraq by using its considerable economic weight to counterbalance Iranian influence. The Saudis have in the past shown a willingness to treat Iraq as an Arab partner and not a Shiite adversary. That realism, which was evident under an earlier Saudi leadership, seems to be re-emerging. Two months ago Saudi Foreign Minister Adel al-Jubeir visited Baghdad, the first such trip in 27 years.

The Trump administration should also counter the mistaken belief that Saudi Arabia prevented the U.S. from supporting the Shiite uprising against Saddam Hussein after the liberation of Kuwait. Many Iraqis, and even some

reputable historians, still believe this. Yet the truth is exactly the opposite. The U.S. should make public the record of Saudi efforts to persuade the first President Bush and President Clinton to support anti-Saddam Shiite rebels. It will be difficult for Saudi-Iraqi relations to develop without countering the belief that Saudi Arabia is partly responsible for mass graves of Iraqi Shiites.

U.S. diplomats should seek to engage the regional Arab players in addressing the difficult challenge of postconflict reconciliation. This will confront Syria in the aftermath of any peace settlement, and it will become important in Iraq once Mosul is liberated. Reconciliation processes that are suited to local cultures and deal with the horrific legacy of totalitarian Arab regimes cannot be overseen by outsiders. But the diplomatic effort should emphasize their importance regardless.

These political and diplomatic actions could complement and reinforce more-concrete measures to change facts on the ground in Syria, such as creating safe zones or imposing no-fly zones. These efforts won't be simple, nor will they yield immediate results. But this framework would go a long way in addressing the common danger of radical extremism and stemming the flow of refugees that has become a humanitarian disaster and a threat to U.S. interests.

Mr. Wolfowitz, a scholar at the American Enterprise Institute, has served as deputy defense secretary and ambassador to Indonesia.

The Contradiction in Japan's Monetary Policy

By Sayuri Shirai

When the Bank of Japan adopted yield-curve control in September 2016, it made a fundamental change to its quantitative and qualitative monetary easing (QQE) program and made a stark departure from its practice of volume-centered easing. But by simultaneously stressing its intention to continue the pace of Japanese government bond (JGB) purchases at about ¥80 trillion (\$719.27 billion) a year, the BOJ created confusion in the market. The resultant uncertainty risks destabilizing Japan's stock and foreign-exchange markets.

The objective of yield-curve control is to maintain a negative interest rate of minus 0.1% and to target the 10-year yield at around 0%. But this should be done in reaction to market forces. The BOJ should increase JGB purchases when there is strong upward pressure on longer-term yields, and reduce purchases when there is downward pressure.

Thus the BOJ's announcement that it intends to continue with JGB purchases of about ¥80 trillion not only contradicts the concept of yield-curve control, it gives the impression the BOJ is reluctant to ex-

pand purchases in defense of the 10-year yield peg.

This presumably reflects the BOJ's concern over negative market reactions. It may be worried that the new framework would be viewed as a step toward tapering or a cut in the amount of JGB purchases. Since January 2016, the BOJ has repeatedly emphasized its intention to expand monetary easing in three dimensions—quantity, quality and interest rate—as necessary. It stressed that it had room to expand its purchases given its holdings only accounted for 30% to 40% of the outstanding amount issued.

In July 2016, the BOJ expanded its monetary-easing program by increasing its purchases of exchange-traded funds to about ¥6 trillion. This limited action could have disappointed the markets, which had expected something bolder, but the BOJ suggested it also had a plan to achieve the 2% target as early as its September 2016 meeting.

Many market participants were gradually convinced that yield-curve control might enable a smooth shift away from the quantity-centered QQE without generating market disappointment. JGB yields rose and the yield curve steepened beginning at

the end of July 2016. Thus no significant changes to the yields were necessary come September.

With yield-curve control, the BOJ abandoned its guideline that JGB purchases had to have an average maturity of seven to 12 years. This resulted

Holding interest rates below zero while sticking to quantitative-easing targets is creating confusion in the market.

in fewer JGB purchases of longer-term yields and a focus on shorter-term yields. This steepening of the yield curve is in itself a de facto tightening of monetary easing.

The adoption of yield-curve control was the BOJ's response to growing criticism that had emerged since the adoption of the negative interest rate, an attempt to mitigate its adverse impact on financial institutions. Together with the JGB purchases, the negative-interest-rate policy went too far in reducing yields and flattening the yield curve. Lending-deposit interest-rate spreads

shrank further while credit growth didn't pick up much.

The new framework appears to have had only limited impact on stimulating aggregate demand and the resultant demand-driven inflation. As compared with the first quarter of 2013, before QQE was introduced, household real consumption fell in the fourth quarter of 2016. Business fixed investment has risen, but the level has been far below cash flows and the level prevailing before the global financial crisis. Corporate profits remain high but sales remain largely flat. The markets and the public aren't confident that stable 2% inflation will happen any time soon.

Purchasing JGBs at the current pace for such an extended period is hardly feasible. It means the BOJ must purchase JGBs from commercial banks and institutional investors, which need them either to fill the gap between loans and deposits or for their asset-liability management.

Purchasing more shorter-term bonds

distorts the yield curve, since the two-year and five-year yields remain in negative territory, even lower than the negative rate of minus 0.1%.

On the other hand, the BOJ faces the risk of having to purchase substantial amounts of longer-term JGBs

if upward pressure from the U.S. and global sources re-emerge. It won't be long before the BOJ begins tapering and deletes any mention of "about ¥80 trillion."

The BOJ took new action this month by reducing the purchase amount of JGBs with maturities of about two years and five years. At this pace, annualized purchases of JGB is likely to fall well below ¥80 trillion. The surprise result in the U.S. presidential election helped depreciate the yen and raise stock prices, but it has been accompanied by an increase in the likelihood of short-term-oriented foreign investors unwinding their short positions on the yen and their long positions on stocks.

Either of these outcomes could be triggered by the BOJ's modification of the present framework. The BOJ's ambiguous communication strategy could be tested this year in the face of growing uncertainty in U.S. economic policy.

Ms. Shirai is a professor at Keio University, a former policy board member of the Bank of Japan and author of "Mission Incomplete: Reflating Japan's Economy" (Asian Development Bank, 2017).

The Fed Could Use Less Book Learning and More Street Smarts

By Joe Ricketts

I'll bet pundits and pollsters will forever ponder how Donald Trump got elected. For me, it's straightforward: The American people—or at least enough of them to propel Mr. Trump into office—wanted to infuse practical business experience into the government. To borrow a phrase from my friend, the economist Larry Lindsey, voters rejected the political ruling class in favor of real-world experience.

Which brings me to the Federal Reserve. In 2012 Jim Grant, the longtime financial journalist, delivered a speech at the Federal Reserve Bank of New York. "In the not quite 100 years since the founding of your institution," he said, "America has exchanged central banking for a kind of central planning and the gold standard for what I will call the Ph.D. standard."

Central banking, in other words, is now dominated by academics. And

while I don't blame them for it, academics by their nature come to decision making with a distinctly academic perspective.

The shift described by Mr. Grant has had consequences. Simplicity based on age-old practice has been replaced by complexity based on econometric theory. Big Data has played an increasingly prominent role in how the Fed operates, even as the Fed's role in the economy has deepened and widened.

Rather than enlisting business leaders and bankers to fulfill the Fed's increasingly complex mission, America's political and monetary authorities turned primarily to the world's most brilliant economists, who can be thought of more and more as monetary scientists.

Central bankers have invited politicians to abdicate leadership authority to an inbred society of PhD academics who are infected to their core with groupthink, or as I prefer to

think of it: 'groupstink,' " argues former Dallas Fed analyst Danielle Di-Martino Booth in a new book.

Ten of the 17 current Fed governors and regional bank presidents have doctorates in economics. Few have much experience in the private economy. Most have spent the bulk of their careers at the classroom lectern or in Washington. This is a sea change. In past decades, Fed members and governors frequently had experience in banking, industry and agriculture.

Do the results indicate that the pursuit of intellectual horsepower has produced a stronger economy? Today's labor-force participation rate is lower than at any time since the late 1970s; an oven from Sears that cost \$160 in 1975 would cost more than \$400 today; and despite unprecedented intervention in the economy, America has experienced its worst recovery since the Great Depression.

Given the cumulative genius of the leaders of the Federal Reserve System, and the highly sophisticated

quantitative tools and policies the Fed has developed under their direction, why aren't we doing better?

Here's one businessman's answer:

Academic genius is great, but it often comes up short when divorced from

Academic economists are fine, but business leaders and bankers would bring an important perspective.

the practical experience of people who have expanded America's economy with new companies, new jobs and new ideas. That's not taking anything away from college professors. The U.S. economy is complicated, but there's a place for practical business experience in the Fed decision-making process.

Those who have actually taken risks in the market—as entrepreneurs, business executives or bank

chiefs—have unique perspectives on the effects of monetary policy that economists necessarily lack. These individuals can tell you how a particular policy might affect their decisions, as well as the decisions of those in related industries, and all the knock-on effects it would produce across the economy.

Intellect is important, but it's not enough. Practical knowledge, experience and wisdom are needed to produce good policy, and good policy is essential for a free-market economy to prosper.

So I humbly suggest that political leaders increase the intellectual diversity of the Federal Reserve Board of Governors by considering candidates with real-world business experience. Academics have my respect, but when their insights are balanced by the lessons of the free market, the Federal Reserve will better fulfill its mission.

Mr. Ricketts founded the financial-services company now known as TD Ameritrade.

Notable & Quotable: Noonan on Trump's Rise

they make public policy and have for some time.

I want to call them the elite to load the rhetorical dice, but let's stick with the protected.

They are figures in government, politics and media. They live in nice neighborhoods, safe ones. Their families function, their kids go to good schools; they've got some money. All of these things tend to isolate them, or provide buffers. Some of them—in Washington it is important officials in the executive branch or on the Hill; in Brussels, significant figures in the European Union—literally have their own security details.

Because they are protected they feel they can do pretty much any-

thing, impose any reality. They're insulated from many of the effects of their own decisions.

One issue obviously roiling the U.S. and Western Europe is immigration. It is the issue of the moment, a real and concrete one but also a symbolic one: It stands for all the distance between governments and their citizens.

It is of course the issue that made Donald Trump.

Britain will probably leave the European Union over it. In truth immigration is one front in that battle, but it is the most salient because of the European refugee crisis and the failure of the protected class to address it realistically and in a way that offers safety to the unprotected.

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LIFE & ARTS

MY RIDE

A Prize-Winning Tribute to Prince

Rebecca Bass, 62, an art teacher at Heights High School in Houston, on the Purple Reign art car, as told to A.J. Baime.

This past weekend, many thousands turned out for the 30th annual Houston Art Car Parade—billed as the biggest art car parade in the world. For the past 28 years, I have worked with students to produce a car for the event. This year our car—called Purple Reign, a tribute to Prince—won the Mayor's Cup, the top honor.

To start out, I buy the car myself with a budget of \$500. This year, I bought a late 1980s Mercedes-Benz. I had a group of eight kids, age 14 to 17, and we started in January. The kids worked every day after school until dark, on weekends, and all through spring break.

They built a replica of Prince's Honda motorcycle on top of the car, from the movie "Purple Rain." (I teach the kids to weld.) They created sculptures of Prince, his drummer Sheila E., and his longtime bass player, out of foam, stucco, marine varnish, and glitter.

I'm good at begging for things for my students. At a local Corvette place, I got the back end of a 1991 Corvette. We zip tied the Corvette piece onto the back of the Mercedes and painted it red, for the Prince song "Little Red Corvette." A local jewelry store called Charming Charlie gives us all its broken jewelry and we used it to bedazzle the car.

The parade itself is unbelievable. The kids have been working so hard, and now they are put on a stage. They are competing with artists from all over. They realize that their world is so much bigger than their block and their school. Their self-esteem skyrockets.

It's amazing for me too. I see my old students who have worked on these cars in the past. They're 20 years old now, or 30 years old, and they come out to give me hugs and see the new car. The experience is priceless.

After the parades, our cars end up in museums and collections, all over the country, even in Europe. This new one I hope ends up in Paisley Park (Prince's private estate in Minnesota), which has been turned into a museum. We give these cars to places where they will be seen, and where they will be cherished.

Contact A.J. Baime at Facebook.com/ajbaime.

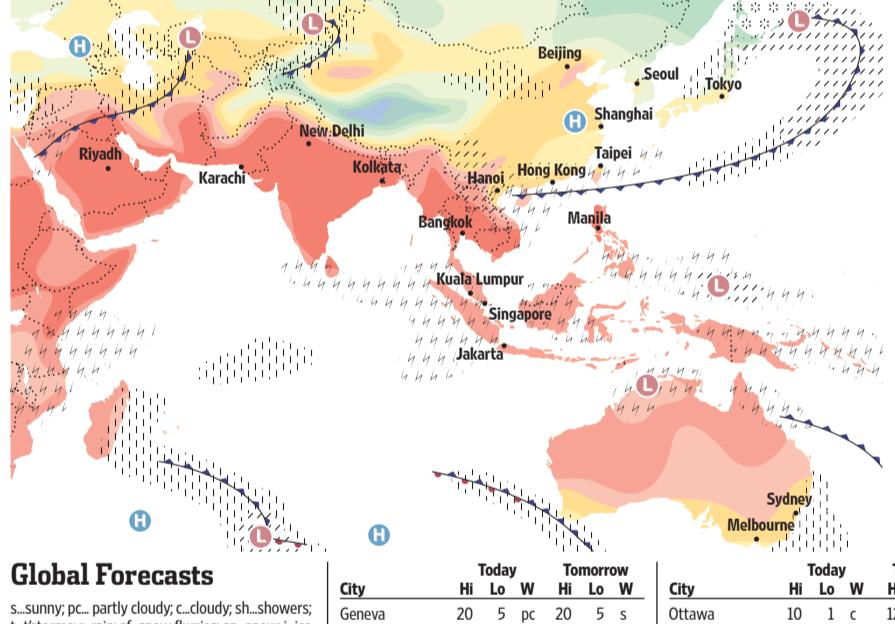


Rebecca Bass and her students with 'Purple Reign,' their prize-winning entry in the Houston Art Car Parade earlier this month. The car, decorated with jewelry and musical motifs, is a tribute to the late performer Prince, who is depicted on a replica of the motorcycle he rode in the movie 'Purple Rain.'



