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## What's News

### Business & Finance

Apple is scrambling to strike deals with Hollywood studios to offer ultrahigh-definition films on its new Apple TV, but talks have been hampered by disagreements over pricing. A1

◆ Tropical Storm Harvey has cut off as much as 15% of U.S. oil supplies, and the big question is how quickly the sector can make a comeback. A7

◆ Freeport-McMoRan will give up its majority stake in the Grasberg copper and gold mine, in a big step toward ending a dispute with Indonesia. B1

◆ The selection of Uber's new CEO is being clouded by disagreement over how the decision to hire Expedia's Khosrowshahi unfolded. A1

◆ AmTrust critics say they were approached by purported overseas consultants dangling enticing offers, and they aren't who they say they are. B1

◆ Saudi Arabia and Russia are pushing to extend a deal to limit oil output for three more months. B6

◆ Uber paid nearly \$10 million in fines and compensation to drivers to lift a suspension of its services in the Philippines. B4

◆ The euro jumped above \$1.20 for the first time in 2½ years, a growing headache for the ECB. B7

◆ Amazon slashed prices on more than 100 items at Whole Foods, many by more than 30%. B3

### World-Wide

◆ North Korea launched a missile over Japan, prompting Tokyo and South Korea to look to upgrade missile defenses. A1

◆ The missile launch marked one of the first tests for Japan's national warning system. A4

◆ Tropical Storm Harvey moved off the coast of Texas, but floodwaters in Houston continued to reach historic highs. A7

◆ Russia dismissed Western concerns over a major war game the country is holding in September. A3

◆ The Philippine Army is planning a final assault on Islamic State-linked militants occupying Marawi. A3

◆ The U.S. president condemned North Korea's missile launch as a display of "contempt" for the country's neighbors. A4

◆ The Trump administration reinstated the ability of local police agencies to receive surplus equipment from the military. A5

◆ Myanmar defended its response to a series of attacks by insurgents, claiming that the militants were looking to form an Islamic state in the country. A3

◆ South Korea plans to increase spending next year to support Moon Jae-in's policy agenda. A3

◆ An attorney for Trump says that he spoke with Trump about a real-estate deal in Moscow during the presidential campaign. A5

CONTENTS Opinion A10-11  
Business News B3 Property Report B9  
Crossword A12 Sports A8  
Head on Street B10 Technology B4  
Life & Arts A912 U.S. News A5-7  
Management B5 Weather A12  
Markets B11 World News A2-4

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# Korea Launch Spurs Defense Push

Moves by South Korea and Japan are likely to provoke Beijing, complicating response

North Korea's missile launch over Japan has begun to bolster efforts by Tokyo and Seoul to upgrade their missile defenses, though such moves would anger China and Russia and complicate international

coordination in tackling the threat from Pyongyang.

The launch on Tuesday was one of well over a dozen by North Korea this year, but it was also a first: Kim Jong Un had never before sent a missile over a major foreign population center. It prompted an outraged Tokyo to call for an emergency United Nations Security Council meeting. Chinese officials said Pyongyang's shot across the Japanese

mainland risks going "past the point of no return."

The U.S. threatened to add powerful strategic assets to

By Jonathan Cheng  
in Seoul and Alastair Gale in Tokyo

the Korean Peninsula to help protect its ally, while President Donald Trump reasserted that "all options are on the table."

Japanese Defense Minister

Itsunori Onodera said Tuesday that a budget request by his ministry for the fiscal year starting in March would include funds for the introduction of Aegis Ashore, a land-based version of an antimissile system used by some Japanese and U.S. warships.

Japan operates Patriot missile-defense systems on land, which are able to target missiles only in the final stages of descent. The Aegis system

can shoot down missiles at higher altitudes.

Aegis Ashore would need U.S. government approval for the sale, since it is produced by Lockheed Martin Corp. The Japanese cabinet would also need to approve the funds.

Tuesday's launch is likely to Please see MISSILE page A4

◆ Japan jarred; Trump reserves 'all options'.....A4



People line up for food as others rest at Houston's convention center, now a shelter for those fleeing Harvey's floodwaters.

## FLOOD INSURANCE FAILS FIRMS

Texas storm will strain program out of step with needs of businesses in era of extreme weather

By RUTH SIMON AND CAMERON MCWHIRTER

The nearest Hal Pontez could get to the North Houston office park he owns was a quarter mile away. From that viewpoint on Monday, he said, "tops of buildings are peeking through a lake."

One building houses another business he owns that builds electric power plants and services gas and steam turbines. It was having its best

year ever, and its shop was packed to capacity with industrial control systems and sophisticated tools used in maintenance and repair.

Mr. Pontez has federal flood insurance. Experience has taught him it may not cover all his losses.

Business owners across the country say the National Flood Insurance Program, the only option for most since private insurers largely got out of the

flood business nearly a century ago, is sorely out of step with their needs. Insurance experts and some government officials agree. The program's limitations will be sharply tested when Harvey's catastrophic floodwaters recede.

The federal program was primarily designed for homeowners and has had few updates since the 1970s. Standard protections for small businesses, in-

Please see INSURE page A6

## Apple, Studios Differ Over Movie Pricing

By BEN FRITZ AND TRIPP MICKLE

Apple Inc. is scrambling to strike deals with Hollywood studios to offer ultrahigh definition films on its new Apple TV, but discussions have been hampered by disagreements over pricing, according to people with knowledge of the talks.

The tech giant will unveil the new version of its streaming media device at an event Sept. 12 and tout its compatibility with new 4K televisions, people with knowledge of its

plans said. The 4K format offers more than 8 million pixels per frame—significantly sharper than traditional high-definition video at the same size. Apple will also reveal updates to its iPhone and Apple

Watch, according to people briefed on its plans.

Apple wants to have major Hollywood films available in ultrahigh definition on the new device, expected to go on sale later this year. However, it wants to charge \$19.99 for those movies—on par with what it sometimes charges for new HD movies, the people with knowledge of the discussions said. Several Hollywood studios want to charge \$5 to \$10 more for 4K movies, the people said.

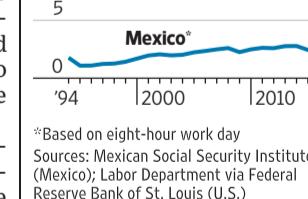
Conflicts over pricing between Apple and media companies are nothing new. The technology company typically argues lower prices will help expand a category and generate more long-term revenue,

Please see APPLE page A4

## Nafta Talks Eye Mexican Wages

Despite Mexico's economic progress under the 1994 Nafta trade pact, manufacturing wages there have remained flat.

\$25 an hour



\*Based on eight-hour work day

Sources: Mexican Social Security Institute (Mexico); Labor Department via Federal Reserve Bank of St. Louis (U.S.)

THE WALL STREET JOURNAL

U.S. and Canadian negotiators and labor advocates want to use the Nafta renegotiation to prod Mexico to raise its wages.

## Uber CEO Decision Stirs New Concerns

By GREG BENSINGER AND RACHAEL KING

Uber Technologies Inc. was supposed to be celebrating the end of a nine-week search for a new leader who could restore order to a year of extraordinary tumult.

Instead Sunday's selection is being clouded by disagreement over how the board's unanimous decision to hire Expedia Inc. Chief Executive Dara Khosrowshahi unfolded, adding more controversy to a company already plagued by months of bad publicity.

Board directors Monday were ironing out details of Mr. Khosrowshahi's contract and plans to introduce him to Uber employees, according to peo-

ple familiar with the matter. The choice was intended to bring stability to the world's largest venture-backed startup as it seeks to hire multiple executives and make changes to its corporate governance and culture to address concerns about sexism and other issues.

Before Mr. Khosrowshahi publicly said whether he would accept the role, however, Hewlett Packard Enterprise Co. CEO Meg Whitman tossed cold water on the selection process.

In a statement to The Wall Street Journal on Monday night, Ms. Whitman said she

Please see UBER page A2

◆ New chief brings range of expertise.....B10

Thanks for Making Me a Kentucky Colonel. What Do I Do Now?

Bevy of royalty, actors, electricians sparks governor's crackdown

By COL. ANDREW TANGEL

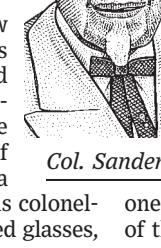
What do Kentucky Fried Chicken founder Harland Sanders, Donald Trump Jr. and Betty White have in common?

They're all commissioned Kentucky colonels, honorary aides-de-camp to the commonwealth's governor. They have no official duties. Nor any perks, not even a discount on mint juleps.

Yet the colonels' ranks have swelled since the War of 1812, after which a militia com-

mander joined the governor's staff with the title. Kentucky has minted so many colonels some have criticized the commissions as willy-nilly.

"God knows how many actual colonels there are," said Sherry Crose, executive director of the Honorable Order of Kentucky Colonels, a charity that also sells colonel-themed Old Fashioned glasses.



Col. Sanders

string ties and other merchandise.

Kentucky Gov. Matt Bevin has made it tougher to become a colonel. Last year, he rolled out an online application with a charity requirement aimed at renewing colonels' "focus on community service."

Over the past couple of years, new colonels have included members of the military, Wal-Mart em-

ployees and actor Bryan Cranston, according to a database reviewed by The Wall Street Journal. Representatives of Mr. Cranston didn't respond to requests for comment.

The data show colonels nominated by Senate Majority Leader Mitch McConnell, the Kentucky Republican, and myriad state politicians. New colonels since late 2015, when Mr. Bevin took office, include a tattoo artist, retired electrician and Navy SEAL.

Please see TITLE page A2

## INSIDE



DHARAJ SINGH/BLOOMBERG NEWS

UNITED TECH NEARS DEAL FOR ROCKWELL

BUSINESS NEWS, B3

## WORLD NEWS

# Nafta Talks Target Low Mexican Wages

Mexico has reaped big trade benefits from the pact but wages remain stubbornly low

BY DUDLEY ALTHAUS

Ciudad Juárez, Mexico—Emma Palacios started working in factories in this city on the Texas border in 1994, the year the North American Free Trade Agreement came into effect. Ever since, she says, it has been easy to find work at the scores of U.S.-owned factories that opened here. What's proved harder to find is decent pay.

After 11 years with a major automotive supplier, Ms. Palacios was earning \$1 an hour plus benefits last year. She and dozens of co-workers staged a walkout to demand a six-cent-an-hour bump in pay. She ended up losing her job, and is now at another factory—for even less pay.

"We didn't resolve anything," said Ms. Palacios, a 37-year-old mother of four.