JULIE SOEFER FOR THE WALL STREET JOURNAL

Weather



Global Forecasts

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	12	7	r	12	5	c
Anchorage	8	-1	s	9	-2	s
Athens	21	13	pc	23	14	pc
Atlanta	27	15	pc	28	15	pc
Bahrain	31	21	pc	35	23	c
Baltimore	24	8	pc	20	8	s
Bangkok	36	26	s	35	26	t
Beijing	24	5	s	21	9	c
Berlin	11	5	r	11	4	sh
Bogota	18	9	sh	18	10	c
Boise	21	8	pc	14	4	t
Boston	19	7	t	15	4	s
Brussels	15	5	c	12	4	c
Buenos Aires	18	8	s	20	9	pc
Cairo	31	18	c	26	16	pc
Calgary	7	0	r	4	-3	sn
Caracas	30	25	t	30	26	t
Charlotte	26	13	pc	26	13	c
Chicago	16	7	s	17	11	c
Dallas	26	18	pc	27	17	c
Denver	23	6	s	25	10	s
Detroit	16	7	pc	15	8	c
Dubai	37	27	s	37	26	pc
Dublin	11	3	c	11	7	c
Edinburgh	12	4	pc	12	5	c
Frankfurt	18	8	c	16	4	c

The WSJ Daily Crossword | Edited by Mike Shenk



MORE PEOPLE | By Nancy Cole Stuart

Across			
1	Too-generous Shakespeare character	24	Many summer residents
6	Accident site sight	25	Depot worker who's more diminutive?
11	Depressed	30	Man of Marseille
14	Big name in home appliances	31	Sleep like ___
15	Maverick type	32	Flock holders
16	Farm female	35	Copying
17	Court worker who's more playfully shy?	36	Share in a business
19	NBC staple for more than 40 years	37	Be a contender
20	Not working, in a way	38	Buckle, e.g.
21	Gathered together	40	Major addition?
		41	Jack up
		43	Manor worker who's more artful?
		45	Pleas from People
		46	Place for your butt
		48	Words with dare or tear
		49	Tollbooth sites
		50	Like some pains
		55	Put on
		56	Church worker who's more unhealthy?
		59	Manner of speaking
		60	Blow the audition, perhaps
		61	Play policer
		62	Some private jets
		63	Target of 2017 WikiLeaks dump

Previous Puzzle's Solution

T	O	G	M	O	D	E	S	H	A	W	E
I	H	E	A	R	A	H	O	E	S	E	S
N	I	N	T	E	D	O	S	E	L	E	T
S	O	X	G	E	R	I	S	K	I	T	K
A	G	E	D	O	P	O	S	I	T	S	T
D	A	V	I	D	O	S	E	L	Z	N	I
A	Y	O	D	E	P	L	T	V	E	E	E
R	A	G	S	B	L	I	P	S	P	I	I
E	R	A	I	C	E	R	I	S	E	N	N
I	E	C	A	R	E	T	S	I	N	S	S
C	O	L	O	D	S	O	N	E	S	E	E
F	R	A	M	E	H	A	N	S	A	D	A
J	O	A	N	I	E	R	A	A	D	A	A
O	R	L	A	D	O	S	E	N	T	I	I
W	E	L	T	U	N	I	T	E	N	N	U
L	O	S	E	P	O	P	D	O	S	E	O

Exclusive analysis from expert journalists



Wallowing in Doubtful Debts

European bank stocks split from their U.S. counterparts when the eurozone crisis hit, and have lagged even further as worries about nonperforming loans have grown.

U.S.

20%

0%

-20%

-40%

-60%

-80%

-100%



Key gauges, trends, and data points

Interviews with major policy makers and thought-leaders

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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, April 12, 2017 | B1

Yen vs. Dollar 109.7800 ▼ 1.04%

Hang Seng 24088.46 ▼ 0.72%

Gold 1270.70 ▲ 1.57%

WTI crude 52.88 ▼ 0.38%

10-Year JGB yield 0.039%

10-Year Treasury yield 2.304%

Beijing to Tighten Its Data Rules

By EVA DOU

BEIJING—Foreign companies with business operations in China would be required to apply for permission to transfer data out of the country under draft rules released Tuesday, in the government's latest move to tighten regulation of digital information.

The rules would affect all so-called network operators, a term that industry experts say likely encompasses technology companies, as well as other firms that do business through computer networks, such as financial institutions.

The rule would apply to

companies seeking to move more than one terabyte of data out of China, or that have data on more than 500,000 people.

Consumer companies that have collected a large database of email addresses, birth dates or other information on their Chinese customers would appear to be required to get the permission of their customers and the Chinese government before transferring that data out of China.

The data would then be reviewed and blocked if the government believes it would hurt China's political system, economy, technology or security.

The Cyberspace Administra-

tion of China said the rules were necessary to "secure personal information and the safety of important data, as well as to protect internet sovereignty and national security."

The CAC didn't respond to a request for further comment. In the past, the government has broadly defined business operations that could affect the national interest, meaning that companies engaged in such disparate areas as construction and finance could come under the rule's purview.

The draft drew some industry criticism. Multinational companies are generally opposed to data localization—

keeping data stored in the country where it originates—saying rules mandating the practice lift costs by requiring duplicate infrastructure and impede cross-border business.

"The strongest international standards to protect data privacy are determined by industry consensus, draw on global best practices, and are largely blind to where data is stored or transferred," said Jake Parker, vice president of the U.S.-China Business Council.

The rules would broaden data-localization requirements to all "network operators," versus the narrower set of "critical infrastructure" operators under

last year's cybersecurity law, said Bing Maisog, a partner of law firm Hunton & Williams.

"You could say it's a revisiting of the law," Mr. Maisog said.

The draft is open for public comment until May 11 and could change in its final form. Other recent Chinese cybersecurity regulations have been weakened in their final version after pushback from companies and foreign governments.

Data localization has also been controversial in Europe, where some countries require local data storage for security. The European Union is seeking public comment on data-localization rules.



A whistleblower cooperated with the SEC in its inquiry.

Taping Aided Probe of AmTrust

The auditor at accounting firm BDO USA LLP tried to act casually while wandering around the firm's New York offices, striking up conversations with colleagues about the firm's audit of the large insurer AmTrust Financial Services Inc.

By Mark Maremont,
Leslie Scism
and Michael Rapoport

Unknown to the colleagues, a tiny recording device disguised as an ordinary Starbucks gift card was capturing every word. The auditor was taping on behalf of the Federal Bureau of Investigation and cooperating as a whistleblower with the Securities and Exchange Commission.

The clandestine recordings in 2014, described to The Wall Street Journal by the whistleblower, were part of a continuing federal investigation being led by the SEC, according to people familiar with the matter. The focus of the probe includes accounting practices of AmTrust, a fast-growing, New York-based insurance company that in recent years has attracted skepticism about its results from investors betting against its stock.

The SEC's Fort Worth, Texas, office is leading the inquiry and it isn't clear how far along the investigation is. The agency sometimes closes probes without taking action.

The auditor, who was directly assigned to AmTrust audits for at least three years but has since left the firm, has been working since 2013 with a larger group that includes Harry Markopolos, a forensic accountant who warned the SEC about the Bernard Madoff Ponzi scheme before it became public in late 2008.

The group hopes to profit by collecting a reward under the SEC's whistleblower program if the agency ever successfully brings legal action in the matter.

An AmTrust spokeswoman declined to comment on whether the company knows of any SEC probe, saying the company didn't speak for the agency. It said questions about its accounting practices are "fantasies concocted and intentionally publicized by parties who clearly have a self-serving agenda and appear to be trying to profit from misinformation about AmTrust."

On Monday, AmTrust dis-

Please see PROBE page B2

INSIDE



REGULATOR PROBES LEAK TO KPMG

FINANCE & MARKETS, B6

Foxconn Aims to Overwhelm Toshiba

A \$27 billion bid sounds big in Japan. But there is sense behind Foxconn Technology's generous offer for embattled tech giant Toshiba's lucrative computer-chip business, which, if completed, would be the biggest foreign acquisition of a Japanese company in recent years—even if it represents a striking 50% premium to analysts' estimates of the unit's fair value.

So what gives? After all, Toshiba is desperate for a sale, following the bankruptcy of its nuclear business Westinghouse. On Tuesday, Toshiba announced long-delayed results, without the customary auditor's sign-off. The company also expressed doubt about whether it could stay in business.

Despite Toshiba's distress, Foxconn will know that to secure a deal, it will have to assuage Japanese concerns about one of its high-tech crown jewels—a big employer to boot—falling into foreign hands. So the Taiwanese company, famed for assembling Apple products, is pitching its high bid to Japanese officials and to Toshiba as too good to refuse. Moreover, Foxconn is no stranger to laborious negotiations in Japan: When it

The Taiwanese company knows it needs to woo regulators in Japan.

bought loss-making electronics maker Sharp last year, it managed to push the price down by 40% over several months. A similar result this time would help justify its eye-watering opening bid.

Ambition is also fueling the premium. Foxconn doesn't yet have a big business producing NAND flash drives, a profitable area where demand is growing thanks to the rise of artificial intelligence and cloud computing. Buying Toshiba's business, which has a 20% market share in this technology according to Nomura, would help Foxconn catch up with leaders like Samsung. Making a large bid now might help to deter other potential suitors for the business.

Big premiums aren't unusual in tech deals. Western Digital's \$19 billion acquisition of SanDisk last year came at a 63% premium to its pre-deal closing share price. Foxconn may still face a tricky time convincing Japanese regulators to green light the sale. But its bid will certainly get their attention.

Kenyan Tech Hub Recharges

'Silicon Savannah' turns its focus to profits and revenue, going beyond social activism



NICOLE SOBECKI FOR THE WALL STREET JOURNAL

The iHub, a Kenyan tech incubator, began as a social movement in 2010. It now collaborates with Facebook, Google and Microsoft.

By MATINA STEVIS

NAIROBI, Kenya—After a decade of buzz that brought bold headlines but few profits, Kenya's "Silicon Savannah" technology hub is retooling to put income before activism.

A homegrown African tech community is rising in this city: bootstrapped but profitable businesses using technology and the internet to solve commercial problems connecting the biggest names in tech and finance.

International Business Machines Corp. is training hundreds of Kenyan coders in Nairobi each year; **Visa** and **Mastercard** are turning to Kenyan fintech companies to crack the local market.

Last month, **Facebook** Inc. and **Alphabet** Inc.'s Google started a strategic alliance with the iHub, an incubator and co-working space at the

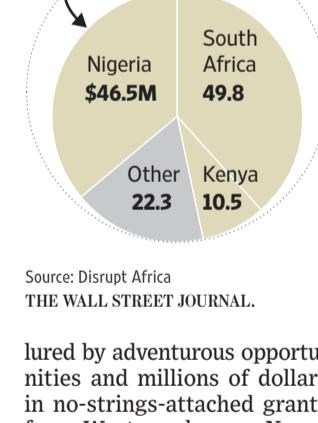
heart of Kenya's tech scene, to reach and train app developers there. The Silicon Valley companies will tap local talent for coding and product development; they also will train Kenyans in artificial intelligence, cloud computing and machine learning—reinforcing the region's role as the center for technology in Africa.

"It is true we had some companies that were more excited about headlines and about what new widget would solve the problems of the world," said Patrick Njoroge, Kenya's Central Bank governor, in an interview last month. "What we've been pushing is for companies to focus on a particular problem. It's more sustainable."

Since the late 2000s, the startup community in this sprawling East African city welcomed top U.S. and European graduates, who were

Tech Frontiers

African technology and internet hubs continue to draw investment but funding dropped in 2016.



Source: Disrupt Africa

THE WALL STREET JOURNAL.

lured by adventurous opportunities and millions of dollars in no-strings-attached grants from Western donors. Newspapers queued up to profile

startups using technology to spur African development in sectors as diverse as farming and transportation. Luminaries including former U.S. President Barack Obama and Facebook Chief Executive Mark Zuckerberg visited the hub to trumpet its potential.

But beyond the buzz, few companies turned a profit and many died a quiet death, investors say. Funding has plummeted, with the total raised by Kenyan startups falling to \$10.5 million last year from \$47 million in 2015, according to data-collection platform Disrupt Africa.

Now, in the wake of the bubble, a less flashy but more successful model is emerging for startups in Silicon Savannah.

The iHub in Nairobi began

as a social movement in 2010

and is now transforming itself

Please see KENYA page B4

Chinese Logistics Firm Plans IPO in U.S.

By KANE WU

A Chinese logistics company backed by technology giants **Alibaba Group Holding** Ltd. and **Foxconn** is planning to raise around \$1 billion in an initial public offering in the U.S. this year, according to people familiar with the situation.

Best Logistics Technologies Ltd., based in Alibaba's hometown of Hangzhou, tapped banks on Tuesday for roles in the IPO, which is expected in September or October at the earliest, the people said. Based on the current pipeline of deals, the IPO could be one of the biggest U.S. listings for a Chinese company this year, the people said.

It isn't clear which U.S. stock exchange the company is

Please see IPO page B2



An Alibaba unit, Cainiao Network, has invested \$165 million for about a 5% stake in Best Logistics.