Mexico has reaped enormous benefits in industrial development and jobs from the 23-year-old pact, which U.S., Canadian and Mexican officials started renegotiating this month and will discuss again at a second round in Mexico City on Friday. What it hasn't achieved are significantly better—or often even livable—wages for Ms. Palacios and millions of other workers.

Labor advocates from all three countries say Mexico's low pay—the minimum wage is \$4.50 a day, and \$100 a week is considered among the best



Employees work on a circuit board at a factory that exports to the U.S. in Ciudad Juárez, Mexico.

factory-floor wages—create unfair competition for U.S. and Canadian workers and hobble Mexico's economic growth.

Now, U.S. and Canadian trade officials and labor advocates want to use the Nafta renegotiation to prod Mexico into raising its wages.

"Higher wages in Mexico are in the interests of Mexico and the U.S.," economist Peter Navarro, a trade adviser to President Donald Trump, told The Wall Street Journal recently. "Without this adjustment Mexico will never have a robust middle class, and our middle class will wither if not die."

With that in mind, the U.S. is expected to push for tougher labor standards, such as ensuring Mexican workers

may freely organize unions and stage strikes without losing their jobs. While Mexico has worker-protection laws on the books, critics say it enforces them poorly to help lure manufacturers to Mexico.

When Nafta began in 1994, labor and environment standards were relegated to largely toothless side agreements. Mexican officials say they are open to including mechanisms to ensure stricter enforcement of its labor laws. What they don't want, they say, are measures that force Mexico to raise wages. "We think wages are part of the free market and we want to keep it that way," said Moisés Kalach, a member of the private-sector board that advises the Mexican gov-

ernment on the negotiations.

Economy Secretary Ildefonso Guajardo says cheap wages aren't a long-term competitive advantage for Mexico and suggests that recently passed labor reforms will lead to better pay. "Undoubtedly the strengthening of labor rights will be reflected in the market and determining wages," he said recently.

Wages have remained low in Mexico for many reasons, and any modified labor standards in Nafta may have little impact on raising them, at least in the short run.

The country's population has surged by three-quarters in 30 years, to 123 million, outstripping the supply of good jobs. Half the country remains poor. Low productivity

### Mexico's Unions Have Little Clout

A little under 14% of Mexican workers are unionized, compared with about 11% in the U.S. But nearly all the country's unions are run by leaders chosen through rigged elections, leaving members no say, labor experts say. Many union leaders have been closely allied to President Enrique Peña Nieto's Institutional Revolutionary Party, or PRI, for which many have served as legislators, governors and other top officials.

"You generally don't have free and independent unions in Mexico," said Raymond Robertson, an economist at Texas A&M who chairs the U.S. Labor Department's advisory commit-

tee on worker protections in free-trade negotiations.

Many Mexican unions cut deals with companies to forge so-called protection contracts—signed without the input or knowledge of members, or even before a single worker is hired, labor advocates say. Business leaders say such deals are necessary to prevent wildcat strikes and extortion by rogue unions.

Protection contracts have been condemned by the International Labor Organization and were outlawed by Mexico's congress in February. Yet efforts to form independent unions are routinely thwarted by state and federal regulators. Workers who try to organize without permission—or otherwise push for better pay and working conditions—are often fired, advocates say.

—Dudley Althaus

plagues the four-fifths of the economy not involved in manufactured exports. And nearly six in 10 workers work off the books in the informal sector.

In May, wages averaged \$18 a day nationwide for workers enrolled in the Mexican Social Security Institute, which accounts for most formal employment.

Wages in the Nafta-bolstered north of the country tend to be higher than in the rural south. Some economists say that suggests wages would be even lower in Mexico without foreign investment drawn in by Nafta.

The failure of wages to rise faster partly reflects the same global pressures that keep U.S. wages from climbing faster,

said Alfonso Navarrete Prida, Mexico's labor secretary, such as increasing automation.

Another factor is docile labor unions, said Benjamin Davis, international affairs director at the United Steel Workers, a U.S. union.

"We don't want strikes because then we would impact the source of jobs," said Gloria Porras, local leader of the CROC, a leading labor federation that says it represents 30,000 workers in Ciudad Juárez. The organization's last sanctioned strike was four decades ago, she says.

"What options do they have?" said Susana Prieto, a local labor lawyer. "Loyalty to the cause is one thing. Hunger is another."

stowed the honor of "Duke of Hazard."

A representative of Mr. Trump declined to comment.

For some colonels, the commission comes as a surprise. Retired electrician Thomas Nitschke, 74 years old, still has no idea who nominated him for his work helping low-income fellow residents of Dry Ridge, Ky. "One day I went to the mail, and there it was," said Mr. Nitschke, who has stashed his certificate in a closet until he remodels his basement where he plans to display it.

Emanuele Filiberto, who claims the title of crown prince of Italy and whose grandfather was king before the country abolished the monarchy in 1946, didn't know he was a colonel until he was contacted by the Journal.

"I never even went to Kentucky," Mr. Filiberto said. "I only ate Kentucky Fried Chicken, which I like."

Turns out, an associate asked a Louisville doctor to commission Mr. Filiberto, regarded by many as heir to Italy's nonexistent throne. While he said he was honored that his charity work was recognized with a colonelcy, Mr. Filiberto observed: "It's easier to become a colonel than for the monarchy to come back in Italy."

—Andrew Tangel has been a Kentucky colonel since 2014.

## TITLE

Continued from Page One

"There's not a lot of official requirements," said former Kentucky Gov. Steve Beshear, Mr. Bevin's predecessor. "It's just one of those longstanding traditions that people in Kentucky think is very special and also fun."

A colonelcy carries some mystique. According to the Kentucky Encyclopedia: "The Kentucky colonel has come to represent the daring, glamour, dignity, wit, charm, and attraction of outstanding men who have claimed the title—the stereotype of a southern gentleman." Mr. Beshear, who estimates he commissioned more than 100,000 colonels during his two terms as governor, which ended in 2015, says they outrank honorary titles granted by other states.

Application criteria have long been vague. There was talk in 1934 of granting colonelcy only to those who had witnessed a horse race, according to a news account at the time of a meeting attended by Col. James A. Farley, then the U.S. postmaster general.

There have been concerns about colonel inflation. In 1921, an item in the Louisville, Ky., Courier-Journal complained about a Secret Service agent winning a commis-



Whoopi Goldberg and Shirley Temple are among those who have been named Kentucky colonels.

sion after playing golf with the governor. The worry was that "Kentucky Colonels will soon be cheaper than German marks."

Colonels multiplied in the early 1930s when Gov. Ruby Laffoon saw commissions as a way to promote Kentucky. Hollywood celebrities such as Shirley Temple later joined their ranks.

At a 1934 banquet, where there was discussion of requirements, Mr. Laffoon claimed he would appoint a million colonels in the next year "to obtain their votes when Col. Franklin D. Roosevelt becomes tired of being president," according to a published account.

Mr. Sanders, the fried-chicken purveyor, later became an international symbol for KFC and the Bluegrass State. "He certainly broadened the recognition of being a Kentucky colonel—no question," said John Y. Brown Jr., who bought KFC from "The Colonel" and later became Kentucky governor.

Vetting of prospective Kentucky colonels has at times been less than extreme. In 1980, during Mr. Brown's administration, a newspaper reporter proved the point by winning a commission for a dog named Waldo. The application took some liberties, inflating the hound's age in dog years and listing his occupa-

tion as "security guard."

Mr. Brown couldn't recall whether Waldo's commission was revoked.

"Those kind of things do slip through," he said.

Messrs. Brown and Beshear say they often commissioned colonels when trying to lure businesses to the state. "It's really been a good marketing tool," Mr. Brown said.

The Honorable Order of Kentucky Colonels doles out grants across the state. Last year, it spent about \$1.5 million on projects such as new air conditioners at a halfway house, food for needy schoolchildren and an elevator at a school in Appalachia, accord-

ing to Ms. Crose. She said about 25% of the approximately 7,000 colonels named last year became active members of the Honorable Order by donating.

Mr. Bevin's office declined to respond to questions about its vetting procedures or the process generally. His office denied a request by the Journal for rejected applications, citing exemptions in Kentucky's open-records law. Under Mr. Bevin's process, those who nominate must be colonels active with the Honorable Order. Applications include a spot for listing charity or community-service work.

The path to colonelcy varies

widely. "Happy Days" star Henry Winkler was made a colonel during an appearance at a Bowling Green, Ky., book fair in 2013. He said his framed certificate is hanging at his Los Angeles home. Mr. Bevin awarded Vice President Mike Pence a commission when Mr. Pence visited Louisville earlier this year. A spokesman for Mr. Pence declined to comment.

L.D. Gorman, the Kentucky coal magnate who nominated Mr. Trump, declined to say much about how he came to nominate the president's son. "I'm a friend of his," said Mr. Gorman, whose brother was mayor of Hazard, Ky., and be-

stowed the honor of "Duke of Hazard."

A representative of Mr. Trump declined to comment.

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—Andrew Tangel has been a Kentucky colonel since 2014.

## UBER

Continued from Page One

hadn't been a candidate for the job until last Friday, when an unidentified Uber director called to see if she would reconsider after the board couldn't decide between General Electric Co. Chairman Jeff Immelt and Mr. Khosrowshahi.

Ms. Whitman said she laid out her terms: Uber must strengthen its governance structure, and Benchmark

situation with Mr. Immelt, who publicly pulled his name from consideration early Sunday after making a formal presentation to directors, apparently spooked by what he felt was a fractious and disorganized board, according to a person familiar with his thinking. In particular, this person said, Benchmark—which is represented on the board by partner Matt Cohler—wanted Mr. Kalanick off the board and Mr. Immelt wouldn't say that the ex-CEO should be removed. By Saturday morning, Mr. Immelt planned to withdraw his name, this person said.

These accounts suggest that Ms. Whitman wasn't pushing for the job, and that Mr. Immelt dropped out, leaving Uber's board with a single candidate. Mr. Khosrowshahi didn't respond to requests to comment.

But people familiar with the board's deliberations characterize the events differently.

They say it was clear the 61-year-old Mr. Immelt wouldn't have enough votes to become CEO. So the recently retired GE CEO attempted to save face by tweeting that he decided not to pursue the job, these people said. Mr. Immelt wasn't immediately available to comment.

Capital, one of Uber's biggest investors, must settle its contentious lawsuit with ousted CEO Travis Kalanick over control of board seats.

"By midday Sunday it was becoming clear that the board was still too fractured to make progress on the issues that were important to me," she said in the statement.

Her sentiment echoed the



Meg Whitman in 2016.

Ms. Whitman's description of the process quickly became a flashpoint in recounting the chaotic buildup to Mr. Khosrowshahi's appointment.

Ms. Whitman, 61, has long-standing ties to Benchmark, which has pushed for her candidacy, say people familiar with the matter.

The venture firm, which has denied it was a prime advocate for Ms. Whitman, led Mr. Kalanick's ouster in June after a series of scandals rocked Uber, and sued him last month, fueling a public battle among shareholders that remains unsettled.

Soon after pulling her name from the running with a tweet in late July, Ms. Whitman began working to get back into

consideration, the people familiar with the board deliberations said. And even as she reiterated on Aug. 23 to The Wall Street Journal that she no longer wanted the job, arrangements were being made behind the scenes to formally present her vision for the company to directors on Friday or Saturday, these people said.

Ms. Whitman had flipped before on a high-profile CEO job. She initially rejected an advance by Hewlett-Packard Co.'s board, where she was already a director, in 2011. She reversed course several weeks later, even though she had said after leaving eBay Inc. in 2008 that she wouldn't ever take another CEO role.

Ultimately, Ms. Whitman made a formal presentation on Saturday for at least an hour—including PowerPoint slides—at a hotel in San Francisco where the board had assembled to consider the candidates one last time, these people said.

While Ms. Whitman said in her statement she was contacted only last Friday to reconsider, these people said her presentation the next day was comprehensive and appeared to have taken time to put together.

In the end, Mr. Khosrowshahi's relative youth at 48

years old, his lengthy scandal-free tenure at the helm of Expedia, and what some described as a strong presentation Friday were enough to win him the unanimous vote over Ms. Whitman, people familiar with the decision said. He is expected to meet Uber employees for the first time this week.

—Thomas Gryta

contributed to this article.

**MUBI Inc.** offers an online streaming service focusing on art house cinema that costs \$5.99 a month. A Business News article Aug. 21 about the video services incorrectly said it costs \$4.99.

**The National Flood Insurance Program** could be inundated with claims totaling billions of dollars following Hurricane Harvey. A U.S. News article Tuesday about the flood insurer incorrectly said the program could receive billions of new claims.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

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# WORLD NEWS

## Russia Rebuffs West, Says Drills Defensive

NATO warns that Moscow could use the maneuvers to deploy equipment

By NATHAN HODGE

MOSCOW—The Russian military dismissed Western concerns over a major war game that has underscored Cold War-style tensions in the Baltic Sea region, as the U.S. further beefed up its presence there.

Russian Deputy Defense Minister Lt. Gen. Alexander Fomin said Tuesday the joint-Russian-Belarusian exercises, which will take place in September partly on Belarus's border with NATO members Lithuania and Poland, would be of "a purely defensive nature," testing the ability of troops to respond to a hypothetical adversary.

North Atlantic Treaty Organization officials have warned the maneuvers, planned amid a military buildup in the region by the alliance and Russia, could serve as a screen for Russia to deploy more military equipment and heighten the risk of an accident or miscalculation that could touch off a crisis.

The U.S. has deployed a tank



Russian military jets perform a maneuver outside Moscow ahead of the Zapad 2017 war games.

media and politicians had been "spreading myths about the so-called Russian threat" in advance of the exercise, known as Zapad 2017.

"The most unbelievable scenarios on how events will unfold are being offered," he said.

NATO officials have cast doubt on official Russian figures about the size of the exercise and complained about a lack of transparency. In his Tuesday briefing, Gen. Fomin said a total of 12,700 service members would be involved in the exercise, the majority of whom—7,200 troops—would be from Belarus.

Gen. Fomin added that 70 aircraft and helicopters would participate, along with 680 combat vehicles, including 250 tanks, and 10 warships.

The number of troops Russia says is taking part remains under the threshold of 13,000 that would require international observers to attend the drills. The Russian military said foreign military attachés would be invited to observe exercises on Sept. 18.

NATO officials say they expect there may be substantially more troops participating than the officially quoted numbers.

The Russian military says

the exercise is meant to simulate both conventional combat and antiterrorist operations. According to the Tuesday briefing, the exercise is built around a scenario in which "extremist groups" supported and equipped by some external power penetrate Belarus and the Kaliningrad region, an exclave of Russia sandwiched between Poland and Lithuania.

The exercise will have two major phases. In the first, Russian-Belarusian forces will deploy to counter enemy sabotage and reconnaissance groups, and stand up a group of air forces and air-defense units to protect important government installations, the Russian military said. In the second stage, the units will test command and control during combat operations.

In addition, Baltic fleet ships will rehearse a blockade to prevent "bandit formations" from withdrawing by sea.

In Brussels on Tuesday, NATO ambassadors, including the newly appointed U.S. representative Kay Bailey Hutchison, met in a closed session to discuss the Zapad exercise, allied officials said.

—Julian E. Barnes  
in Brussels  
contributed to this article.

## Manila Vows 'Big Battle' To Take Militant-Held City

By JAKE MAXWELL WATTS

Nearly 100 days since Islamic State-linked militants occupied the southern Philippine city of Marawi, the army says it is planning a final assault to end a battle that took Manila and allied countries by surprise for its stubbornness and violence.

If successful, the operation will allow the tens of thousands of residents who fled to return home. But counterterrorism experts and humanitarian workers say the government faces a mammoth task of rebuilding a devastated city and risks further attacks elsewhere by newly energized terrorists.

Military Chief of Staff Gen. Eduardo Ano told reporters Monday that the army is preparing "one big battle" to retake Marawi after clearing the city's Grand Mosque and municipal police station last week. He didn't give details.

On Tuesday, reflecting international concern about the spread of violence throughout the region, Australia offered to deploy special-forces soldiers to the southern Philippines to provide training and tactical advice. The U.S. already main-

tains a similar detachment as part of its global counterterrorism operations.

Reclaiming the city of 200,000 has been an uphill battle for the ill-equipped Philippine military, which is unused to urban warfare. Its failure to end the conflict swiftly and the use of destructive airstrikes have alienated the population, many of whom as Muslims feel marginalized in the Roman Catholic-majority country.

Samira Gutoc—a former negotiator for peace talks between the government and more-traditional rebel groups, who now serves as a humanitarian worker—said the extent of the damage, with as much as 90% of the city destroyed, has led some youngsters to call the militants heroes. "We are creating another generation of angry, young, restless, jobless, alienated kids," Ms. Gutoc said.

A coalition of extremist Islamist groups, who for years existed as rival religious or criminal gangs, joined forces to occupy Marawi on May 23, riding on trucks and waving the black Islamic State flag. The military estimates about 40 remain in Marawi and that

600 have been killed. About 130 soldiers and 45 civilians, some of whom were beheaded, have also died.

The Philippine government said the coalition, under the leadership of brothers Abdullah and Omar Maute, sought to declare its intent to establish a caliphate, or Islamic state. The occupation shocked the government and martial law has been declared in the area until year-end. The assault began after a failed attempt by authorities to arrest an allied militant leader. The remaining fighters occupy an area about 500 square meters in size, the military says.

While religious leaders have condemned the militancy, Philippine officials say a small number of residents in Marawi and surrounding areas allied with the militants during the battle, including a former city mayor. Scholars say the Maute family has entrenched itself in the long-restive region, leveraging on old family and tribal loyalties.

Even if the military succeeds in reclaiming Marawi, the aftermath is likely to be just as difficult, analysts say. An unknown number of militants have escaped the city, of-

ficials believe. Others have been arrested as they fled. The Maute brothers themselves are unaccounted for. Their father, Cayamora Maute, who backed his sons, died in custody Sunday of medical complications, officials said. They didn't specify a cause of death, but told local media he was suffering from diabetes, hypertension and hepatitis.

"I think what's going to happen is we're going to see some of the fighters disperse into other areas," said Sidney Jones, director of the Jakarta-based Institute for Policy Analysis of Conflict. Ms. Jones said she expects to see attacks

in other parts of the Philippines, along with the danger that surviving fighters could create a regional training center for aspiring jihadists.

There is also the risk of violence spreading to other parts of Southeast Asia, such as neighboring Indonesia, the world's most populous Muslim-majority nation. Several killed in Marawi were foreigners, including Indonesians. The Maute-led group is believed by officials to be in contact with Islamic State leadership in the Middle East, and it appears to have received direct funding, according to the Institute for Policy Analysis of Conflict. So-

cial media has helped the militants promote their cause across borders.

For most of Marawi, future prospects remain bleak. Save the Children, a charity, said this month more than half of the 60,000 children who fled the fighting haven't re-enrolled in school. The military says many residents are unable to return due to improvised explosive devices placed in the city by the militants.

"After three months [of conflict] it's really devastating," said Ms. Gutoc, whose own house has been damaged in the conflict. "The frustration is at its highest."



Smoke rose from Marawi as fighting continued in the city on the island of Mindanao on Monday.

## WORLD WATCH

### SOUTH KOREA

#### Government Plans To Boost Spending

South Korea plans to boost spending next year to fulfill left-leaning President Moon Jae-in's policy agenda, underpinned by an expected increase in tax revenue.

The budget plan announced Tuesday by the Ministry of Strategy and Finance calls for a 7.1% rise in total spending for 2018 to 429 trillion won (\$380 billion), up from a 3.7% increase this year. Revenue is expected to grow 7.9% next year to 447.1 trillion won, compared with an expected 5.9% gain this year, the ministry said.

The budget plan reflects the administration's pledge to keep its fiscal policy "expansionary" in the coming year to help finance its agenda to create public-sector jobs, expand social welfare for the public and boost household incomes in a government-led push for economic growth.

Mr. Moon passed a \$10 billion supplementary budget this year and a 16% increase in the minimum wage. The liberal leader has also proposed a tax revision, focused on higher levies on wealthy people and big corporations.

—Kwanwoo Jun

sucked out of Asia's third-largest economy reinvigorated demand.

Gross domestic product likely expanded 6.6% from a year earlier in the three months ended June 30, according to the median estimate from a poll of 14 economists by The Wall Street Journal. That compares with a 6.1% expansion in the previous quarter, which was the slowest in two years. The data are due Thursday.

A result in line with expectations would mean India will have ceded its title as the world's fast-growing large economy to China for the second straight quarter. China's economy expanded 6.9% in the past two quarters.

—Anant Vijay Kala

### AUSTRALIA

#### Anti-Whaling Group Ends Its Campaign

Environmental activists in Australia are abandoning their annual anti-whaling campaign in the Southern Ocean near Antarctica, saying Japan's threat to defend its fleet is too daunting.