QIAO SHEN/BLOOMBERG NEWS

INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	Fosun International...B2	New York Times.....A8
G	General Motors.....B3	Nintendo.....A8
H	Hearts United Group..A8	Panic Button.....A8
I	Hyundai Motor.....B3	Pon Holdings.....B3
J	IHS MarkitB4	PPG Industries.....B3
K	ING Groep.....B9	PricewaterhouseCoopers
L	Jana PartnersB3	ProPublica.....B2
M	Keywords StudiosA8	Psyponix.....A1
N	Kia Motors.....B3	Samsung Electronics
O	Lamda Development...B9	A2,B4
P	LeEco.....B4	7-Eleven.....A8
Q	Logistics Technologies	Sony.....A8
R	Lotte Group.....A1	T.G.I. Friday's.....A8
S	Mastercard.....B1	Toshiba.....A1
T	McClatchy.....B2	Toyota Motor.....B3
U	Microsoft.....A8,B5	Trion Worlds.....A8
V	N	Twitch Interactive.....A8
W	New York Daily News B2	Visa.....B1
X		Vizio.....B4
Y		Värde Partners.....B9
Z		Washington Post.....B2
		Whole Foods Market..B3

INDEX TO PEOPLE

A	Hagewood, Dave.....A1	Parker, Jake.....B1
B	Hagewood, Greg.....A1	Rosenstein, Barry.....B3
C	Hung, David.....B10	Rytterstrom, Nik.....B4
D	Mackey, John.....B3	Schorr, Seth.....B4
E - F	Maisog, Bing.....B1	Tsuknawa, Satoshi...A1
G	Miquelon, Eric.....B5	W
H	Morrison, Ryan.....A8	Warby, Adam.....B5
I	Munoz, Oscar.....A1	Y
J	Murphy, Glenn.....B3	Yuetong, Jia.....B4
K	Nottage, Lynn.....B2	Z
L	Omidyar, Pierre.....B4	Zuckerberg, Mark.....B1

IPO

Continued from the prior page targeting.

Best Logistics couldn't be reached for comment.

The company was valued at more than \$3 billion after raising \$760 million from a dozen new investors last year, The Wall Street Journal reported. Investors included **Fosun International Ltd.**, **SoftBank China Venture Capital**, Alibaba's own logistics unit, Cainiao Network, and the World Bank's private-sector investment arm, International Finance Corp., according to a company announcement at the time.

Chinese logistics companies that support the country's rapidly growing e-commerce industry have attracted billions of dollars from investors. **ZTO Express Inc.**, backed by U.S. private-equity firm Warburg Pincus LLC and **Sequoia Capital China**, raised \$1.4 billion from its New York IPO last October, the largest offering by any Chinese company in the U.S. since Alibaba in 2014. However ZTO's shares have been trading below the IPO price. It closed at \$12.39 a share Monday, down 36% from the \$19.50 per share IPO price.

Founded in 2007 by Johnny Chou, Google China's former co-president, Best Logistics has grown quickly by building a warehouse-and-distribution network across China. It operates 400 centers in China as well as three warehouses in the U.S. and one in Germany. It expanded its logistics business to Australia, Japan and Thailand this year. The company also provides domestic and international delivery services for China's online shoppers.

Alibaba has invested in Best Logistics several times since 2009 and has bought about 22% of its shares for a total of \$256 million, according to its 2016 annual report. Cainiao Network invested \$165 million for about a 5% stake in Best Logistics this year, the report said.

Best Logistics' other shareholders include Mr. Chou and electronics assembler Foxconn, known formally as Hon Hai Precision Industry Co. Goldman Sachs Group Inc.'s private-equity investment arm is also a shareholder.

Goldman Sachs advised the company on its latest funding round, Best Logistics said in September. Chinese fund-management firms **Everbright Asset Management Co.** and **Citic Private Equity Funds Management Co.** led that round.

In a year when the presi-

dent election dominated the world of journalism, the **Washington Post's** David Fahrenthold won the award for national reporting for his series of stories looking at President Donald Trump's reported charitable donations.

Peggy Noonan of The Wall Street Journal was awarded a Pulitzer Prize for commentary for her incisive coverage of the 2016 presidential election.

"I feel deeply grateful and deeply honored," Ms. Noonan said in an email. "It is simply a great honor to be a member of the 101st class of Pulitzer Prize winners, and to be invited to join that long line."

In an email to staff congratulating Ms. Noonan, Paul Gigot, editor of the Journal's editorial pages, wrote: "Ahead of most others, she foresaw Trump's rise and his appeal to

the currents of American life and politics that catapulted Trump to the White House."

For the 101st annual Pulitzer competition, the New York Daily News and ProPublica won the public-service award

for their joint investigation into abuses of evictions that targeted mostly minority residents.

Lynn Nottage won in the drama category for her play "Sweat."

Columbia University oversees the awards.

The award for fiction was given to Colson Whitehead's "The Underground Railroad," a searing allegorical tale of the abuses of and escape from slavery. The book was published by Doubleday.

Bill Thomas, Mr. Whitehead's editor at Doubleday, described the book as one that "manages to tell the whole American story in one gut-wrenching powerful narrative. Cora's journey is the American journey. It's about the desperate desire for freedom and the sins that impeded that freedom."

Many of the claims by the Markopolos group focus on alleged flaws in the audits of AmTrust by BDO, which ranks in the next tier down from the Big Four accounting firms. AmTrust had been among its largest U.S. clients until it was replaced by KPMG a year ago.

The whistleblower alleges that BDO often was rushed during its audits, partly because AmTrust was late or inconsistent in providing figures, or lacked documentation.

At least twice, BDO formally signed off on its AmTrust audit before completing some important checks, the internal whistleblower claims. The whistleblower claims that BDO staffers allegedly covered for their lapse by loading unfinished documents into an internal software system to show the right time stamp, then returned later to complete some of the work. BDO said such allegations "are not consistent with our firm's values and the expectations we have for our professionals."

AmTrust said it relied on BDO's integrity, and "if there are allegations regarding BDO's internal procedures, those are the responsibility of BDO and AmTrust would not have visibility into them."

—Dave Michaels contributed to this article

BUSINESS & FINANCE



Altice NV founder Patrick Drahi, left, with Pierre Chappaz, executive chairman of the advertising group Teads, at an event last month.

Altice USA Files for IPO

Company's offering is likely to value the broadband provider at more than \$20 billion

By NICK KOSTOV

PARIS—Altice USA filed paperwork to go public Tuesday, in an offering that would raise more than \$1 billion, people familiar with the matter said.

The U.S. arm of French mogul Patrick Drahi's cable operator Altice NV filed a registration statement with the U.S. Securities and Exchange Commission for a proposed initial public offering of shares of Class A common stock.

The IPO is likely to value Altice USA at more than \$20 billion, people familiar with the offering said. **BC Partners**

The U.S. arm of French mogul Patrick Drahi's cable operator Altice NV filed a registration statement with the U.S. Securities and Exchange Commission for a proposed initial public offering of shares of Class A common stock.

Some market participants had expected Altice USA to target an IPO of as much as \$2 billion. But analysts say that its plan to raise closer to \$1 billion won't limit its ability to reduce debt and embark on a spending spree. A smaller listing would allow investors to

set a price for the company's shares, and Altice USA could then sell more stock quickly if it needs to fund an acquisition in future.

"Most investors know that the reason for the listing is mainly that they want to do more deals," said ING analyst Emmanuel Carlier. "You can first list, then you start negotiating a deal, then maybe you can raise a little bit more at a later time."

Altice USA became the fourth-largest broadband provider in the U.S. in 2016 after it completed its \$10 billion purchase of Cablevision Systems Corp. and merged it with Suddenlink Communications.

It has pursued a strategy of combining telecom and content: buying sports rights,

news channels and entertainment

that it can distribute to

its subscribers.

While telecom companies continue to struggle for growth in the highly competitive European market, Altice's stock price has risen this year thanks to its U.S. business. Profitability at Altice USA has grown quickly as the company has reduced costs and used scale to improve efficiency, according to earnings reports.

Altice USA, which has some 4.9 million residential and business customers across 21 states, hasn't decided whether to list the stock on the New York Stock Exchange or the Nasdaq Stock Market, the people said. Citigroup, Goldman Sachs, J.P. Morgan and Morgan Stanley are leading the IPO.

Altice NV shares were up 1.4% to €21.47 (\$22.77) in Amsterdam trading Tuesday.

Winners of Pulitzers Are Named

By LUKAS I. ALPERT

The **New York Times** was awarded three Pulitzer Prizes, The Wall Street Journal received one, and the combined reporting of the **New York Daily News** and **ProPublica** won the coveted award for public-service journalism.

The Times took home the most prizes on Monday with recognition in the international reporting, feature writing and breaking news photography categories.

The Miami Herald also won two awards, one for editorial cartooning and the other for explanatory reporting, which it shared with the International Consortium of Investigative Journalists and **McClatchy** for coverage of the Panama Papers.

In a year when the presi-

dential election dominated the world of journalism, the **Washington Post's** David Fahrenthold won the award for national reporting for his series of stories looking at President Donald Trump's reported charitable donations.

Peggy Noonan of The Wall Street Journal was awarded a Pulitzer Prize for commentary for her incisive coverage of the 2016 presidential election.

"I feel deeply grateful and deeply honored," Ms. Noonan said in an email. "It is simply a great honor to be a member of the 101st class of Pulitzer Prize winners, and to be invited to join that long line."

In an email to staff congratulating Ms. Noonan, Paul Gigot, editor of the Journal's editorial pages, wrote: "Ahead of most others, she foresaw Trump's rise and his appeal to

the currents of American life and politics that catapulted Trump to the White House."

For the 101st annual Pulitzer competition, the New York Daily News and ProPublica won the public-service award

for their joint investigation into abuses of evictions that targeted mostly minority residents.

Lynn Nottage won in the drama category for her play "Sweat."

Columbia University oversees the awards.

The award for fiction was given to Colson Whitehead's "The Underground Railroad," a searing allegorical tale of the abuses of and escape from slavery. The book was published by Doubleday.

Bill Thomas, Mr. Whitehead's editor at Doubleday, described the book as one that "manages to tell the whole American story in one gut-wrenching powerful narrative. Cora's journey is the American journey. It's about the desperate desire for freedom and the sins that impeded that freedom."

Many of the claims by the Markopolos group focus on alleged flaws in the audits of AmTrust by BDO, which ranks in the next tier down from the Big Four accounting firms. AmTrust had been among its largest U.S. clients until it was replaced by KPMG a year ago.

The whistleblower alleges that BDO often was rushed during its audits, partly because AmTrust was late or inconsistent in providing figures, or lacked documentation.

At least twice, BDO formally signed off on its AmTrust audit before completing some important checks, the internal whistleblower claims. The whistleblower claims that BDO staffers allegedly covered for their lapse by loading unfinished documents into an internal software system to show the right time stamp, then returned later to complete some of the work. BDO said such allegations "are not consistent with our firm's values and the expectations we have for our professionals."

AmTrust said it relied on BDO's integrity, and "if there are allegations regarding BDO's internal procedures, those are the responsibility of BDO and AmTrust would not have visibility into them."

—Dave Michaels contributed to this article

PROBE

Continued from the prior page closed it has recently beefed up its financial-accounting team with the hiring of a chief accounting officer and other moves.

BDO declined to comment on AmTrust, saying it is bound by professional standards which prohibit discussing confidential client matters.

The New York Department of Financial Services, one of AmTrust's lead state regulators, also is conducting a special, non-routine examination of AmTrust's New York unit, according to a person familiar with the matter. AmTrust said it doesn't comment on any state examinations.

Since its founding 19 years ago, AmTrust has grown, mostly through acquisitions, into the nation's third-largest workers' compensation insurer by market share. It protects millions of U.S. workers by bearing responsibility for their medical care and lost wages from job-related injuries. Its revenue in 2016 was \$5.45 billion.

In early April the company restated its financial results downward back to 2014 over a range of accounting issues.

The restatements, which came after BDO was replaced as AmTrust's outside auditor by KPMG LLP, sliced more than 9% off AmTrust's previously reported net income for the past three years.

Even so, investors were encouraged when AmTrust finally filed its annual report, which had twice been delayed, and that the restatements weren't more significant. After slumping in recent weeks, the company's shares rebounded after the restatements were announced, though they later gave back much of those gains.

The Markopolos group claims that AmTrust has overstated its profits and financial health by understating what it may need to pay policyholders in the future. To mask this, they contend, the company has used complicated financial maneuvers, some involving related offshore companies.

In a 2013 submission to the SEC, which has been reviewed by the Journal, the group claimed it used internal documents gathered by the whistleblower to calculate that \$277 million in losses had been shifted to an offshore affiliate from 2009 to 2012, bolstering AmTrust's operating income by that amount. This accounted for 38% of net income in 2012 alone, the group calculates.

In a presentation that the group says it gave to the FBI and federal prosecutors in 2014, Mr. Markopolos's team called one set of alleged accounting moves "The Washing Machine" for its purported cleansing effect on the bottom line, and another "The Loss Cemetery," for its alleged effectiveness in burying losses in offshore affiliated entities.

The recent accounting restatement, with KPMG's approval, "does not change our fundamental view of AmTrust's shoddy accounting," said Mr. Markopolos,

who said his group isn't betting against AmTrust's stock.

AmTrust said it received clean audit opinions from BDO every year and has since received the same opinion from KPMG.

"KPMG's audit included in its scope an audit of the allegations made by short sellers since 2013, including the baseless allegation that AmTrust shifted losses off its books through reinsurance transactions."

KPMG declined to comment.

AmTrust has skirmished with critics before. In 2015, a

New York federal judge dismissed a shareholder lawsuit against AmTrust based on some of its critics' allegations, ruling that the complaint failed to support its claims.

The judge cited correspondence between AmTrust and the SEC in which the insurer sought to work out "a difference of opinion" about some reinsurance accounting matters, and noted that AmTrust had changed its accounting approach in one area and "clarified and improved its disclosures."</p

BUSINESS NEWS

Pon's Proposal to Buy Accell Would Unite Bike Brands

BY BEN DUMMETT

Pon Holdings, a closely held Dutch conglomerate, on Tuesday proposed to buy **Accell Group** for about €847.4 million (\$898.2 million), creating one of the world's biggest bicycle makers and bringing together well-known brands such as Raleigh, Diamondback, Cervelo and Santa Cruz.

At the same time, the tie-up would potentially create a corporate champion in the Netherlands at a time when some of the nation's biggest companies are under attack from foreign buyers.

Amsterdam-based **Akzo Nobel NV**, a big paints and specialty chemicals company and one of the world's oldest industrial firms, is currently fighting off a takeover bid from U.S. rival **PPG Industries Inc.** Akzo argues the offer is too low and doesn't sufficiently take into account the company's employees and customers.

Meanwhile, earlier this year, **Unilever PLC**, the Anglo-Dutch consumer-goods giant, successfully fought off a takeover overture from Pittsburgh- and Chicago-based rival Kraft Heinz Co.