Capt. Paul Watson, the founder of anti-whaling group Sea Shepherd, said Japan's threat to dispatch its military was unprecedented.

The Japanese Embassy didn't comment.

The group's decision to suspend its campaign after 12 years leaves Japan's fleet free to resume whaling through the coming Antarctic summer without disruption.

—Rob Taylor

## Myanmar Blames Rebels for Clashes

By MYO MYO  
AND JAMES HOOKWAY

YANGON, Myanmar—Myanmar security forces stepped up their claims that Muslim militants were trying to take advantage of turmoil in the west of the country by establishing an Islamic state there, and accused international aid groups of assisting them.

The country has come under widespread criticism for its heavy-handed response to a series of attacks on Friday, when a small group of ethnic-Rohingya insurgents launched what they called a pre-emptive strike against security forces in northern Rakhine State where many members of the stateless Muslim minority live.

Since then, more than 100 people, most of them insurgents, have been killed, and a stream of Rohingya, who are Muslim, has headed toward the border with Bangladesh, where 80,000 Rohingya already have fled since a surge of violence began in 2012.

On Monday, Pope Francis, who plans to visit the country in November, joined a growing clamor for Myanmar to provide the group with "full rights," while United Nations Secretary-General António Guterres expressed concern about the worsening situation, his spokesman said. Myanmar authorities consider the estimated one million Rohingya people to be illegal immigrants

from Bangladesh, and are subject to travel restrictions and other curbs. Around 140,000 live in temporary camps after communal clashes forced them from their villages.

Their plight poses a dilemma for State Counselor Aung San Suu Kyi, the Nobel Peace Prize winner who now serves as Myanmar's de facto leader. If she moves to provide the Rohingya with more rights, political analysts say she risks incurring the wrath of Buddhist hard-liners who have become increasingly influential in Myanmar since the political opening that also brought Ms. Suu Kyi to power. It could also worsen relations with Myanmar's military, which still controls much of the government, including the defense and interior ministries.

Instead, Ms. Suu Kyi appears to be siding with the army, with her office releasing a statement accusing international aid agencies of helping Rohingya militants and commanding the military action around of Maungdaw, near the border with Bangladesh.

Home Affairs Minister Lt. Gen. Kyaw Swe told a briefing that investigators had found that some members of international aid agencies had provided the Rohingya ammonia and fertilizers, which militants subsequently used to make explosive devices. The U.N. is evacuating all nonessential staff from the region because of the fear of reprisals.

Myanmar's national security adviser, Thaug Tun, meanwhile, said that there is no ethnic cleansing under way in Rakhine State, and that the government intends to address the issue of the Rohingya's statelessness.

The violence in Rakhine State is continuing, however. Win Min, a Muslim resident of Maungdaw, said by telephone Tuesday that soldiers set his home alight and shot a friend.

"It happened after we were talking in the road. After I went to our temporary shelter, the military shot him. He shouted 'help me, help me,' " Mr. Win Min said.

When he turned back, he said soldiers shot his friend again and he ran away, not knowing if the man lived or died.

"The military is now shooting Muslims who are out on the road," Mr. Win Min said.

New York-based Human Rights Watch said Tuesday that satellite images it had obtained showed that strips of land totaling some 100 kilometers in length had been razed.

"This new satellite data should cause concern and prompt action by donors and U.N. agencies to urge the Burmese government to reveal the extent of ongoing destruction in Rakhine State," said Phil Robertson, deputy Asia director at Human Rights Watch. "Shuffling all the blame on insurgents doesn't spare the Burmese government from its international obligations to stop abuses and investigate alleged violations."



Rohingya women wait after being barred from entering Bangladesh.

MOHAMMAD PONIR HOSSAIN/REUTERS

### INDIA

#### Survey Says Economy Likely Gained Speed

India's economic growth likely accelerated last quarter as the return of the cash that had been

## WORLD NEWS

# Japan Jarred As a Missile Flies Over

BY CHIEKO TSUNEOKA  
AND PETER LANDERS

TOKYO—Across northern Japan, the alarm jolted people out of bed just after 6 a.m. local time. A North Korean missile was passing overhead, and everyone needed to take cover.

Masaru Hosen said he was sleeping at home in the little town of Hiroo on Hokkaido, the nation's northernmost main island, when a radio he keeps for disaster-prevention alerts started wailing. A siren went off outside, and his cellphone added to the clamor. Checking the phone, he saw the missile warning. He turned on the television, and all the channels carried text on a black background about the missile.

"I had never imagined North Korea would fire a missile in the direction of our town," said Mr. Hosen, who works in the town government's planning division. "The country is scary because it's unpredictable."

Tuesday's missile launch, the first to pass over Japan's main islands since 2009, marked one of the first tests of a national government-run warning system in Japan called J-Alert that is designed to disseminate warnings about potential disasters, both natural and man-made. The town of Hiroo distributes radios that are linked to the J-Alert system to all households, and cellphones ring an alarm when triggered by J-

### Alert.

Whether by loudspeaker or cellphone, the message was the same: "A missile has apparently been launched from North Korea. Please take refuge in a sturdy building or underground."

As one of the nations closest to North Korea—and a frequent target of its threats—Japan has long been aware of the danger of a missile attack. Still, the multiple alerts Tuesday drove home the point in a way that news reports of earlier launches and dress rehearsals didn't. "Now I feel we need to extensively work out what kind of measures we should take in an emergency like this," Mr. Hosen said.

Early alerts can help save lives in a flood or a tsunami by giving people a chance to escape to higher ground. Some people said they were less sure how useful a heads-up about a missile would be.

The J-Alert message Tuesday telling people to take shelter went out at 6:02 a.m. local time, four or five minutes after the missile's launch. Within five minutes of the alert, the missile had already flown past Japanese territory.

Joemark Narsico, a Filipino graduate student living in the city of Hakodate on Hokkaido, heard the loudspeaker message but wasn't sure what he could do beyond staying in his apartment. He observed that most Japanese homes and small apartment buildings don't have basements. "If it really hits this city, I don't



A Patriot missile-defense system, which is able to target missiles only in the final stages of descent, sits at the Defense Ministry in Tokyo.

think we can hide anywhere," Mr. Narsico said.

The J-Alert system is designed to trigger warnings in areas that are at risk, and Tuesday's messages went out to areas in northern Japan mostly near the missile's trajectory. Alarms didn't sound in Tokyo. Flying hundreds of miles above the earth's surface, the missile wasn't visible on the ground in Japan.

The warning system had some glitches. In the town of Erimo, over which the missile passed on its way to its splashdown in the Pacific Ocean, sirens were supposed to go off automatically when the town office received a J-Alert signal, but the sirens didn't work, said town official Yusuke Hasegawa. He said he was awakened by an alert on his phone.

The J-Alert system dates to

### 'All Options' Open, Trump Says

WASHINGTON—President Donald Trump said that North Korea displayed "contempt" for its neighbors and for the world by firing a ballistic missile over Japan on Tuesday, and said "all options are on the table" in dealing with the threat.

"The world has received North Korea's latest message loud and clear: this regime has signaled its contempt for its neighbors, for all members of the United Nations, and for minimum standards of accept-

able international behavior," Mr. Trump said in a statement released by the White House.

The president's statement came about 14 hours after the North Korean launch, which was considered one of the most provocative missile tests in years because it flew over Japanese territory, passing the northern Japanese island of Hokkaido.

"Threatening and destabilizing actions only increase the North Korean regime's isolation in the region and among all nations of the world," Mr. Trump said. "All options are on the table."

The United Nations Security

Council scheduled a closed emergency consultation session for Tuesday afternoon to discuss the firing of the missile over Japan. The U.S., together with South Korea and Japan, asked for the meeting, but Security Council diplomats said it was unlikely that any action would be taken or statement issued on Tuesday.

U.S. Ambassador to the international body Nikki Haley told reporters that North Korea's action was "unacceptable" and that the country "had violated every single U.N. Security Council resolution."

—Michael C. Bender  
and Farnaz Fassihi

is up to each local government to set up loudspeakers linked to J-Alert so everyone outside can hear the warnings.

## MISSILE

Continued from Page One

ensure Seoul's further deployment of a U.S. missile-defense system, Terminal High-Altitude Area Defense, or Thaad, according to Daniel Pinkston, a professor at Troy University in South Korea. South Korea's presidential office declined to comment.

China protested and initiated punitive measures against South Korea when Thaad was partially switched on in May, and further defensive moves by Seoul and Tokyo would alter the balance in a region already roiled by the North Korean threat.

Beijing has said the Thaad radar would extend into northern China and compromise its security. Russia opposes the deployment and last week criticized possible new missile defenses in Japan.

China and Russia each hold veto power on the U.N. Security Council and could obstruct any U.S.-led effort to impose new penalties on Pyongyang.

China has never used its veto in the Security Council on a North Korea-related resolution, but has generally been a restraining power, curbing tougher measures that the U.S. and its allies have sought.

The cooperation of Beijing—North Korea's primary ally—is seen as particularly vital in managing Mr. Kim.

On Tuesday, a Chinese Foreign Ministry spokeswoman talked about a "tipping point" in the crisis as she urged calm.

She said sanctions against Pyongyang and other forms of pressure "can't fundamentally solve the issue," and reiterated Beijing's calls for a return to peace talks.

North Korea "remains un-



SOUTH KOREA AIR FORCE/REX SHUTTERSTOCK/EUROPEAN PRESSPHOTO AGENCY

Hours after North Korea fired a missile, South Korea simulated a bombing raid aimed at destroying 'the enemy's leadership.'

shakable in its stand not to put its nuclear deterrent on the negotiating table," proclaimed an editorial Tuesday in Pyongyang's main party newspaper, Rodong Sinmun.

In response to Tuesday's launch, Seoul dispatched four jet fighters to simulate a bombing raid it said was aimed at destroying "the enemy's leadership."

To demonstrate Seoul's offensive capabilities, South Korean defense officials Tuesday released footage of a new missile capable of flying about 500 miles. Even before Tuesday, South Korea had been seeking U.S. approval to revise an agreement capping the size and range of its missiles.

"I would expect [South Korea] will continue to push the

range and payload limits and conduct more testing, but this may only provoke further North Korean missile testing and exacerbate the current tit-

**The launch is likely to ensure Seoul's further deployment of a U.S. missile-defense system.**

for-tat cycle of escalation," said Daryl Kimball, executive director of the Arms Control Association in Washington.

These missiles also risk further angering Beijing, since they can reach into Chinese territory and, unlike Thaad,

would have an explicitly offensive capability.

South Korea's defense minister moved up a trip to Washington on Tuesday, according to a spokeswoman for the presidential Blue House. The vice foreign minister was already there to discuss North Korea.