Pon's potential Accell deal, if it proceeds, would create a cycle manufacturing giant with combined revenue of about €1.8 billion from worldwide sales of about 2.3 million leisure, electric, mountain and other specialized bikes. Pon said it expects to generate €700 million in revenue this year from the sale of about 800,000 bicycles. In 2016, Accell reported revenue of €1.05 billion and a profit of €32.3 million. It sold around 1.5 million bicycles.

Accell shares rose almost 20% on news of the offer to €31.68 in early trade Tuesday.

Their combined scale could help the companies eliminate duplicate operating costs, broaden their portfolio of bikes to appeal to a larger customer base and help secure better pricing from suppliers.

"There is an excellent strategic fit between the bike activities of both companies with benefits for all stakeholders," Pon said in a release. Furthermore, the combined company would be based in the Netherlands. Accell said that it has agreed to talks with Pon over the proposal but cautioned that a deal may not result.

Pon's conditional bid is for €32.72 in cash, which includes a €0.72 dividend, for each Accell share. That represents a 31% premium to Accell's closing price on March 16, the day before Pon made its initial approach, Pon said.

Pon is one of the Netherlands' biggest family businesses with roots dating back to 1895 as a trading company selling soap, tobacco and sewing machines. It has since grown into a diversified business with operations that include the importing of high-end car brands like Porsche, Bentley and Bugatti, bike manufacturing and distribution, and the supply of industrial equipment to the recycling and other industries.

Pon's bicycle division encapsulates more than 10 brands including Cervelo and Santa Cruz, the California-based maker of mountain bikes that it acquired in 2015. It has operations in Europe, the U.S., Asia and Australia. Accell operates production facilities in Europe and China and the company's brands include Raleigh and Diamondback in the U.K., U.S. and Canada, as well as Ghost in Germany.



A Cadillac dealership in Shanghai, above. Vehicle sales in China, the world's biggest car market, rose at a much slower pace in March.

China's Car-Sales Growth Slows

Growth in China's car sales slowed sharply in March, illustrating the effects of a higher sales tax on the world's biggest car market.

Sales of vehicles, excluding those typically used for commercial purposes, rose 1.7% to 2.1 million units in March from a year earlier, the government-backed China Association of Automobile Manufacturers said Tuesday.

This marked a slowdown from the 6.3% growth in the first two months of the year. By comparison, sales rose nearly 10% in March 2016 from the previous year.

Industry watchers have paid closer attention to the Chinese auto industry's pace of growth, as global auto makers become increasingly dependent on the market for revenue and profit.

Car sales in China rose at their fastest pace in three years in 2016 but are ex-

pected to cool considerably this year, as a weaker sales-tax incentive puts pressure on demand. Buyers of cars with engines no larger than 1.6 liters last year paid a 5% purchase tax. This year, buyers of such cars will pay a 7.5% rate.

In January, the car manufacturers' group predicted a considerably slower 5% rise in China's car sales this year compared with 15% in 2016. A rush by consumers to benefit from a lower purchase tax drove record-setting monthly sales figures last year but cut into future purchases, dealers and analysts say. **Ford Motor Co.** has said it expects sales growth in China to slow as the market matures.

The government is playing a role in driving China's demand. Analysts say sales would gain momentum this year as customers look to beat another telegraphed

sales-tax rise—from 7.5% to 10%—due at the end of 2017.

For the quarter ended in March, sales of passenger cars rose 0.59% to 2.84 million units.

Total motor-vehicle sales in the first quarter, including cars, vans, buses and trucks, rose 7% to seven million units, the government-backed association said Tuesday. Sales rose 4% in March.

While the overall market has grown modestly, the fortunes of individual auto makers have diverged so far this year.

China's luxury-car market continued to perform strongly. China sales helped propel **Daimler AG's** Mercedes-Benz to the best month in its history, with March sales in China up 32% year-to-year to 49,871 units and quarterly sales up 37% to 144,947 units.

General Motors Co.,

whose sales declined January through February, also enjoyed a record month, selling 345,448 vehicles in China—up 16% from a year earlier—through its various joint ventures.

Cadillac sales rose 63%. **Toyota Motor Corp.**'s China sales increased 12% in March.

By contrast, South Korean manufacturers suffered from the fallout of a political dispute between Beijing and Seoul over the latter's deployment of a missile-defense system—a step the Chinese government has vehemently opposed.

The dispute has led to the boycotting of South Korean products by many Chinese consumers, hitting sales of **Hyundai Motor Co.** and **Kia Motors Corp.** in China in March, analysts say.

—Trefor Moss in Shanghai,
Lilian Lin in Beijing
and Sean McLain in Tokyo
contributed to this article.

Whole Foods Faces Additional Pressure to Speed Turnaround

BY DAVID BENOIT
AND HEATHER HADDON

An activist investor has amassed a large stake in **Whole Foods Market Inc.** and wants it to accelerate its turnaround and explore a possible sale, increasing pressure on the upscale organic grocer to find its footing after its rapid growth stalled.

Jana Partners LLC, which has built up an 8.8% stake in Whole Foods along with several allies, wants the chain to improve its technology and operations to better compete with larger rivals, shake up its board and explore how much potential bidders might be willing to pay, according to a Monday regulatory filing.

Whole Foods "is open to the views and opinions of all of our shareholders," a spokeswoman said. "We are committed to driving value for all Whole Foods Market shareholders and will continue to act to achieve this important objective."

Jana's campaign is the latest quandary for Whole Foods, which has struggled to make the transition from highflying startup with a loyal following into a large, national chain with the kind of back-office systems tracking customers and inventory that rivals use to keep costs down and sales up.

Whole Foods' stock has lost

nearly half of its value since peaking in 2013, and as of Friday's close had risen just 1.5% in the past 12 months, compared with a 15% gain in the S&P 500. The stock jumped 10% to \$34.17 on Monday. Its sales, meanwhile, have fallen over the past 18 months. Same-store sales—a key retailer metric—fell 2.5% during its fiscal year that ended in September 2016.

Jana has lined up possible board nominees, according to the filing, four months before the deadline to launch a board

8.8%

Stake in organic grocer taken by Jana Partners and others.

fight. That suggests that Jana, which has quietly reached settlements with several companies this year to install new directors, will be aggressive in demanding change at Whole Foods.

The fund's board candidates include longtime industry analyst Meredith Adler, Thomas "Tad" Dickson, the former chief executive of Harris Teeter Supermarkets, and Glenn Murphy, who led the turnaround of Gap Inc. as the retailer's chief executive.

The fund is also working with well-known chef, food writer and entrepreneur Mark Bittman and Diane Dietz, the former chief marketing officer of Safeway Inc., which Jana helped shake up in 2013.

Jana hasn't yet met with Whole Foods' current board or executives, according to people familiar with the matter, departing from its usual approach of working with management and boards behind the scenes. The hedge fund, founded by Barry Rosenstein in 2001, has played a role in changing the boards of Bristol-Myers Squibb Co., Tiffany & Co. and Blackhawk Network Holdings Inc., all without the kind of public fight associated with activist investors.

Jana's campaign will amplify the grumblings of other Whole Foods shareholders. Some investors have said the company should consider selling itself and have broached as possible buyers rival Kroger Co. and Amazon.com Inc., which is building out a physical grocery-store chain.

After Monday's bump, Whole Foods' market value stands at around \$11 billion.

Mutual-fund giant Neuberger Berman, which owns about 2.4% of Whole Foods, has been privately pushing for faster change at the company, The Wall Street Journal has reported. The firm has complained that the chain hasn't fully capitalized on its popularity among millennials or on selling prepared foods, areas where it outdoes its rivals.

At Whole Foods' annual meeting in February, the board was re-elected but faced a high protest vote. Two directors garnered around 85% support, while an advisory vote on executive compensation got 84%, levels that signal investor angst.

The broader grocery industry is struggling with increased competition and a slump in food prices that has eaten into profits. But Whole Foods has struggled in particular as it has lost ground in the natural and organic market that it once dominated.



Whole Foods lowered its sales and profit forecasts in February.

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LeEco Calls Off Purchase Of Vizio

BY GEORGIA WELLS

LeEco said it was walking away from its planned \$2 billion acquisition of U.S.-based TV maker **Vizio Inc.**, the latest scaling back of the embattled Chinese tech firm's ambitions.

LeEco attributed its decision to scrap the deal to regulatory headwinds and said the two companies still hope to work together.

"We continue to believe that there is great synergy between the two companies," LeEco and Vizio said in a joint statement on Monday.

In July, LeEco said it planned to buy Vizio, which would have given the Chinese company a foothold to fuel expansion beyond its home market.

But LeEco has faced a cash crunch in recent months. After striking billions of dollars in deals last year, LeEco had a hard time raising fresh funds, its founder said in a letter to employees late last year.

"The pace of LeEco's strategic development is moving too fast," Jia Yuetong said in the letter.

A spokeswoman for LeEco declined to comment on the company's funding challenges. Vizio declined to comment on its future as a stand-alone company.

Buying Vizio had been a part of LeEco's strategy to deliver both hardware—smartphones, TVs, even driverless cars—as well as content, from film and online entertainment to sports.

Under the new agreement between LeEco and Vizio, LeEco will still try to put its app and content on Vizio products and bring them to the Chinese market.

Vizio has the second-largest market share for televisions and smart televisions in the U.S., behind **Samsung Electronics Co.**, according to **IHS Markit**, a market research firm.

Casinos Get Into Esports Tournaments

BY SARAH E. NEEDLEMAN AND CHRIS KIRKHAM

U.S. casinos are turning to videogame competitions to attract younger visitors and turn around years of subdued growth.

MGM Resorts International plans to convert a former nightclub at its Luxor Hotel and Casino in Las Vegas into a permanent venue for hosting esports contests starting next year, the company said Tuesday.

Other gambling properties already have built or are leasing space for such events, including Downtown Grand in Las Vegas and Caesars in Atlantic City, N.J.

Casinos are looking for ways to jump-start growth, which has slowed since the recession. From 2001 to 2007, gambling revenue for casinos across the U.S. rose by more than 38%; since then, it has risen 8%, according to data from the University of Nevada, Las Vegas.

Many casinos, particularly on the Las Vegas Strip, have sought growth through other revenue streams, such as restaurants and entertainment. Last year, 34% of casino revenue on the Strip came from gambling, down from 41% in 2007, according to the University of Nevada, Las Vegas.

Casinos view esports as a way to attract younger new patrons who aren't gambling as much as baby boomers or interested in existing forms of entertainment there. "This is really about creating another amenity on the property," said Nik Rytterstrom, general manager of the Luxor.

About 191 million people worldwide are expected to watch an esports contest in person or online at least once a month in 2017, more than double the number in 2012, according to Newzoo. By 2020, it expects esports viewership to hit 286 million.

Qualcomm Fires Back at Apple

Chip maker accuses Apple of encouraging international regulators to attack it

BY TED GREENWALD

Qualcomm Inc. fired back at Apple Inc. in their legal battle, defending its business model and seeking damages from Apple over withheld payments for technology used in iPhones.

Qualcomm, whose chips and patents are widely used in smartphones, accused Apple of mischaracterizing the chip maker's business and encouraging international regulators to attack it.

The filing, which Qualcomm said it made late Monday in a federal court in Southern California, argues that Apple's iPhone business wouldn't exist if Qualcomm hadn't developed essential technologies and agreed to license them fairly. The iPhone accounted for three-fourths of Apple's estimated \$84 billion gross profit in its latest fiscal year, according to investment bank CLSA.

Apple stood by its statement in January when it said Qualcomm charges excessive royalties and benefits from Apple innovations unrelated to its patents, such as advanced displays and cameras.

Apple opened its legal battle in January by suing Qualcomm in the U.S., and later in China and the U.K.—building on international resistance to Qualcomm's patent-licensing business that has included antitrust investigations and fines in China, Europe, South Korea and the U.S.

Apple's U.S. suit claimed that Qualcomm abused its monopoly position in cellular chips to impose "onerous, unreasonable and costly" terms



Qualcomm and Apple are in a legal tussle over the use of the chip maker's technology. Above, a shopper tries out an iPhone.

on customers and competitors. It also said that Qualcomm charged too much for its patents and refused to sell chips to phone makers that didn't license its patent portfolio.

Qualcomm's filing denies Apple's allegations, and says Qualcomm went out of its way to offer Apple alternatives in its licensing terms, which Apple rejected.

Qualcomm general counsel Don Rosenberg said his company believes Apple's suit was motivated by a need to reduce the cost of making iPhones. Qualcomm's licensing business "is a nice target for them to pursue to get that input cost lower. That's really what this

is about," he said in an interview.

The stakes for both Apple and Qualcomm are high. Apple, facing competitive pressure from Chinese smartphone makers and others, would benefit from reducing costs. Qualcomm, meanwhile, gets most of its pretax profit from licensing its intellectual property.

Qualcomm typically charges handset makers up to 5% of the selling price of a wireless device to use its patents. Apple charges between \$400 and \$1,000 for an iPhone, implying that it pays Qualcomm as much as \$20 to \$50 for every unit it sells.

Apple, in its lawsuit,

claimed that Qualcomm withheld \$1 billion in payments that Apple referred to as rebates on royalties paid to Qualcomm by contract manufacturers that build iPhones. Qualcomm's response denies the allegation and charges that Apple caused those manufacturers, which previously had agreed to and complied with Qualcomm's licensing terms, to withhold royalty payments.

Qualcomm didn't specify the amount it believes it is owed by contract manufacturers of iPhones or the amount it seeks in damages.

Apple sued Qualcomm in the U.S. days after the U.S. Federal Trade Commission

filed an antitrust lawsuit against the chip maker alleging anticompetitive behavior. Qualcomm last week filed a motion to dismiss the FTC's case.

A favorable judgment on that motion could undermine Apple's suit, said Mark Lemley, director of the Stanford University program in Law, Science & Technology, since "they're based on similar allegations."

If Apple's case proceeds, it may take as much as two years to reach a judgment, Mr. Lemley said, after which appeals might begin.

—Tripp Mickle contributed to this article.

'Minecraft' Market To Open to Sellers

BY SARAH E. NEEDLEMAN

Microsoft Corp. plans to launch a new marketplace inside its hit block-building videogame "Minecraft," in which other businesses can sell virtual game-related goods to players.

The software company already sells its own virtual goods in "Minecraft," a game in which players construct any object imaginable—the Taj Mahal, even entire worlds—with Lego-style blocks. Different versions of the game allow players to fight zombies with friends and go on other adventures within the "Minecraft" universe.

For the first time, though, Microsoft will open the store to third-party content creators, effectively turning the game into a kind of app store for outside developers. The move creates a moneymaking



Microsoft already sells its own items within 'Minecraft.' Others will be able to do the same.

opportunity for Microsoft while potentially helping it expand its base of 55 million people who play "Minecraft" monthly.

Microsoft plans to open the store later this spring, the company said Monday in a blog post. At the start, Microsoft is joining with nine privately held sellers, though other businesses—not individuals—can apply to sell goods in the marketplace. Microsoft said it is being selective to ensure only high-quality items are sold in the store.

Players will be able to buy a "Minecraft" digital currency, which then can be spent in the game on character costumes, maps and other content—a typical experience for games, particularly mobile games such as "Pokémon Go."

The "Minecraft Marketplace" will be available on Windows 10 personal comput-

ers, mobile devices and virtual-reality headsets. App stores such as Alphabet Inc.'s Google Play will take a 30% cut of sales, with content creators receiving an unspecified majority of the balance, Microsoft said.

Notably absent is Microsoft's

own Xbox One console and rival machines such as Sony Corp.'s PlayStation 4. Microsoft said the marketplace won't be available on game consoles because "Minecraft" is more popular on mobile devices and PCs. The company declined to say whether it would come to con-

soles at a later date.

Microsoft in 2014 bought Mojang AB, the maker of "Minecraft," for \$2.5 billion. More than 122 million copies have been sold as of February, the company said. An edition was released for schools in November.

KENYA

Continued from page B1

into a for-profit company that collaborates with the likes of Facebook, Google and **Microsoft Corp.** The U.S. companies will use the iHub as a center for their training and talent-spotting. The recognition caps

a long journey for the incubator founded by the group of activists behind Ushahidi, a platform created during widespread violence after elections in 2007 and 2008 that cost thousands of lives across the country. Ushahidi collected testimonies, used phones to record incidents and geo-located them using Google Maps.

Both Ushahidi and the iHub were largely funded by grants from foundations such as the Omidyar Network, the philanthropic fund owned by Pierre Omidyar, founder of online auction company eBay Inc. For the iHub, the model became increasingly unsustainable last year as it faced cash-flow problems, said its former chief executive, Kamal Bhattacharya, who took it over after a career at IBM and became chairman of the iHub board this month.

The incubator last year received \$2 million in funding from Invested Development, a U.S.-based fund, that allowed the company to reorient its business. Mr. Bhattacharya raised prices for services and added multimonth contracts to the firm's revenue stream. The company has posted \$1.5 million in annual revenue on average for the past three years.

Data collection remains patchy in Kenya, but the iHub reckons more than 100 startups have used its services over the past seven years, and more than 1,000 people have worked at startups during the same time. It now employs about 30 people full-time and has handled more than 50 projects in the past 12 months.

Kenya last year was the second-biggest technology hub in Africa in terms of the number of startups that secured funding, trailing only South Africa. But the average amount raised per startup last year declined 85% compared with the previous year, Disrupt Africa data show, from \$2.6 million in 2015 to just \$402,469 in 2016, relegating it to sixth place by this criterion behind Nigeria, Ghana, Egypt, Morocco and South Africa.

One fundamental change here is the type of investor attracted to Kenyan tech businesses. Angel investors—often themselves successful businesspeople or returned from the Kenyan diaspora—private equity and specialized technology funds are becoming more involved, just as Western donor agencies and charitable foundations are becoming less active, according to investors and technology entrepreneurs.

"The Peace Corps volunteers of the past came back to Kenya as impact-tech investors," says Agosta Liko, founder of the profitable fintech company **PesaPal**, in describing Kenya's tech scene during the initial years.

Mr. Liko, who avoided taking donor grants for his business that helps people pay for anything online using mobile money or credit cards, is hopeful that experienced entrepreneurs and homegrown startups will have more of a role.

"Many of us have been working hard and quietly for many years," Mr. Liko said. "The most important thing is that a number of Kenyan technology businesspeople are now becoming mentors and angel investors for new startups here."



International Business Machines is training hundreds of Kenyan coders in Nairobi each year.

NICHOLE SOBECKI FOR THE WALL STREET JOURNAL

MANAGEMENT

When Ability Holds Back Advancement

Companies are taking action to prevent teams from clinging to top performers

By JOANN S. LUBLIN

Ever feel like you're stuck in place at work? You may be so good at your job that your boss isn't willing to lose you.

It's called talent hoarding, a manager's natural tendency to hold on to top performers instead of working to promote them or transfer them to other areas of the company.

Eric Miquelon felt hoarding crimped his advancement when he was an Avanade middle manager nearly a decade ago. He vividly recalls being "hungry to do more" and join the technology consultancy's North American leadership team.

But his boss's boss, the region's head, "was hoarding a group of high performers" and even resisted letting other colleagues join the team, Mr. Miquelon says. A year later, he got a different executive role at the company.

Now, more companies facing skill shortages are taking aim at talent hoarders. Chiefs at companies such as Avanade consider antihoarding efforts a personal priority.

Lender Ally Financial Inc. allows staffers to lobby certain leaders for promotions. Firms including Ernst & Young LLP reward executives for developing lieutenants—even though they may lose their best to different assignments.

In 2013, Avanade Chief Executive Adam Warby decided he and his management team

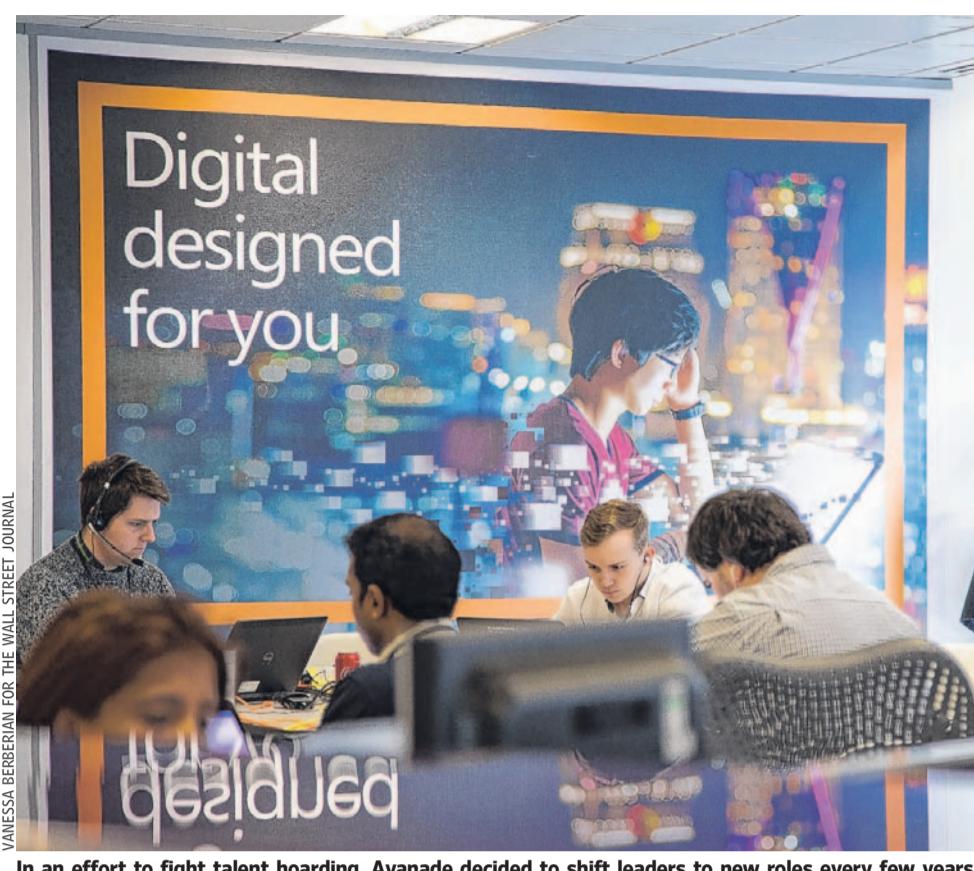
should fight hoarding, recalls Stephen Kelly, chief human-resources officer. The company, jointly owned by Microsoft Corp. and Accenture PLC, was struggling with rapid business growth because managers didn't want to let their people take other inside positions, Mr. Kelly says. "Everyone only knew their own people."

Mr. Warby initiated a push to shift leaders to new roles every few years, telling top leaders in early 2014, "This is a team sport."

Clinging to good people is bad for business, a 2016 study concluded. Talent-hoarding managers exist at half of 665 employers surveyed by the Institute for Corporate Productivity, a research group. That proportion rose to 74% for the lowest-performing companies in the survey, as defined by such measures as profit and revenue.

"Hoarding inevitably results in key people leaving—a problem aggravated by today's mobile millennial workers and strong economy," observes Kevin Martin, the institute's chief research officer and co-author of the study. The issue persists because managers are rarely rewarded for moving individuals to different parts of the operation, he adds. "This lack of accountability is a killer," he says.

Avanade's Mr. Warby took several steps to expand internal mobility. He insisted that the company's highest executives identify staffers by their level of readiness



In an effort to fight talent hoarding, Avanade decided to shift leaders to new roles every few years.

for a move, ranging from immediately to three years.

The mandate helped stars like Anna Di Silverio rise faster. Before fall 2015, she ran her native Italy for Avanade and had never lived abroad. She has since been promoted twice and today is the area president for growth markets, living in Singapore and overseeing China, Brazil and six other countries.

Ms. Di Silverio views her advancement as "a well-managed process." But within her regions, she says she continues to chastise managers who attempt to hoard and reminds them to make talent rotations "a natural behavior."

Mr. Warby also now spends several days a year discussing the company's executive talent with his management team.

Participants at these talent forums sometimes still resist a subordinate's move by declaring, "I need this person," says Toni Handler, another Avanade human resources executive. Fellow ex-

ecutives quickly object, because "it's not OK to hoard talent," she adds.

Avanade leaders are evaluated partly on how many of their staffers are ready to move now, according to Mr. Kelly. Between formal meetings, Mr. Warby often asks his lieutenants about "who we haven't moved," Mr. Kelly says.

There is now more job hopping within upper management. Thirty of Avanade's 240 senior executives have switched internal roles since July 2015, an unusually high proportion for such a brief period, a spokeswoman says.

Ally discourages talent hoarding through career roundtables, where executives typically review potential inside prospects to fill vacancies. The lender's corporate financial organization takes roundtables one step further, allowing staffers to pitch their qualifications to senior managers who have immediate or imminent openings.

To take part, employees must be performing well

based on recent reviews and must have been in their current role for more than a year. Since 2015, 11 finance employees landed higher jobs or made lateral moves following their roundtable presentations, according to Kathleen L. Patterson, Ally's chief human resources officer.

Among them is Tony Jefferson, hired in 2013 as a first-line supervisor. He says he figured a roundtable pitch might help him move ahead faster because his boss "never set a timeline" for his next Ally role during their career-planning chats. His immediate supervisor did

recommend a roundtable appearance as "a good opportunity to get your name and face in front of the senior leadership team," he remembers.

In June, Mr. Jefferson spent 20 minutes describing his specialized finance training and career aspirations to nearly a dozen financial leaders. Three months later, Ally promoted him to middle manager.

BUSINESS WATCH

ADANI

Australia Hints at Support for Mine

Australia's government has indicated backing for a loan of nearly 1 billion Australian dollars for Indian conglomerate Adani Group to build the world's largest coal mine, despite projections of a global glut of the commodity and environmental concerns.

Deputy Prime Minister Barnaby Joyce said a A\$900 million (US\$675 million) concessional loan from a development fund is "a great idea" that would stoke jobs and growth. Mr. Joyce said that outweighs concerns about the proximity of the mine to the Great Barrier Reef.

"We want to get this show up and running. It's a A\$16 billion investment that is going to be great for people who have just been through a major cyclone to make sure we have jobs for them," Mr. Joyce said on state



Adani Chairman Gautam Adani and Australian Prime Minister Malcolm Turnbull, on Tuesday.

radio Tuesday. The mine would be in Queensland state, where Tropical Cyclone Debbie lashed tourist islands and resorts last month.

Hours before Mr. Joyce spoke, Prime Minister Malcolm Turnbull met with Adani Chairman Gautam Adani in New Delhi to dis-

cuss the Carmichael coal mine, which would be built just inland from the Great Barrier Reef and ship coal to India past its coral banks. Despite projections of a global glut of the commodity and a prolonged downturn in prices, Adani has been pushing ahead with plans to build the

mine that would produce thermal coal to generate electricity and operate for six decades. The company plans to produce as much as 60 million metric tons of thermal coal a year from six open-cut pits and five underground mines.

—Rob Taylor

LOEWS

Firm Pays \$1.2 Billion For Unit of Bain

Loews Corp. on Tuesday said it reached a \$1.2 billion deal with Bain Capital Private Equity to buy a packaging business it sees as immune to disruption by technology.

Consolidated Container Co., an Atlanta-based maker of rigid plastic such as packaging for household chemicals and beverages, will join a newly created segment called Loews Packaging Group. The deal is expected to close in the second quarter.

"We have been analyzing the packaging industry for some time because it fits our key acquisition criteria. It is a fragmented industry that generates strong cash flows and we believe it is unlikely to be subject to major technological disruption," said Loews Chief Executive James Tisch.

—Anne Steele

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FINANCE & MARKETS

China Government Warns Banks

Regulator seeks to curb speculation, cut financial-system risk; 'severe penalties'

BY SHEN HONG

SHANGHAI—China's battle to counter rising stress in its financial system has escalated this week, with regulators making a fresh warning to banks not to engage in speculation that creates unhealthy asset bubbles and prevents money from flowing to more productive parts of the economy.