Japanese Foreign Minister Taro Kono said on Tuesday that Tokyo would put various options up for discussion at the U.N. to increase pressure on North Korea. He didn't provide specifics.

U.S. Ambassador to the U.N. Nikki Haley said North Korea had "violated every single U.N. Security Council resolution."

"We are going to talk about what else is left to do. Something serious has to happen," Ms. Haley said.

The most muscular—and controversial—response could be the reintroduction by the U.S. of strategic assets to South Korea, which typically refers to stealth bombers, aircraft carriers or possibly nuclear weapons.

The deployment of strategic assets was one option mentioned by U.S. national security adviser H.R. McMaster on a phone call early Tuesday with his South Korean counterpart, according to a statement from South Korea's presidential office. The statement didn't elaborate on what assets were being considered. The U.S. withdrew its last nuclear weapons—bombs and missiles—from South Korea in 1991.

South Korean intelligence officers said the launch ap-

peared intended to demonstrate the feasibility of Pyongyang's recent threat against the U.S. Pacific territory of Guam, according to a staff member in the office of lawmaker Kim Byung-kee who attended a closed-door briefing Tuesday in Seoul.

Intelligence officials said they believed the missile launch was also meant to show that North Korea could hit Tokyo and other Japanese cities, the staff member said.

Mr. Kono, the Japanese foreign minister, said North Korea may have opted to fire the missile over northern Japan rather than risk a response from the U.S. if it had launched it in a southerly direction over Japan, toward Guam.

Japanese officials said they didn't try to shoot down the missile because it wasn't on track to hit Japanese soil.

South Korea is already in the process of resuming deployment of Thaad, which President Moon Jae-in suspended after taking office in May.

While a full Thaad battery contains six launchers, Mr. Moon halted deployment after the U.S. installed the first two launchers and declared the system operational in the spring.

But after North Korea launched its second ICBM in late July, Mr. Moon restarted deployment, speeding up an environmental assessment that would clear the way for temporary installation of the four remaining launchers. The president's tougher approach is a shift from his campaign-trail rhetoric of seeking more economic cooperation with North Korea and a summit meeting with Mr. Kim.

—Kwanwoo Jun in Seoul,  
and Wayne Ma  
and Jeremy Page in Beijing  
contributed to this article.



Apple CEO Tim Cook

## APPLE

Continued from Page One while studios often worry more about preserving profit margins and higher prices for higher quality formats.

"I wouldn't tell Apple how to price their iPads," said an executive at one studio in talks with Apple.

An Apple spokeswoman declined to comment.

Closing deals with studios before Sept. 12 is important to Apple as it tries to reignite interest in the TV product it first launched in 2007. The

company has been losing market share lately to streaming-media players from rivals such as Amazon.com Inc. and Roku Inc., which already offer devices with 4K capability that cost at least 60% less than the \$149 Apple TV. Its market share fell to 15% in the first quarter this year from 19% a year earlier, according to Parks Associates, a market research firm.

The Apple TV accounts for a fraction of the company's revenue, but research by Kantar Worldpanel has found that owning additional Apple devices strengthens consumer loyalty to the iPhone, which

accounts for two-thirds of sales.

"Historically, Apple has looked at the levers they can pull to be competitive, and they'll have to have richer 4K content to leapfrog other competitors," said Matt Smith, vice president at Brightcove Inc., which provides online video services.

The availability of Hollywood films in Ultra HD, another term for 4K, also could rejuvenate the iTunes Store.

The company's movie rental-and-sales business has been losing market share to rivals such as Comcast Corp. and Amazon, falling below 35%

from about 50% in 2012.

Ultra HD movies have been available online for less than two years, and an executive at one studio said pricing is still in the testing phase. An executive at another studio said \$19.99, Apple's preferred price point, would likely prove more popular with consumers given the vast amount of content available for \$12 or less a month from Netflix Inc., which offers a limited number of Ultra HD movies and television shows.

Streaming service Vudu, owned by Wal-Mart Stores Inc., already offers some digital movies in Ultra HD. "Bay-

watch," from Viacom Inc.'s Paramount Pictures, and "King Arthur," from Time Warner Inc.'s Warner Bros., cost \$29.99 while Walt Disney Co.'s "Guardians of the Galaxy Vol. 2" is \$24.99.

Hollywood's biggest studios, a group that includes Disney, Paramount, Warner, Comcast Corp.'s Universal Pictures, 21st Century Fox Inc.'s Twentieth Century Fox, Sony Pictures Entertainment and Lions Gate Entertainment Corp., are eager to establish a new category for digital movie sales, particularly as that business's growth has been slowing in recent years.

MARCO JOSE SANCHEZ/ASSOCIATED PRESS

## U.S. NEWS

# Trump Told of Moscow Deal

Lawyer said he discussed project on three occasions during presidential campaign

By REBECCA BALLHAUS

Michael Cohen, an attorney for the Trump Organization, discussed a prospective real-estate deal in Moscow with Donald Trump on three occasions during the presidential campaign, Mr. Cohen said in an interview with The Wall Street Journal.

In 2015, Mr. Cohen said, he informed the then-candidate that he was working on a licensing deal for a Trump Tower in Moscow. He subsequently asked for and received Mr. Trump's signature on a nonbinding letter of intent for the project in October 2015. And in January 2016, he said, he informed the then-candidate that he had killed the proposal. Mr. Cohen said each conversation was brief.

Mr. Cohen's communication with the president about the Moscow project may come under scrutiny because of a January 2016 email Mr. Cohen sent to Russian President Vladimir Putin's top press official to ask for "assistance" in arranging the deal. Mr. Cohen said he didn't inform Mr. Trump that he had sent the email to the press official, Dmitry Peskov. He didn't respond when asked why he hadn't done so.

In the email to Mr. Peskov, Mr. Cohen said communication between the Trump Organization and a Russia-based company that was the prospective developer of the tower had "stalled" and said, "As this project is too important, I am hereby requesting your assistance. I respectfully request someone, preferably you, contact me so that I might discuss the specifics as well as arranging meetings with the appropriate



Michael Cohen, an attorney for President Donald Trump at Trump Tower in New York in December.

ate individuals." The email was sent to a broader press email address but was addressed to Mr. Peskov, according to a person familiar with the email.

The email was reported by the Washington Post on Monday and was confirmed by a person familiar with the exchange.

Mr. Cohen said in the Journal interview that he didn't recall receiving a response from Mr. Peskov and opted to abandon the project weeks later. Mr. Peskov didn't return a request for comment. The White House declined to comment and referred questions to Mr. Cohen's attorney, who didn't immediately respond to requests for comment.

Trump associates' contacts with Russian officials have come under scrutiny as special counsel Robert Mueller investigates Moscow's efforts to interfere with the U.S. presidential election, as well as whether Trump associates colluded in

that effort. Mr. Trump has denied any collusion, and Moscow has denied U.S. intelligence agencies' assessment that Russia interfered in the election.

According to a January report from U.S. intelligence agencies, Russia's interference was directed at the highest levels of its government. Its tactics included hacking state election systems; infiltrating and leaking information from party committees; and disseminating through social media and other outlets negative stories about Democratic nominee Hillary Clinton and positive ones about Mr. Trump, the report said.

Mr. Trump's awareness of his company's efforts to procure a business deal in Moscow, as described by Mr. Cohen, came during the campaign when he often praised Mr. Putin.

In December 2015, while his company was still pursuing the Moscow Trump Tower

deal, Mr. Trump in an NBC interview compared Mr. Putin more favorably to then-President Barack Obama. "He's running his country and at least he's a leader, unlike what we have in this country," Mr. Trump said of Mr. Putin.

Mr. Trump repeatedly denied any business ties to Russia, saying at a news conference in July 2016, "I have nothing to do with Russia."

A spokesman for the Trump Organization said in a statement that Mr. Cohen abandoned the Moscow proposal in January 2016 and said the prospective deal "was not significantly advanced (i.e., there was no site, no financing, and no development.)"

The Trump Organization on Monday turned both email exchanges over to the House Intelligence Committee, which is investigating the alleged Russian election meddling, a person familiar with the move said.

## U.S. WATCH

### MILITARY

#### Groups Challenge Transgender Ban

Civil-liberties groups filed two lawsuits challenging President Donald Trump's ban on transgender service members openly serving in the military, saying the prohibitions are unconstitutional.

The American Civil Liberties Union of Maryland filed suit on behalf of six current transgender service members. Lambda Legal and OutServe-SLDN filed a suit in Seattle on behalf of a serving transgender person, two who wish to serve and two advocacy groups.

Both lawsuits list President Trump and Secretary of Defense Jim Mattis among the defendants. The service members listed in the ACLU suit informed the military that they were transgender after President Barack Obama last year lifted a longstanding ban with an "open service" order.

"Without input from the Department of Defense and Joint Chiefs of Staff, and without any deliberative process, President Trump cast aside the rigorous, evidence-based policy of the open service directive, and replaced it with discredited myths

and stereotypes, uninformed speculation, and animus against people who are transgender," the ACLU lawsuit states.

Army Col. Rob Manning, a Pentagon spokesman, declined to comment on the lawsuits.

Critics of allowing transgender service members said they don't believe the military should pay what they consider high costs of medical treatment. An independent study concluded such medical costs could reach \$8.4 million annually.

—Nancy A. Youssef

### ECONOMY

#### Consumer Confidence Increased in August

A measure of U.S. consumer confidence rose in August to the second-highest reading since late 2000, a positive sign for growth in consumption in the coming months. The Conference Board on Tuesday said its index of U.S. consumer confidence rose to 122.9 in August from a revised July figure of 120.

The index in March hit 124.9, its highest level since December 2000. It has remained at high levels despite sliding downward in recent months.

"With households unusually upbeat about their current and future prospects there is every reason to expect consumption growth to remain relatively rapid in the coming quarters," said Michael Pearce of Capital Economics in a note to clients.

The rise in confidence was primarily driven by an increase in the present-situation index, which rose to 151.2 in August from a month earlier. The expectations index increased slightly to 104 from 103.

"Consumers' short-term expectations were relatively flat, though still optimistic, suggesting that they do not anticipate an acceleration in the pace of economic activity in the months ahead," said Lynn Franco, the Conference Board's director of economic indicators.

Consumers' assessment of the labor market was also more upbeat. Those stating jobs are "plentiful" rose to 35.4% in August from 33.2% in July, while those claiming jobs are "hard to get" decreased to 17.3% from 18.7%.