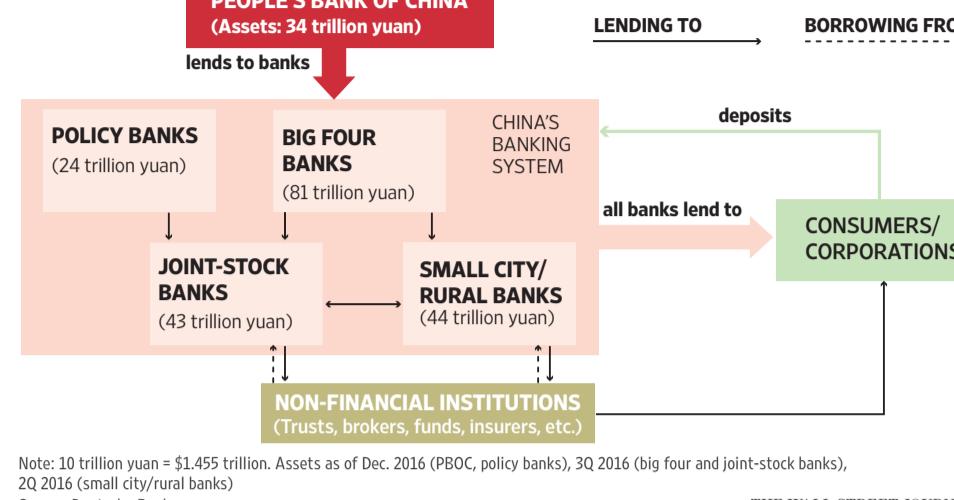
In a directive circulated to banks Monday, the country's banking regulator instructed banks to carry out self-checks by late November on their involvement in what it termed irregularities. The seven-page document, reviewed by The Wall Street Journal, said such actions include making highly leveraged bets on markets via popular investment products and the excessive use of a newly popular form of short-term debt that banks are increasingly relying on for funding.

Without offering details, the banking regulator warned of "severe penalties" for banks found to have committed serious violations of its new guidelines. It criticized behavior it described as "working without bending down" and "sitting there collecting free money," adding that banks should do more to ensure money flowed to China's "real economy."

The regulator's latest broadside follows fresh signs of financial strain in the world's second-

How Money Flows Through China's Financial System

The complexity of financial linkages in China is rising.



Note: 10 trillion yuan = \$1.455 trillion. Assets as of Dec. 2016 (PBOC, policy banks), 3Q 2016 (big four and joint-stock banks), 2Q 2016 (small city/rural banks)
Source: Deutsche Bank

THE WALL STREET JOURNAL.

largest economy. Last month, the nation's interbank lending market—a vital part of the financial plumbing in big economies in which banks borrow from each other to cover daily needs—suffered a cash crunch that drove up borrowing costs to the highest level in two years.

It also came a day after the Communist Party announced a probe into the country's top insurance regulator for suspected graft, the latest indication of Beijing's concern over weak oversight of its rapidly expanding financial sector.

In the past year, Beijing has become wary of a fast-rising debt pile among companies and local governments, as well as periodic investment booms in markets ranging from bonds to sugar. Policy makers have made

the reduction of financial risk and leverage their priority this year. The country's central bank has raised short-term interest rates twice since late January.

But Beijing faces a tricky balancing act as it strives to reduce excessive borrowing and market speculation. If it taps on the brakes too hard, it risks aggravating the slowdown in China's economy, which has become highly reliant on vast quantities of credit to underpin growth.

The government has also relied on trying to curtail banks' risky activities through warnings and tighter regulation.

"Given all the monetary tightening and measures like these to deleverage the financial system, I expect rising borrowing costs to put the economy under stronger downward

pressure in the second half of this year," said Zhu Chaoping, economist at UOB-Kay Hian Securities, a Singapore-based investment bank. "Having said that, I don't see any sign of wavering from Beijing."

In its latest directive, the bank regulator singled out of the risks around wealth-management products, the latest sign of Beijing's concern about their rapid rise. The amount of these products in issue has increased to \$3.8 trillion, equivalent to more than a third of China's annual gross domestic product, from \$72 billion in 2007.

Wealth-management products are often sold by banks as a way to raise money, but aren't recorded on their balance sheets. They typically offer cus-

tomers short-term returns that are much higher than ordinary bank deposits, by making highly leveraged bets that have helped fuel bubbles in markets from bonds to soybeans in the past couple of years.

The products' short-term nature means issuers sometimes have to tap China's money markets to secure funds to repay investors if the assets in which they invested fall in value. A sudden need for such funding among wealth-management products contributed to last month's cash crunch in China.

The regulator's directive this week also warned banks against investing in their own wealth-management products and in those issued by their peers, an increasingly common practice that analysts say is multiplying risks within the financial system and making it hard for the regulator to calculate the scale of shadow banking in China.

Officials from the China Banking Regulatory Commission couldn't be reached for comment.

The departing KPMG employees include four partners and Scott Marcello, a partner and the head of the firm's audit practice, according to KPMG.

The firm confirmed the matter after being contacted by The Wall Street Journal. Mr. Marcello couldn't immediately be reached for comment.

Regulator Probes Leak to KPMG

BY DAVE MICHAELS
AND MICHAEL RAPORT

Six employees at KPMG LLP have resigned after the U.S. audit regulator began investigating the leak of a confidential plan to inspect work performed by the accounting firm, the company said Tuesday.

The departing KPMG employees include four partners and Scott Marcello, a partner and the head of the firm's audit practice, according to KPMG.

The Public Company Accounting Oversight Board has hired an outside law firm to probe the breach, according to people familiar with the matter.

The accounting board, which is investigating the actions of a former employee, discovered the leak more than a month ago, according to the people. The incident has sparked renewed concern about the management of the regulator, which has been criticized as moving slowly to advance new audit standards.

"KPMG has zero-tolerance for such unethical behavior," said Lynne Doughtie, KPMG's chairman and chief executive officer. "KPMG is committed to the highest standards of professionalism, integrity and quality, and we are dedicated to the capital markets we serve. We are taking additional steps to ensure that such a situation should not happen again."

A spokeswoman for the board said the organization has taken steps to "maintain and reinforce the integrity of its inspection process" since discovering the leak.

"When the PCAOB recently learned that a registered firm had come into possession of confidential PCAOB inspection selection information, the PCAOB immediately commenced an internal investigation," board spokeswoman Colleen Brennan said. "The investigation identified inappropriate disclosures by an employee, and the employee is no longer with the PCAOB."

A KPMG employee informed the Securities and Exchange Commission and the accounting board about the leak, the company said. The board has described the leaker to government officials as a disgruntled employee, the people said.

—Andrew Ackerman contributed to this article.

Geopolitical Worries Hurt Stocks, Lift Gold

BY AKANE OTANI
AND JON SINDREU

Investors piled into haven assets as concern over geopolitical risk mounted, triggering selling of stocks from Tokyo to New York.

U.S. government bonds and gold both gained Tuesday. At

midday in New York, yields on 10-year Treasury debt,

which decline when prices rise, were at 2.304%, compared with 2.361% on Monday. Gold for April delivery on the Comex division of the New York Mercantile Exchange rose 1.6% to \$1,270.70 a troy ounce.

The gains came as Secretary of State Rex Tillerson made his first official trip to Moscow and South Korean officials sought to tamp down concerns over the possibility of a pre-emptive U.S. military strike on North Korea.

"The probability of escalat-



Tech stocks such as Intel were among the weakest in the U.S.

tion in North Korea is low, but if it happens, it can get very complicated very, very soon," said Salman Ahmed, chief investment strategist at Lombard Odier Investment Managers.

South Korea's Kospi index slipped 0.4%, and the Japanese yen, widely seen by investors as a haven asset, gained 0.8% against the U.S. dollar. Japan's Nikkei Stock Average, which tends to fall as the yen rises,

stocks slid, putting pressure on the nation's exports less competitive, fell 0.3%.

The Dow Jones Industrial Average was down 84 points, or 0.4%, to 20575, near midday in New York. Shares of technology companies posted losses. The S&P 500 fell 0.8% and the Nasdaq Composite lost 1%.

Stocks have wavered in recent sessions after posting a series of records in early March. Details on potential U.S. policy changes like tax reform and infrastructure spending remain scarce, analysts said, giving investors few reasons to place fresh bets on the so-called Trump trade that initially lifted shares of financial and industrial companies while putting pressure on government bonds.

"The market's just waiting for some positive news at this point—and we haven't gotten it out of the Trump administration yet," said Crit Thomas, global market strategist at Touchstone Investments.

Technology stocks slid, putting pressure on the tech-heavy Nasdaq. Dow component Apple shed 1.8% and Intel fell 1.4% in morning trading.

Shares of energy companies fell 0.7% in the S&P 500 as oil prices retreated. U.S. crude oil fell 0.6% to \$52.78 a barrel.

Elsewhere, the Stoxx Europe 600 closed marginally lower. Investors sold French assets after polls suggested the coming presidential elections, scheduled for April 23, could become a four-way race.

The extra compensation investors demand to hold 10-year French government debt instead of German bonds rose to the highest level since the eurozone debt crisis in late 2011.

"I would expect, in case of uncertainty over the next 15, 20 or 30 days, to see some risky assets selling off," said Nicolo Carpaneda, fixed-income investment director at M&G Investments, a \$308 billion money manager.

FINANCE WATCH

MASTERCARD

U.K. Approves VocaLink Purchase

A U.K. regulator cleared the way for Mastercard Inc. to acquire payment-technology firm VocaLink Holdings Ltd., allowing the global card network to expand beyond card payments.

Mastercard in July announced that it entered into an agreement to buy 92.4% of VocaLink for about \$920 million.

But a U.K. regulator, the Competition and Markets Authority, delayed the acquisition. In January, the regulator cited concerns that the deal could stifle competition in the ATM business. The CMA said that VocaLink and Mastercard are two of the three

"most credible providers of infrastructure services" to the primary ATM network operating in the U.K. and that the merger would reduce bidders, among other concerns.

Mastercard and VocaLink offered to allow new companies that want to get into the U.K. ATM market to use some of VocaLink's infrastructure rather than having to build it on their own.

The CMA on Tuesday said it accepted Mastercard and VocaLink's remedies to address competition concerns, effectively clearing the way for the deal to proceed. The deal is now expected to close in coming weeks, according to a Mastercard statement Tuesday.

—AnnaMaria Andriots

ALTERNATIVE LENDING Neuberger Buys Into Credit Investor

A unit of investment manager Neuberger Berman is buying a 10% stake in the credit investor TPG Special Situations Partners, a bet that alternative lenders have carved out a lasting niche on Wall Street.

The deal with Neuberger's Dyal Capital Partners values TSSP, as it is known, at \$3.5 billion, according to people familiar with the matter.

TSSP, backed by the private-equity firm TPG, plans to use proceeds from the sale to add staff and to invest more of its own capital in its funds, the people said.

—Matt Jarzemsky

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FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN—

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866

Fax No: 65-6835-8866, Website: www.cam.com.sg, Email: cam@cam.com.sg

CAM-GTF Limited OT MUS 04/10 USD 3.22 8.3 -2.4

FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN—

VP Class-B Units AS EQ HKG 04/10 USD 128.87 12.5 22.6 -4.8

VP Class-C Units AS EQ HKG 04/10 USD 16.27 12.6 22.6 -4.8

VP Class-C Units AUD H AS EQ HKG 04/10 AUD 13.42 12.4 22.7 -4.0

VP Class-C Units CAD H AS EQ HKG 04/10 CAD 13.01 12.3 22.1 -5.4

VP Class-C Units HKD H AS EQ HKG 04/10 HKD 11.05 12.2 21.6 NS

VP Class-C Units NZD H AS EQ HKG 04/10 NZD 13.46 11.6 22.4 -3.4

VP Class-C Units RMB H AS EQ HKG 04/10 CNY 11.41 9.5 27.8 NS

VP Multi-Asset Fund Cls A USD AS OT HKG 04/10 USD 10.98 14.3 25.5 NS

VP Multi-Asset Fund Cls A USD OT 04/10 USD 10.11 5.1 NS NS

VP Multi-Asset Fund Cls A USD OT HKG 04/10 USD 10.25 4.9 7.3 NS

VP Taiwan Fund AS EQ CNY 04/10 USD 18.53 10.6 24.9 6.8

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China A-Share Fund Cls A AUD H OT HKG 04/10 AUD 12.71 7.8 3.3

China A-Share Fund Cls A CAD H OT HKG 04/10 CAD 11.69 7.0 3.1

China A-Share Fund Cls A EUR H OT HKG 04/10 EUR 12.57 7.5 3.2

China A-Share Fund Cls A GBP H OT HKG 04/10 GBP 12.31 7.1 3.3

China A-Share Fund Cls A HKD H OT HKG 04/10 HKD 12.53 6.7 3.5

China A-Share Fund Cls A NZD H OT HKG 04/10 NZD 12.33 7.0 2.5

China A-Share Fund Cls A SGD H OT HKG 04/10 SGD 12.42 6.4 2.4

China A-Share Fund Cls A USD H OT HKG 04/10 USD 12.30 7.5 2.5

China A-Share Fund Cls A USD OT HKG 04/10 USD 12.29 7.4 2.4

China A-Share Fund Cls A USD OT HKG 04/10 USD 12.29 7.1 2.0

China A-Share Fund Cls A USD OT HKG 04/10 USD 12.25 7.9 1.5

China A-Share Fund Cls A USD OT HKG 04/10 USD 12.22 7.7 1.5

China A-Share Fund Cls A USD OT HKG 04/10 USD 12.16 7.5 1.5

China A-Share Fund Cls A USD OT HKG



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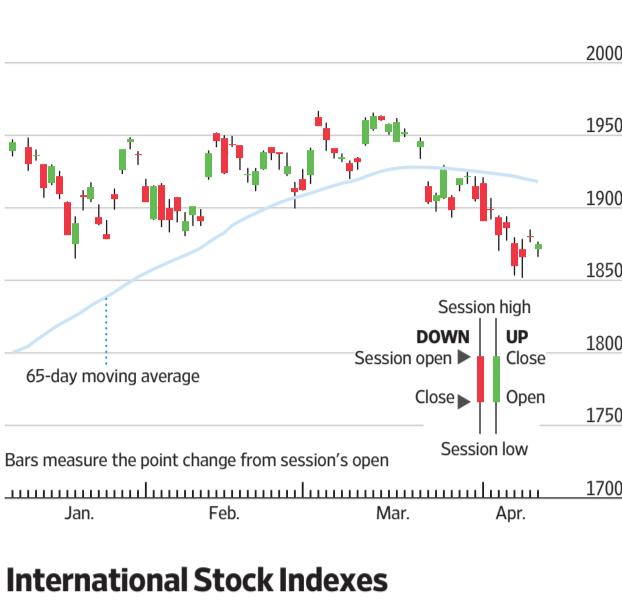
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MARKETS DIGEST