The University of Michigan said the preliminary reading of its consumer-sentiment index was 97.6 in August, up from 93.4 in July.

—Sarah Chaney



Protesters in New York City last month rally against the ban on transgender troops in the military.

# Court Hears Case On Enforcement Of Travel Ban

By JOE PALAZZOLO

The Ninth U.S. Circuit Court of Appeals heard arguments on whether President Donald Trump's administration should be able to enforce its travel ban against extended family of U.S. residents.

The lower courts have been wrestling with enforcement of the ban, which suspended the admission of refugees and blocked travel from six predominantly Muslim countries. The Supreme Court in June partially lifted orders blocking the policy but barred the Trump administration from applying the ban to foreigners who have a "close familial relationship" with a U.S. resident or "formal, documented" ties to a U.S. entity, such as a university.

The Ninth Circuit arguments were an offshoot of the Supreme Court's review of the travel ban. The justices are scheduled to hear arguments in October in what could be the most closely watched case of the term. Monday's hearing in the Ninth Circuit, sitting in Seattle, was meant to determine how to enforce the ban until then.

Lawyers for the Trump administration argued that a "close relative" should only include parents, children, siblings and in-laws.

Lawyers for Hawaii and an imam in the state, who are challenging the travel ban, argued for a broader definition that included cousins, nieces, nephews, aunts, uncles, grandparents and grandchildren. The three Ninth Circuit judges, all appointees of President Bill Clinton, seemed to prefer the more inclusive version.

"How can the government take the position that a grandmother or a grandfather or an aunt or an uncle of a child in the U.S. does not have a close

familial relationship?" Judge Ronald Gould, asked the government lawyer, Hashim Mooppan.

Mr. Mooppan said the administration drew from federal immigration law, which defines "immediate relatives" as children, spouses and parents of U.S. citizens.

Colleen Sinzak, a lawyer at Hogan Lovells US LLP who represents Hawaii, said her team grabbed its broader definition from past Supreme Court decisions.

"This isn't language plucked out of nowhere," she said, adding that in two cases the high court described close family relationships as including grandparents, nieces, nephews and cousins.

Judge Richard Paez wanted to know what was "significantly different between a grandparent and a mother-in-law?"

Mr. Mooppan explained that in marriage, "your spouse's family becomes your family"—one step removed from the "family unit," unlike grandparents, who are two leaps away.

The other question the Ninth Circuit must decide is whether refugees' ties to their resettlement agencies in the U.S. exempt them from the travel ban.

Resettlement agencies enter in agreements with the State Department to provide assistance to prospective refugees, an arrangement that lawyers for Hawaii said qualified as a "formal, documented" tie to a U.S. group.

"There is no relationship between the refugee and the resettlement agency that is created by the assurance," Mr. Mooppan said in response.

He said about 900 refugees have been admitted based on relationships in the U.S. beyond connections to their resettlement agencies.

A ruling in the case could come in the next few weeks.



Malaika Noman, 3, held by Sana Tahir, arrives in the U.S. in July.

# President Defends Pardon of Ex-Sheriff

By PETER NICHOLAS

WASHINGTON—President Donald Trump defended his decision to pardon former Arizona Sheriff Joe Arpaio, calling him a patriot and suggesting that his predecessors granted clemency to people who were undeserving.

"Sheriff Joe is a great veteran of the military and a great law-enforcement person, somebody that has won many, many elections in the state of Arizona," Mr. Trump said.

Mr. Trump also accused the Obama administration of pressing a criminal case against Mr. Arpaio in an attempt to sway voters.

Mr. Arpaio, who served as sheriff of Maricopa County, Ariz., for 24 years, lost a re-election bid in November. Less than a month before the election, federal prosecutors said they would proceed with their criminal-contempt case.

"I thought he was treated unbelievably unfairly when they came down with the big decision to go get him right before the voting started," Mr. Trump said. "They just hammered him before the election. I thought that was a very unfair thing to do."

Mr. Trump pardoned the 85-year-old former sheriff on Friday. Mr. Arpaio had been convicted last month of violating a 2011 federal court order to stop immigration raids. He

faced as many as six months in jail and was to be sentenced on Oct. 5.

Mr. Arpaio told the Washington Examiner in an interview that he is considering another run for elective office—possibly the Senate seat now held by Republican Jeff Flake.

Mr. Flake criticized the president for issuing the pardon, saying he would have preferred that the president "honor the judicial process and let it take its course."

*As sheriff, Mr. Arpaio took a hard-line stance toward illegal immigration.*

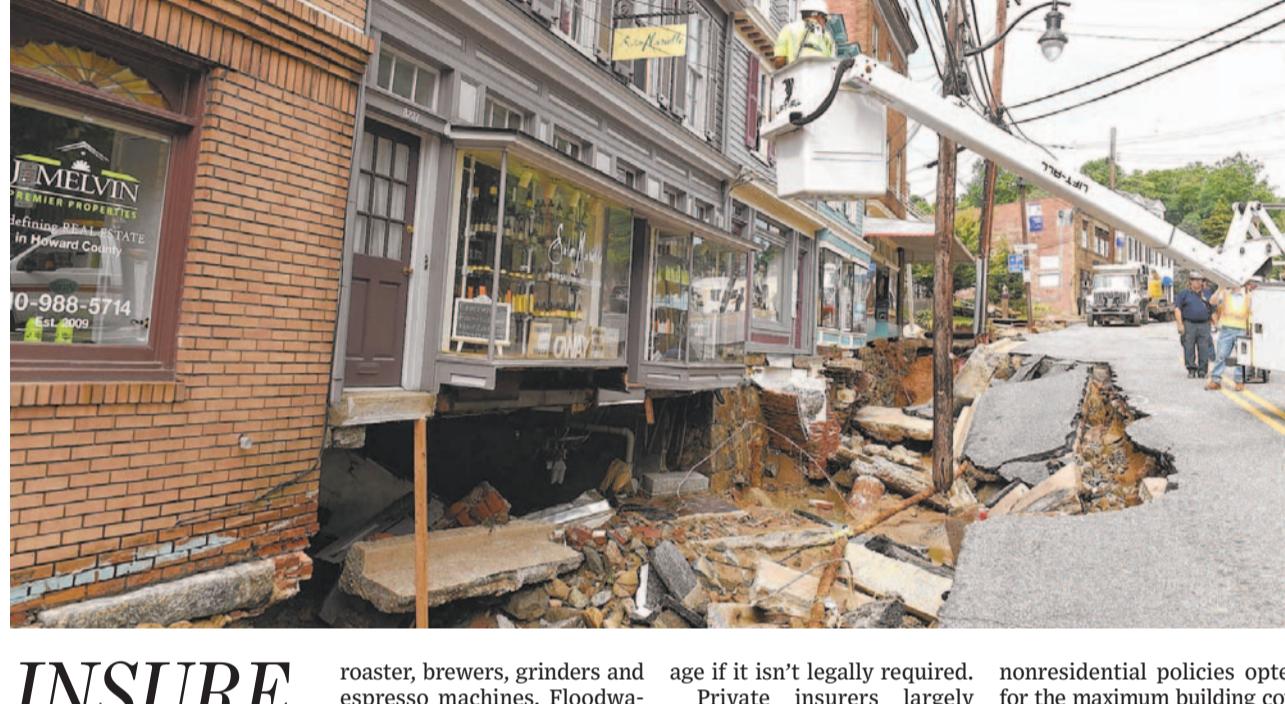
As sheriff, Mr. Arpaio took a hard-line stance toward illegal immigration, using tactics that included workplace raids and traffic stops. He also gained a reputation for holding county inmates outdoors in the Arizona heat.

The pardon drew criticism from officials in both parties, including House Speaker Paul Ryan (R., Wis.), who said through a spokesman Saturday that he didn't agree with the move and "law-enforcement officials have a special responsibility to respect the rights of everyone in the United States."

## TEXAS BATTLES FLOODING



Gretchen Shuey, above, used her savings and community donations to make up the shortfall after flood insurance covered far less than the cost to reopen her cafe in Ellicott City, Md. A freak rainstorm gutted Main Street in the town's historic district last year.



## INSURE

Continued from Page One

cluding costs of business interruption and significant disaster preparation, aren't covered, and maximum payouts for damages haven't risen since 1994.

In last year's April flood in Houston, Mr. Pontez's damage exceeded the \$500,000 insurance maximum on most of his affected buildings. The \$500,000 maximum in coverage for equipment and other contents fell more than \$200,000 short of losses at the turbine business. The policy didn't cover any losses related to being closed.

The need for flood insurance that works for businesses is more dire because devastating storms are hitting the U.S. with increasing frequency.

Twenty storms causing a billion dollars or more in damage have taken place since 2010, not including Hurricane Harvey, compared with nine billion-dollar floods in the full decade of the 1980s, according to inflation-adjusted estimates from the National Oceanic and Atmospheric Administration.

Seven have hit just since 2016, including October's Hurricane Matthew and February's California flooding. A preliminary estimate on Tuesday by Moody's Analytics is that Harvey will cause up to \$75 billion in damages, with up to \$25 billion of that in damages to businesses and lost economic output.

Less-severe flooding in monitored coastal towns has risen an average of 30% over the past five years and 150% over the past 20, said William Sweet, an expert on rising sea levels at NOAA.

About 20% of NFIP claims between 2006 and 2015 came from outside areas considered high risk for flooding, the Federal Emergency Management Agency, which manages the flood insurance program, told Congress this year. Businesses can have some losses offset by community funds and other programs.

A FEMA advisory committee said in a 2015 report that increased development in floodplains, sea level changes and changing climate patterns have resulted in greater flood damages.

When a freak storm dumped a torrent of rain on Ellicott City, Md., last summer, more than 5 feet of water swept through the Bean Hollow cafe, destroying a coffee

roaster, brewers, grinders and espresso machines. Floodwaters burst through one wall, damaged joists under the building and gutted the electrical wiring and plumbing.

Owner Gretchen Shuey closed for more than eight months to rebuild, spending \$250,000 and losing potential revenue of \$450,000.

Her federal flood insurance payout was \$109,000. She said she was barely able to reopen and had to depend on personal savings and donations from the community. She turned to Medicaid for her children's health care.

Ms. Shuey's private insurance for other calamities would have covered her lost business if fire or a tornado had hit her coffee bar and roaster in Ellicott City's historic district. "If I had burned down, I would have had income for the last 8½ months," she said.

Congress is supposed to reauthorize funding for the program's next five years by Sept. 30. A Senate bill introduced this year would direct the flood program to study adding business-interruption coverage.

A separate House bill would make flood insurance optional for businesses that are required to purchase coverage because of their location in federally designated flood zones. A temporary reauthorization of three to six months is possible, according to industry lobbyists, who say Harvey puts additional pressure on Congress to make sure the program doesn't lapse.

FEMA is working with Congress to determine whether additional coverage should be added, said Roy Wright, deputy associate administrator for insurance and mitigation at the agency.

Small businesses are a tiny part of the program, but "local economies would be able to recover more quickly" if more firms had coverage, he said.

In part because of the inadequate products on the market, nonresidential businesses account for just 1% of the NFIP's 5.1 million policies; their \$19.1 billion in insured flood losses are a small part of the program's total \$1.24 trillion in coverage.

Businesses are required to get flood insurance by some mortgage lenders when they are located in areas the federal government has determined to be high flood risk.

The considerable cost and a misunderstanding of potential risks deter most small companies from buying flood coverage.

age if it isn't legally required.

Private insurers largely abandoned the flood insurance market following the Great Mississippi River Flood of 1927, one of the worst natural disasters in U.S. history. Flooding inundated 70 counties in seven states, according to government estimates. Damages totaled \$1 billion, or about one-third of the federal budget at the time and the equivalent of about \$14 billion in today's dollars.

For comparison, NOAA estimates damage from 2005's Hurricane Katrina, the costliest U.S. natural disaster, to be \$160 billion in 2017 dollars.

Over the years, big businesses could acquire flood insurance through customized packages built to cover their commercial insurance needs, but homeowners and most mom-and-pop companies were left uncovered.

In 1968, Congress created the federal flood program in an effort to stem the rising cost of providing emergency aid through special disaster

**The need for flood insurance is more dire because of increasing frequency of storms.**

relief programs and to encourage sound land use. Flood policies were designed to provide basic coverage to help homeowners and businesses get back on their feet. Insurers say policies haven't kept up with overall advances in the industry.

"The policy language hasn't evolved much from the late 1970s and early 1980s," said Don Griffin, a vice president with the Property Casualty Insurers Association of America, a trade group.

He said that since the federal government program is "the only game in town," there is little competitive pressure forcing it to improve the product.

Private insurers have been largely unwilling to write flood insurance because of the catastrophic nature of flooding, the difficulty of adequately predicting risk, and the fear that only those at the greatest risk would buy coverage.

Before Hurricane Harvey hit, Mr. Pontez, the Houston business owner, called the flood program "antiquated and in desperate need of revision."

Nearly 40% of holders of

nonresidential policies opted for the maximum building coverage in 2016, according to FEMA, up from 20% in 2000.

"The trend is pretty dramatic," said Erwann Michel-Kerjan of the Organization for Economic Cooperation and Development Board on Financial Management of Catastrophes. "We interpret that as essentially demand for more insurance."

William Wilder purchased the maximum building and contents coverage for his Piggy Wiggly supermarket in Kinston, N.C. But when Hurricane Matthew caused the Neuse River to flood last year, sending 2½ feet of water through his store, losses totaled about \$1.5 million. The maximum coverage is "just not enough," he said.

Graig Cone, a developer in Cedar Rapids, Iowa, figures he lost about \$58,000 in expected revenue from two restaurants during the six days flooding shut down the local business district last September. "I feel like there is definitely a gap that needs to be filled somehow," said Mr. Cone, who has both federal flood insurance and standard business-interruption coverage that doesn't apply in a flood.

Private insurers, who provide business-interruption coverage for other types of perils, use tools such as audits and data on local business conditions to better understand a firm's cash flow, said Rade Musulin, a vice president for the American Academy of Actuaries. The federal flood program's approach, by contrast, focuses more on understanding the physical characteristics of buildings and local flood conditions, and is less suited to measuring business losses, he said.

The Government Accountability Office said in a 2013 report that adding business-interruption coverage could "offset the need for some government disaster relief payments," but could "further negatively impact the financial stability of the program" by increasing claims. Properly pricing our claims can be particularly challenging, the report added.

Lost sales and productivity, which aren't covered by the federal program, and steps taken to protect properties from flooding, which are covered in a limited way, accounted for nearly 70% of the more than \$6 million in losses reported by small and midsize firms in Cedar Rapids after

the flood, according to a report released by the city in February.

Quinton McClain, co-owner of Lion Bridge Brewing Co. in Cedar Rapids, spent more than \$13,000 to protect his restaurant and brewery from the flooding. His staff piled sandbags, boarded up windows and carted out furniture and kitchen equipment, and he hired plumbers to disconnect brewing equipment and plug drains.

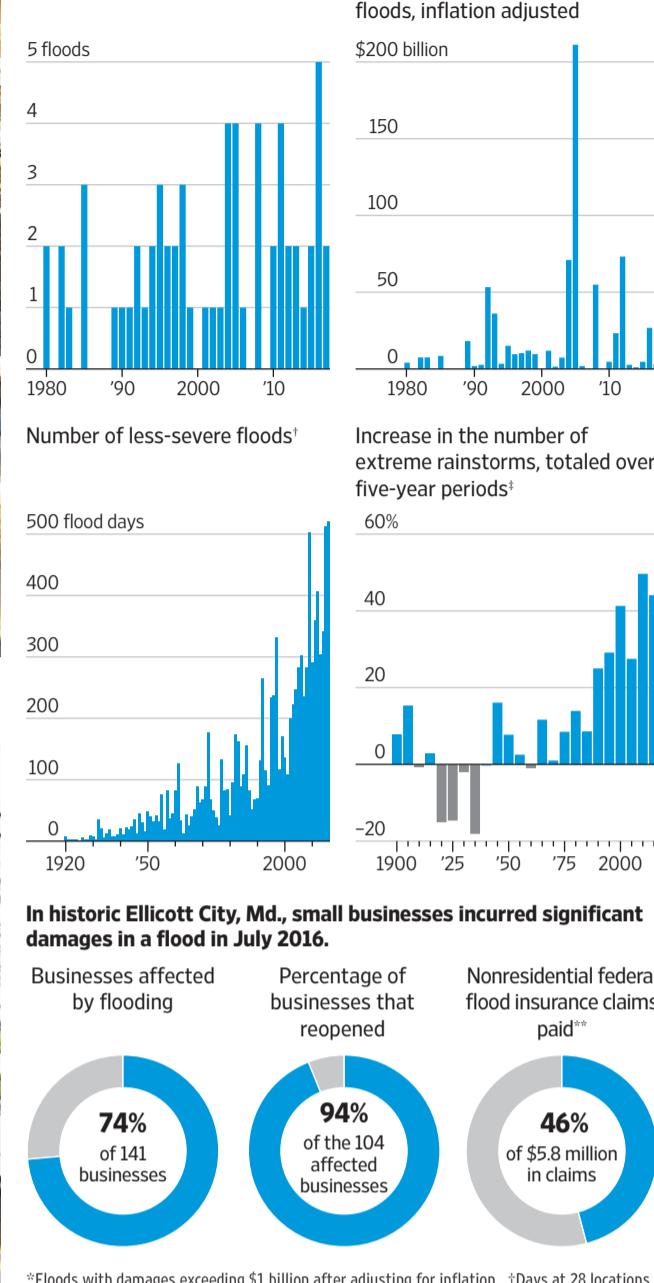
"We were only able to claim up to \$1,000 of those expenses for flood preparation," said Mr. McClain. "It's kind of crazy, but that's the way it works."

Small businesses also felt coverage gaps in the case of Superstorm Sandy, which caused an estimated total of \$70.2 billion in damage mostly along the Atlantic Coast in 2012, according to NOAA.

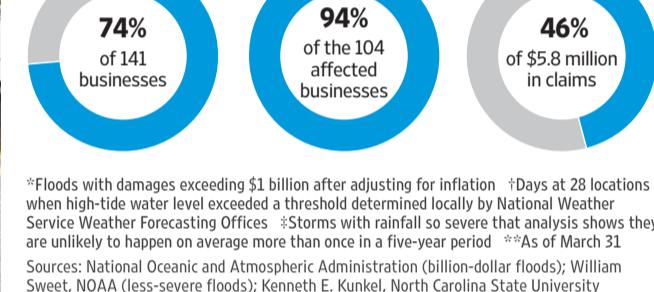
More than half of small businesses in New York, New Jersey and Connecticut that had flood insurance and suffered damages received no insurance payout, according to a 2016 study by the University of Pennsylvania's Wharton School and the Federal Reserve Bank of New York. An additional 31% recouped only some of their losses, the study said.

### Growing Risk

The need for businesses to carry flood insurance has increased as severe storms have hit the U.S. more frequently.



In historic Ellicott City, Md., small businesses incurred significant damages in a flood in July 2016.



\*Floods with damages exceeding \$1 billion after adjusting for inflation †Days at 28 locations when high-tide water level exceeded a threshold determined locally by National Weather Service Weather Forecasting Offices ‡Storms with rainfall so severe that analysis shows they are unlikely to happen on average more than once in a five-year period \*As of March 31

Sources: National Oceanic and Atmospheric Administration (billion-dollar floods); William Sweet, NOAA (less-severe floods); Kenneth E. Kunkel, North Carolina State University (extreme rainfall); Howard County Government; Howard County Economic Development Authority (Ellicott City businesses); Federal Emergency Management Agency (claims)

THE WALL STREET JOURNAL.

very nascent private market," said Charles Symington Jr., senior vice president at the Independent Insurance Agents & Brokers of America, a Washington, D.C.-based trade group.

Advances in flood mapping and analytics now make it possible to measure risk more accurately, he said.

But low prices of the federal program make it difficult for the private market to develop, he said. Rates are subsidized for some properties to encourage participation in the federal program. Congress began phasing out subsidies for businesses in 2016.

Private insurers also face higher costs for capital and must build large reserves to cover potential payouts, and, unlike the federal program, they face demands to make profits.

Until 2004, the federal flood program collected enough in premiums to cover most claims. It fell deeply into debt following Hurricane Katrina, when it paid out \$16.3 billion. It added to losses after Hurricane Ike, in 2008, and Superstorm Sandy, and currently owes the U.S. Treasury \$24.6 billion.

The federal government hasn't yet calculated the potential financial impact on the flood-insurance program of Harvey. The flood program has roughly 444,000 flood policies in potentially affected counties in Texas and more than 490,000 in Louisiana, a FEMA spokeswoman said.

Those facing the greatest flood risk are more likely to take part in the government program, making it harder to balance risk and keep prices affordable by having a pool of customers who are less likely to make claims. The federal program doesn't have the flexibility of a private insurer to reject customers who are too risky.