Nikkei 225 Index

18747.87 ▼50.01, or 0.27%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

381.18 ▼0.07, or 0.02%

High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

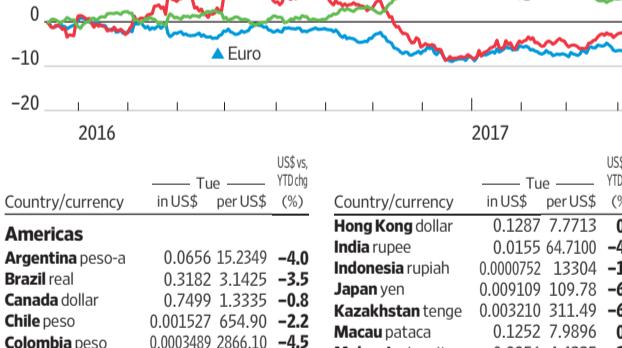
International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2671.25	-8.22	-0.31	2193.75	●	2720.47	5.7	
	MSCI EAFE	1785.70	5.53	 0.31	1471.88	●	1956.39	4.0	
	MSCI EM USD	953.93	-4.07	-0.42	691.21	●	1044.05	20.1	
Americas	DJ Americas	565.74	-3.23	-0.57	480.90	●	577.65	4.7	
Brazil	Sao Paulo Bovespa	64198.20	-451.61	-0.70	48066.67	●	69487.58	6.6	
Canada	S&P/TSX Comp	15684.72	-46.07	-0.29	13444.45	●	15943.09	2.6	
Mexico	IPC All-Share	49360.92	-179.34	-0.36	43902.25	●	49753.57	8.1	
Chile	Santiago IPSA	3754.07	-28.59	-0.76	2998.64	●	3786.05	16.5	
U.S.	DJIA	20561.72	-96.30	-0.47	17063.08	●	21169.11	4.0	
	Nasdaq Composite	5838.63	-42.29	-0.72	4574.25	●	5936.39	8.5	
	S&P 500	2342.29	-14.87	-0.63	1991.68	●	2400.98	4.6	
	CBOE Volatility	15.56	1.51	 10.75	9.97	●	26.72	10.8	
EMEA	Stoxx Europe 600	381.18	-0.07	-0.02	308.75	●	381.26	5.5	
	Stoxx Europe 50	3159.71	0.43	 0.01	2626.52	●	3174.79	5.0	
France	CAC 40	5101.86	-5.59	-0.11	3955.98	●	5135.28	4.9	
Germany	DAX	12139.35	-61.17	-0.50	9214.10	●	12375.58	5.7	
Israel	Tel Aviv	1396.06	...	Closed	1372.23	●	1504.42	-5.1	
Italy	FTSE MIB	20109.06	-92.99	-0.46	15017.42	●	20540.39	4.5	
Netherlands	AEX	518.40	-0.76	-0.15	409.23	●	520.31	7.3	
Russia	RTS Index	1091.08	6.82	 0.63	864.46	●	1196.99	-5.3	
Spain	IBEX 35	10416.30	-21.40	-0.21	7579.80	●	10534.50	11.4	
Switzerland	Swiss Market	8641.55	24.87	 0.29	7475.54	●	8710.26	5.1	
South Africa	Johannesburg All Share	53535.16	395.20	 0.74	48935.90	●	54704.22	5.7	
Turkey	BIST 100	90904.49	-335.96	-0.37	70426.16	●	91832.03	16.3	
U.K.	FTSE 100	7365.50	16.56	 0.23	5788.74	●	7447.00	3.1	
Asia-Pacific	DJ Asia-Pacific TSM	1546.07	2.76	 0.18	1308.52	●	1570.38	8.7	
Australia	S&P/ASX 200	5929.30	16.40	 0.28	4975.60	●	5929.30	4.7	
China	Shanghai Composite	3288.97	19.57	 0.60	2806.91	●	3288.97	6.0	
Hong Kong	Hang Seng	24088.46	-173.72	-0.72	19694.33	●	24593.12	9.5	
India	S&P BSE Sensex	29788.35	212.61	 0.72	25101.73	●	29974.24	11.9	
Indonesia	Jakarta Composite	5627.93	-16.37	-0.29	4704.22	●	5680.24	6.3	
Japan	Nikkei Stock Avg	18747.87	-50.01	-0.27	14952.02	●	19633.75	-1.9	
Malaysia	Kuala Lumpur Composite	1735.84	-3.68	-0.21	1614.90	●	1754.67	5.7	
New Zealand	S&P/NZX 50	7254.38	15.52	 0.21	6664.21	●	7571.11	5.4	
Pakistan	KSE 100	48250.07	307.12	 0.64	33572.13	●	50192.36	0.9	
Philippines	PSEI	7601.40	-16.51	-0.22	6563.67	●	8102.30	11.1	
Singapore	Straits Times	3174.75	-6.70	-0.21	2729.85	●	3187.51	10.2	
South Korea	Kospi	2123.85	-9.47	-0.44	1925.24	●	2178.38	4.8	
Taiwan	Weighted	9832.42	-50.12	-0.51	8053.69	●	9972.49	6.3	
Thailand	SET	1582.78	1.59	 0.10	1381.69	●	1591.00	2.6	

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	in US\$	Tue	per US\$ (%)	US\$ vs.	in US\$	Tue	per US\$ (%)
Americas							
Argentina peso-a	0.0656	15.2349	-4.0	Hong Kong dollar	0.1287	7.7173	0.2
Brazil real	0.3182	3.1425	-3.5	India rupee	0.0155	64.7100	-4.8
Canada dollar	0.7499	1.3335	-0.8	Indonesia rupiah	0.000752	13.3004	-1.6
Chile peso	0.001527	654.90	-2.2	Kazakhstan tenge	0.003210	311.49	-6.7
Peru so	0.3077	3.2495	-3.1	Macau pataca	0.1252	7.9896	0.9
Uruguay peso-e	0.0351	28.460	-3.0	Malaysia ringgit-c	0.2256	4.4335	-0.4
Venezuela bolivar	0.099155	10.09	0.9	New Zealand dollar	0.6956	1.4376	-0.4
Asia-Pacific				Pakistan rupee	0.0096	104.700	0.3
Australia dollar	0.7501	1.3332	-4.0	Philippines peso	0.0201	49.705	-0.2
China yuan	0.1451	6.8922	-0.8	Singapore dollar	0.7128	1.4030	-3.1
				South Korea won	0.0008706	114.585	-4.9
				Sri Lanka rupee	0.0065651	152.32	2.6
				Taiwan dollar	0.03259	30.685	-5.5
				Thailand baht	0.02894	34.550	-3.5

Sources: Tullett Prebon, WSJ Market Data Group

London close on April 11

Country/currency	in US\$	Tue	YTD% (%)	US\$ vs.	in US\$	Tue	YTD% (%)
Europe							
Bulgaria leva	0.5434	1.8401	-1.0	Croatia kuna	0.1427	7.008	-2.3
Czech Rep. koruna-b	0.0398	25.129	-2.2	Euro zone euro	1.0614	0.9422	-0.9
Denmark krone	0.1427	7.0062	-0.9	Hungary forint	0.003402	293	

THE PROPERTY REPORT

U.S. Commercial-Property Lending Falls

Sales activity has declined after eight years of price gains; 'the banks are hungry'

BY PETER GRANT

Commercial real-estate lending by banks, insurance companies and other financial institutions is declining as sales activity slows and regulators voice concern about the sector.

Lenders closed roughly \$491 billion of mortgage loans backed by U.S. property in 2016, down 3% from 2015, according to new statistics from the Mortgage Bankers Association. Most of the decline occurred in the fourth quarter, when volume was 7% lower than the 2015 quarter, according to Jamie Woodwell, the trade group's head of commercial-property research.

Despite the decrease, the new-volume number was the third highest since the association began doing the survey, behind 2015 and the record year of 2007.

The decline from 2015 to 2016 was due partly to a slowing of property sales, meaning fewer buyers needed financing. "There's a very tight correlation" between the two, Mr. Woodwell said.

Buyers, for their part, are getting jittery because values have been rising for eight years and are near records. In all, investors purchased \$493.7 billion of U.S. commercial property in 2016, down 10% from 2015, according to data firm Real Capital Analytics.



ING Groep last year made a \$570 million refinance loan for the Sony Building, a mixed-use skyscraper on New York's Madison Avenue.

KENNETH HUGHES/BLOOMBERG NEWS

Activity has slowed further this year. Investors purchased just \$50.3 billion worth of U.S. commercial property in the first two months of 2017, compared with \$80.1 billion during the period in 2016, according to Real Capital Analytics.

Regulators have been expressing concern about overheated commercial real-estate lending. At the end of the 2016 third quarter there were 521 institutions insured by the Federal Deposit Insurance Corp. with potentially worri-

some concentrations of risk, according to an FDIC report this year. That is up from 474 institutions in the 2015 third quarter, the report said.

Yet banks and insurers are getting more aggressive over deals as investment in the sector declines. New lenders also are emerging on the scene, including investment funds formed by private-equity firms that are focused on real-estate debt.

"It's tougher right now," said Craig Bender, who heads up ING Groep NV's U.S. real-

estate lending business. "The banks are hungry. The life-insurance companies are hungry."

ING Groep two years ago relaunched its real-estate business after shutting it down following the global financial crisis. Last year, it made a \$570 million refinance loan for the Sony Building, an iconic mixed-use skyscraper at 550 Madison Ave. in New York.

Many bank executives view the commercial-property market as healthy, given rising

rents and occupancies. Wells Fargo & Co., the country's largest commercial-property market lender, expects to lend about \$30 billion this year, about the same as in 2016 and 2015, according to Mark Myers, the bank's head of commercial real estate. Those amounts are "high-water marks" for the bank, he said.

Still, the bank recognizes that property values are at record levels after rising for eight years. "I'd say, if I could look back one year ago, we're probably more cautious

[now]," Mr. Myers said.

Some lenders are competing by making riskier loans such as those that finance construction or occupy a "mezzanine" position between first mortgages and equity. In the first quarter of 2017, construction and land loans on bank balance sheets were up 12.8% to \$306.1 billion compared with the year-earlier period, according to loan tracker Trepp LLC.

Lenders and developers have gotten especially aggressive in building rental apartments. More units are under way today than in any period since the mid-1970s, experts said.

"There's no current looming event that regulators are looking to say we foresee a problem," said Matthew Anderson, managing director of Trepp. "It's just the sheer volume and pace of activity and the length of how long it's gone on."

Lenders also have been emboldened because loan performance is doing well. Just 0.59% of commercial mortgages held on balance sheets of banks and thrifts today are more than 90 days delinquent, the lowest rate in more than a decade, according to the Mortgage Bankers Association. By comparison, the delinquency rate was 4.21% at the end of 2010.

The improving loan quality reflects steadily rising prices. A property value index compiled by Green Street Advisors has more than doubled since 2009, when it hit its postcrash low point. But lately that index plateaued. In March, it declined 0.5%.

Greece Plus Malls Equals Risk for a U.S. Investor

BY ART PATNAUDE

As risky bets go, Greece ranks right up there. When you add shopping malls to the mix, only the hardest investors need apply.

That is the wager that U.S. private-equity firm Värde Partners LP made last week when it paid €61.3 million (\$65 million) for a stake in two of Greece's biggest shopping malls.

The deal stands out because there have been few commercial real-estate transactions over the last eight years in Greece, once the epicenter of Europe's financial crisis.

Of the €255 billion (\$270 billion) of commercial property traded in Europe last year, only \$650 million of deals took place in Greece, mainly in the hotel sector, according to real-estate research firm Real Capital Analytics.

"There are some big question marks hanging over Greece," said Walter Boettcher, director of research at Colliers International, a real-estate broker.

At the same time, the rise of online shopping and changing consumer preferences around the world have led to large-scale retail bankruptcies and store closures in the U.S., the U.K. and around the world.

Yet Minneapolis-based Värde, a value investor on the hunt for discounted assets, sees opportunity.

"The risk is about the politics," said Tim Mooney, global co-head of real estate at Värde. "The gutsy part of the trade is not at the asset level."

The Greek economy has only started to recover after shrinking by more than 25% during the financial crisis. The government is finalizing details of a deal struck on Friday with creditors to keep its economic bailout program going.

A final agreement will pave the way for talks on debt relief between European creditors—led by Germany—and the International Monetary Fund.

Prolonged bailout negotiations have revived uncertainty in Greece. The country's economy shrank faster than expected in the last quarter of the year, and while the Greek government expects growth to clock in at



The Golden Hall shopping mall in Athens, shown in 2012.

2.7% this year, several economists believe it will be more modest.

Värde paid the €61.3 million for a 31.7% stake in Lamda Malls SA, a unit recently spun out of Lamda Development SA, one of Greece's biggest real-estate companies. Lamda has two assets: Golden Hall in Athens, and Mediterranean Cosmos in Thessaloniki, a major city in the north of the country.

Even at the worst point of Greece's recession, occupancy at Lamda Malls never fell below 96%, "and you had no significant decline in tenant sales," said Anthony Iannazzo, a managing director at Värde.

"We like housing in Spain. We like retail in Greece," Mr.

Mooney said. "As a value investor, we think it's the right time."

it will remain a popular shopping destination, Mr. Mooney said.

The potential returns also were attractive to Värde. Because the Greek property market is so illiquid, nailing down an average yield in Greece is difficult, analysts said.

"You're not getting paid yields that you would see in Ukraine. But you're getting paid more than Romania or Turkey," said Mr. Iannazzo at Värde, which manages \$12 billion of assets.

This isn't new ground for Värde, which aims to buy assets or take control of companies at a discount to their potential value and then list them on a stock exchange or sell them.

The firm in 2011 bought U.K. home builder Crest Nicholson Holdings PLC, which was listed on the London Stock Exchange in 2013.

Värde in March bought Spanish housing developer Vía Celere for €90 million. The company will be merged with a Spanish developer it already owns, and is being considered for an initial public offering or sale, Mr. Mooney said.

Last year, fewer than 70% of Greeks used the internet, while around 35% made a purchase online, according to a report from Deutsche Asset Management. Both figures indicated Greece had among the lowest internet penetration rates in Europe.

Shopping malls like Golden Hall, with air conditioning, restaurants and play areas for children, are also not as common in Greece as they are in the U.S. or other parts of Europe, giving Värde confidence

Banks Wary of Retail Landlords

BY ESTHER FUNG

pancy rate of the underlying properties rose to 98% in 2016 from 92% in 2015.

A steady drumbeat of store closures is escalating concerns about the fate of retail shopping centers, especially lower-tier malls and strip centers.

Major retailers such as Macy's Inc., Sears Holdings Corp. and J.C. Penney Co. have said in recent months they plan to close as many as 290 stores, while Payless ShoeSource Inc. last week filed for chapter 11 bankruptcy protection and said it would close 400 stores.

Real-estate executives and financiers said it is more difficult these days to value shopping centers amid the shift in shopping habits.

"There is a sea change in attitudes over the last eight months."

"Lenders are more forward-looking this time, and question what the property is going to look like five years from now," said Eric Wolf, managing director at Katz Properties LLC, a property investment, development and management firm.

"There is more face time with lenders, and you go over things, and go over again," said Mr. Wolf.

Mall values can drop more sharply than residential and office properties if anchor tenants close and surrounding tenants then peter out. J.C.

Penney and Macy's closed stores at Hudson Valley Mall in

Kingston, N.Y., in 2015 and 2016, respectively, and the value of the mall plummeted 90%. The mall was valued at \$87 million in 2010. Last December, Kroll Bond Rating Agency said it was valued at \$8.1 million.

Not all malls are struggling. Some better-quality properties in affluent coastal cities with a steady stream of tourists continue to boost rents. Larger mall operators still make hefty investments in their best properties to keep them competitive.

"The stronger centers are getting stronger and the weaker centers are getting weaker," said Bill O'Connor, chief executive of O'Connor Capital Partners, a real-estate investment and development firm.

"All this is happening faster than the previous cycles. It's a game of musical chairs; when the music stops, you'll find out who has a seat."

But capital for retail real estate isn't drying up. In addition to banks, insurance companies also are extending loans to real-estate owners, and private-equity and hedge funds are on the lookout for deals for their debt funds.

Mr. Miller's Runyon Group recently secured a \$47 million, 10-year securitized loan from Wells Fargo Group Inc. to refinance a mixed-use, open-air retail and office property in Los Angeles. It started negotiations in October, and over the next two months the 10-year Treasury rate jumped to 2.5% from 1.6%.

"Generally in two to three years, interest rates will be higher," said Mr. Miller. "We're stress-testing our business plans to be successful in an environment like that."

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Runyon Group recently got a \$47 million loan for a retail and office property in Los Angeles.

KATIE GIBBS

MARKETS

After a Bounce, Rubber Slumps

Futures in Tokyo hit a four-month low; speculators decide 'the party is over'

By LUCY CRAYMER

When an asset price more than doubles in four months, the gains aren't liable to last. After a big bounce into the new year, natural rubber futures in Tokyo hit a four-month low on Tuesday.

"Since Chinese New Year, the Chinese government has started tightening credit up, inventories have grown and production has responded to higher prices. So we are back

to about where we were in November," said Michael Coleman, managing director of commodities firm RCMA Group. "Chinese speculators have decided the party is over," he said.

With a skid of 4.2% on Tuesday, rubber futures in Tokyo have fallen to just below the ¥230 (\$2.10) per kilogram level that a number of analysts have been watching. In the past couple of weeks, prices turned higher whenever futures fell to within a few yen of that level. But any convincing move lower could clear the way for another sharp fall. And with fresh gains in the yen versus the dollar, the recent rubber surge could be all

but fully erased, analysts say. Kaname Gokon from the Okato Shoji brokerage in Tokyo said foreign-exchange levels aren't the only problem. "People are bearish...because of the fundamentals," he said.

In early 2016, rubber futures on the Tokyo Commodity Exchange, considered a benchmark, bottomed out at around ¥144 a kilogram, their lowest level in nearly seven years.

Prices made some headway in the spring and summer of that year before taking off in November when Donald Trump's U.S. election victory led to a jump in the dollar and the yen declined more than other major currencies.

Many commodities—partic-

ularly those in industrial materials—saw a big climb in the new year as speculators bet that demand from China would continue outstripping supplies. And as the yen's slide stoked strong end-of-year gains for Tokyo rubber, flooding in Thailand, the world's biggest producer and exporter of the commodity, further boosted the market.

But after being one of the best-performing commodities to end 2016, rubber has been one of the worst places for investors to be this year.

While the yen has rebounded a little and production in Thailand has resumed, the market appears to be heading toward another glut.

Demand, primarily from China, has eased. Supplies at the Shanghai Futures Exchange are rising; there is 17% more deliverable rubber in warehouses there than a year ago, according to data on the Dalian Commodity Exchange. Meanwhile, new-vehicle sales growth slowed in China at the start of the year as some tax breaks ended.

The supply side of the equation isn't helping, either.

The Association of Natural Rubber Producing Countries, is expecting second-quarter production to be 5.8% higher than a year earlier. That would push output this year to rise by a projected 4.2%, the association said. Meanwhile, the

Gains Erased

Natural rubber prices on the Tokyo Commodity Exchange are falling as supplies increase.



Thai government has sold some of its stockpiled rubber into the market, further depressing prices.

El Niño Threat Looms in Next Year as Pacific Heats Up

By LUCY CRAYMER

An El Niño weather phenomenon will likely occur again this year as the Pacific Ocean heats up, Australia's weather bureau said Tuesday, bringing potentially bad news for some of the world's poorest regions.

At the start of 2017, forecasters around the world were in general anticipating neutral weather conditions for this year.

Now, all models that Australia's Bureau of Meteorology uses in forecasting the naturally occurring phenomenon indicate an El Niño will form this year or in early 2018. The agency noted that parts of the eastern Pacific Ocean surface are already one degree Celsius (1.8 degrees Fahrenheit) warmer than normal.

Government forecasters in the U.S. and Japan also see an increased risk of an El Niño event, putting the likelihood at a minimum of 50%. The U.S. Climate Prediction Center will update its forecast on Thursday.



TAYOK MEDIANA/BLOOMBERG NEWS

Thailand was among the countries hurt by a drought caused by the 2015-16 El Niño, one of the three most-severe on record.

El Niño occurs when winds in the equatorial Pacific slow or reverse direction. That warms water over a vast area, which in turn can upset

weather patterns around the world; it typically reduces rainfall in Australia and across parts of southeast and southern Asia.

As probability of a 2017 El Niño rises, analysts have been highlighting the risks for crops—particularly those grown in Asia and Africa such

as robusta coffee, sugar, cocoa and palm oil.

Information related to when exactly an El Niño might form is becoming critical "as it can

tighten the supply-demand situation for [agricultural] commodities, especially soft commodities," Société Générale recently said.

Yet there remains no way to anticipate how severe the impact will be. Of the 27 El Niño weather patterns observed since 1900, only 18 resulted in widespread droughts in Australia, according to the country's meteorology bureau. It also cautioned that the models it uses for forecasting the weather phenomenon have a lower accuracy than at other times of the year.

Risks are exacerbated by the fact that much of Southeast Asia is only just starting to recover from the 2015-16 event, which was one of the three most-severe on record. It brought widespread drought to large parts of the region, cutting production of coffee and palm.

It also left sugar withering in paddocks. Palm-oil prices hit their highest level in four years in 2016 while robusta coffee jumped nearly 50% last year.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Slowdown in Bank Lending Is a Mystery

One of the great mysteries and biggest concerns in the economy right now is the slowing growth in bank lending. Economists are searching for answers but none are entirely satisfying.

Total loans and leases extended by commercial banks in the U.S. this year were up just 3.8% from a year earlier as of March 29, according to the latest Federal Reserve data. That compares with 6.4% growth in all of last year and a 7.6% pace as of late October.

The slowdown is more surprising given the rise in business and consumer confidence since the election. And it is worrisome because the lack of business investment is considered an important reason why economic growth has remained weak.

Loans to businesses have slowed most sharply, with the latest data showing commercial and industrial loans up just 2.8% from a year earlier, compared with 8.9%

Not a Good Sign

Total loans and leases by U.S. commercial banks, change from a year earlier



THE WALL STREET JOURNAL.



Oil companies are repaying bank loans, Goldman believes.

growth in late October. Economists at Goldman Sachs Group estimate the slowdown in commercial and industrial lending alone equates to a \$100 billion shortfall in loans.

Investors may start to get more clarity on what is causing the slowdown when banks start reporting first-quarter earnings Thursday.

One explanation is that many companies have been tapping corporate bond markets to lock in low rates and in some cases to pay down more expensive bank debt. In the first quarter of this year, corporate bond issuance rose 18% from a year earlier, according to the Securities Industry and Financial Markets Association. But one reason

for the increase is that the first quarter of 2016 was dismal because of market turmoil. The rise isn't enough to explain the entire shortfall.

Goldman's economists also point to dynamics in the oil-and-gas industry. When oil prices were falling sharply in the first quarter of 2016, many energy companies couldn't tap capital markets for financing. Instead, they drew on bank lines of credit. Now that oil prices have rebounded, many of these companies are paying down their bank lines, Goldman says.

As the Goldman economists admit, this hypothesis is hard to verify because the Fed lending data aren't broken down by industry. Using data from the Office of the Comptroller of the Currency on the total size of credit facilities, they assume commodities companies borrowed around one-third of loan commitments available to them by March last year, then paid down about 35% of

that balance over the rest of the year. They figure this would account for roughly the entire \$100 billion shortfall in commercial and industrial lending.

But Goldman's figures are rough estimates, and others are skeptical. Paul Ashworth at Capital Economics says the oil-industry thesis doesn't explain why there was such a sudden deceleration starting in November.

Political uncertainty seems partly to blame. Consumers and businesses may express greater confidence since the election, but many might hesitate to take out big loans to fund new projects until they have greater clarity on the outlook for tax, trade and health-care policy.

Such caution would only be rational. It also suggests the growth surge many investors are expecting may not materialize until the policy picture out of Washington becomes clearer.

—Aaron Back

OVERHEARD

"The Most Boring Year Ever !!!" blares a headline on a report from Deutsche Bank's bond strategists. They seem to want equity investors bemused by low volatility to know that they aren't alone: Bonds are boring, too.

Whether that is comforting, however, is another matter.

Deutsche's strategists base their assessment on the range of moves in corporate-bond spreads over government-bond yields in the iBoxx indexes up to April 9 of each year since 2000. And the tiny moves in 2017 are among the smallest on record.

The problem comes when considering what the competitors are for this crown. The bad news is that they are the years prior to the global financial crisis: In Europe, for instance, only 2006 and 2007 had more boring starts than 2017.

Things got very interesting—perhaps too interesting—quickly after that.

\$360 Million Man Arrives at Axovant

Is a new CEO really worth \$360 million? That is what investors in Axovant Sciences are saying.

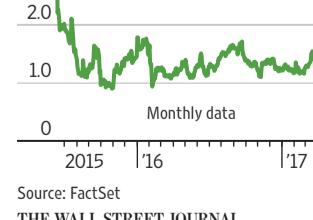
The biotech startup focusing on Alzheimer's disease treatments announced that David Hung has taken over as CEO. Dr. Hung is considered a hot hand in biotech; he arrives after running cancer-drug developer Medivation, which Pfizer purchased last summer for \$14 billion.

Axovant shares soared nearly 23% Monday. And there is a rationale for that: Dr. Hung said in an interview that he had more than 20 job offers to choose from, and investors are betting that he picked the company that is most likely to succeed.

Late-stage data for Axovant's lead experimental

Shot in the Arm

Axovant's market value



drug, Intepirdine, are due in late September for patients with mild to moderate symptoms of Alzheimer's disease. The drug marks a different approach to the disease than other drugs that have recently failed clinical trials. That adds to the optimism

for treatment of what is a massive unmet medical need.

But Alzheimer's disease offers rich rewards to drug developers because so many treatments have fallen short. Before Medivation made its name developing cancer drugs, Dr. Hung led its development of an Alzheimer's treatment that looked terrific in early stage trials, only to miss in later studies. Given Axovant has a market value of nearly \$2 billion but doesn't have an approved drug on the market, an investment amounts to a high-stakes bet on positive clinical data.

That is a bet that Dr. Hung is willing to make. And investors, for now, are eager to follow suit. History says the odds are against them both.

—Charley Grant

When it comes to markets, there are risks that are obvious and risks that are disguised. The former lead to more fireworks, but the latter matter more over time.

France tops the list of obvious risks that are impossible to ignore. March's global fund-manager survey by

Bank of America Merrill Lynch showed European elections as the biggest risk facing global markets. Until recently, the main focus was on France's second-round vote due May 7, and the chances of victory for far-right euroskeptic National Front leader Marine Le Pen if she faces centrist Emmanuel Macron. Markets appeared comfortable with the idea that Mr. Macron would emerge the winner, leaving

the euro undisturbed.

But with far-left candidate Jean-Luc Mélenchon gaining in the polls, the first-round vote on April 23 has moved into prominence. The second round might yet offer voters a choice between two options that markets are likely to find highly unpalatable. That would hammer sentiment on Europe and intensify worries around whether the euro can hang together.

By contrast, a risk that is disguised lies on the other side of the world, in China. It isn't a revival of the fears that China is heading for a financial bust and economic hard landing; the BAML survey pegs a major Chinese devaluation as only the sixth-biggest tail risk for markets. Instead, it is the potential

underestimation of how much China's 2016 stimulus has contributed to the recent acceleration in global growth, and how any deviation from that course could undermine markets. But China's credit-fueled stimulus may be fading; policy has been gently tightened.

Investors are looking to developed economies for signs that the reflation trade that has pushed bond yields and equity prices higher can be sustained. The French elections could yet upset sentiment and risk appetite. But the longer-term risk to markets lies in whether they are right to be pumped up about global growth. The answer to that question lies more in Beijing than in Paris.

—Richard Barley

France Vote Anxiety Conceals Other Risks

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