For Ms. Shuey, the coffee bar owner in Ellicott City, community support proved crucial to getting back on her feet. She said customers built cabinets free of charge and donated countertop granite, flooring, plumbing fixtures or cash. "A good 40% of our costs were probably covered by donations," she said.

The outpouring helped persuade her to reopen at the same site on Main Street, a district that helps anchor the community.

"It was important to them and to us," she said. Still, she added, "I can't buy insurance to protect myself. It doesn't exist."

## TEXAS BATTLES FLOODING

# Widespread Destruction Tests U.S. Shale

Storm has shut major portion of Texas output, cutting off as much as 15% of U.S. oil supplies

HOUSTON—Tropical Storm Harvey, the most powerful storm to hit Texas in half a century, has shut a significant portion of the state's shale production, cutting off as much as 15% of U.S. oil supplies.

By Lynn Cook,  
Bradley Olson  
and Alison Sider

Now, in what is the first major storm to test U.S. shale, the big question is how quickly the sector can make a comeback.

Before Harvey made landfall as a hurricane Friday, many big shale producers in the Eagle Ford shale fields near Corpus Christi, Texas, shut down their oil and gas wells, and initial estimates for lost production were between 400,000 and 500,000 barrels a day.

As the hurricane's widespread devastation has become clearer, several analysts say it is almost certain that much, if not most, of the region's 1.4 million barrels a day of output is shut down.

Shale producers also rely on a vast, multibillion-dollar network of energy infrastructure—from ports to train tracks to pipelines—that has developed in recent years along the Texas coast. Many pieces of that network appear to be swamped too. U.S. oil prices fell more than 2.5% Monday to \$46.57 a barrel, largely because so many refineries are closed down in the wake of the storm and don't need to buy any crude.



BRENDAN SMIALOWSKI/AGENCE FRANCE PRESSE/GETTY IMAGES

Shale producers rely on a vast, multibillion-dollar network of energy infrastructure that has developed along the Texas coast.

The need for infrastructure may slow shale's ability to bounce back. In the past, hurricanes have dealt a blow to the Texas energy industry by knocking out offshore oil platforms in the Gulf of Mexico; but in many cases, once storms passed, those big installations could quickly return to pumping crude.

"The effect to shale could linger given the extent and catastrophic level of forecasted flooding which interferes with shale logistics," said Benny Wong, an analyst with Morgan Stanley.

The fracking-induced boom in Texas has heightened the state's role in the U.S. economy, which means that if the oil fields and surrounding infrastructure are out of service for long, it could have outsize economic impacts on the state and shave \$20 billion or more off U.S. gross domestic product, said Joe Brusuelas, chief economist with RSM US LLP, an accounting and consulting firm.

The Eagle Ford shale in South Texas produces 1.4 million barrels of oil a day, second in output in the state only to the Permian Basin of West Texas. There hasn't been a storm of this magnitude since

shale drilling took off about a decade ago.

Companies were trying Monday to sort out and assess the damage to their facilities in the Eagle Ford shale, which took a direct hit from Harvey. But the sprawling nature of the storm—it was downgraded from hurricane status on Saturday—and continued rain in some areas hampered those efforts.

Wind and water damage and outages from the storm have doused tens of thousands of square miles with torrential rainfall and ravaged a wide swath of coastline, halting the flow of up to \$800 million a day in energy industry revenue, analysts said.

Corpus Christi and Houston are the two major exit points for U.S. oil, which is now shipped to the four corners of the globe.

"The biggest contribution of shale is that it has given the U.S. a much bigger foothold in the global picture as a supplier of oil, gas, petrochemicals and refined products all over the world," said Uday Turaga, chief executive of consultancy ADI Analytics.

As the hurricane's widespread devastation unfurled and companies confirmed their operations came to a standstill, it is now certain that much—if not most—of

the region's oil production has been halted.

ConocoPhillips, one of the biggest producers in the area, shut its wells ahead of the hurricane. The company normally pumps 130,000 barrels a day in the Eagle Ford. As of Monday, it wasn't producing oil but said it hoped to restart in some areas.

Other big producers in the area, including EOG Resources Inc. and Chesapeake Energy Corp., stopped fracking, curbed production or suspended operations completely, analysts said. EOG wouldn't quantify how much of its production is shut down, but the company said it is working to resume operations "where it is safe to do so."

Chesapeake said that "while it is premature to speculate on the ultimate impact to our production, we anticipate volumes will be restrained until Gulf Coast and Houston refineries are back online."

Restarting wells may not guarantee that they flow at the same rate as before the storm, said Tony Sanchez, chairman of Eagle Ford operator Sanchez Energy Corp., in an interview before the storm.

While Mr. Sanchez said he didn't expect the outages to be too extensive or last too long, he said that on a technical level he fears that shale wells, once shut off, could lose pressure. "It's not just a matter of flipping a switch," he said. "There is significant risk in those wells not coming back to previous levels."

The oil also needs a home. Nearly 15% of U.S. refining capacity is closed in the wake of the storm, which means those plants aren't buying crude.

## Toll on the Economy to Be Large

By JOSH ZUMBRUN

you have very high expected property and vehicle damage."

Moreover, the storm could affect the economy nationwide due to the large oil refining presence in the Gulf Coast. Refiners in Corpus Christi, Lake Charles and Houston have about 30% of the nation's oil refining capacity.

Gasoline prices have typically peaked within two weeks of major storms, rising by 20 to 80 cents a gallon, said Rick Joswick, managing director of global oil for PIRA Energy, an analytics unit of S&P Global Platts.

Prices typically return to their pre-storm levels, or somewhat lower, within two to four weeks. The "outlook is for gasoline prices to spike by a similar degree for the next week or so," Mr. Joswick said.

The biggest hit from any storm is to insurers and property

owners. Moody's preliminary estimate is that the storm will cause between \$30 billion and \$40 billion of property damage. Mr. Kamins cautions these are initial estimates and could change significantly depending on how the storm evolves.

**Preliminary estimate is between \$30 billion and \$40 billion of property damage.**

By contrast, the National Oceanic and Atmospheric Administration estimates that Hurricane Ike, which hit Texas and Louisiana in 2008, caused about \$29 billion of damage,

while Hurricane Rita in 2005 cost about \$12 billion. If the Moody's estimate proves correct, it would be considerably less damage than 2005's Hurricane Katrina, which caused over \$100 billion in damage. Superstorm Sandy of 2012 is estimated to have caused \$71 billion in damage.

Most of Hurricane Harvey's economic impact will be concentrated. The Houston area is the nation's fourth-largest metropolitan economy, with about 3.1 million workers who generate over \$500 billion of economic activity a year.

It remains unclear how long Houstonians and other Texans will be dealing with closed stores or idled and unreachable workplaces, but Moody's estimates thus far that there will be \$6 billion to \$8 billion in lost output in the weeks ahead.

## HARVEY

Continued from Page One

The number of people housed at the George R. Brown Convention Center had swelled to 9,000 people, according to officials who previously had said its capacity was 5,000 people.

"We have 5,000 people sleeping on cots, the rest are sleeping on the ground," said Tom McCasland, a representative of Houston Mayor Sylvester Turner.

Mr. McCasland said the city would open additional shelters and procure needed supplies. He said there was a large police presence at the convention center, adding, "Things are under control."

The death toll remains unclear. On Monday evening, Mayor Turner said three deaths in Houston had occurred during the storm but he couldn't confirm reports that a family of six had died in their vehicle.

The Pasadena Independent School District confirmed separately that four children and two of their great-grandparents had died while trying to escape the floodwaters.

Mayor Turner said he couldn't rule out additional deaths. "It is my hope and my prayer that number will not increase," he said.

The incessant rain in the Houston area didn't let up throughout the night, adding to floodwaters that have inundated the area and dumping water into already strained reservoirs that officials said Tuesday morning would overflow for the first time ever.

The storm is forecast to slowly move inland over the northwestern Gulf Coast on Wednesday after sitting just off the coast of Texas throughout the day Tuesday, continuing to bring rain to the area.

Harvey could dump as many as another 13 inches to east Texas and west Louisiana through Friday, according to the National Weather Service, bringing totals to more than 50 inches in some places, including Houston.

The situation in Louisiana, so far spared the worst of the storm, could deteriorate later in the week as the storm moves slowly on a northeastern track. "The worst is likely to come for us here," Governor John Bel Edwards said Monday. "We do have a long way to go with this particular storm."

Though rain had slowed in parts of Houston on Tuesday morning, the situation remained dire. Two key reservoirs that protect downtown

and the Houston Ship Channel are at historic highs and could overflow.

The Army Corps of Engineers said Tuesday that the Addicks Reservoir had reached 108 feet while the Barker Reservoir had topped 100 feet, and that both would overflow, causing additional flooding.

Throughout the day Monday, the Army Corps performed controlled releases of the two reservoirs, which sit west of Houston and were built in the 1940s. Despite those releases, officials said levels continued to rise and "uncontrolled releases" were possible, something that has never happened.

Addicks will overflow at some point Tuesday, officials said, and would continue to do so until Sept. 20, according to their models. At the spilling's peak, expected Thursday, the reservoir will release some 4,500 cubic feet of water per second. Barker will likely overflow Friday, but won't release as much water, officials said.

**If the reservoirs fail, engineers have warned, the flooding would be catastrophic.**

## Victims Turn to Social Media for Help

By DEEPA SEETHARAMAN  
AND GEORGIA WELLS

With local 911 systems choked by calls during Hurricane Harvey, many Houston residents tried going viral over Facebook Inc. and Twitter Inc., one of the widest uses of social media in a natural disaster.

Residents and their friends and relatives used social-media tools to gain assistance and call attention to sometimes life-threatening situations. Some users took the unusual step of sharing their full names and addresses across public channels like Facebook and Twitter.

Others sought to tag news outlets, journalists and other prominent individuals in their social-media posts in hopes their messages would be shared widely and eventually noticed.

People have gotten used to this idea that if you are stuck in an airport and you tweet at an airline, sometimes they will find a way to swoop down and save you when the system isn't working," said Ethan Zuckerman, director of the Center for Civic Media at the Massachusetts Institute of Technology. "People look for anything else that might provide that salvation."

Social-media experts said the use of social-media platforms to gain attention for distress from the rising floodwater underscores the central role those platforms play in spreading and consuming in-



Arnaldo Iglesias used his phone to photograph the submerged highway interchange of Interstate 10 at Post Oak Road during a break in the rain in Houston on Sunday.

formation.

Users' reliance on social media is amplified during crises, experts said, and was compounded by the fact that emergency hotlines were jammed during the storm. Some calls to Houston's 911 operators were dropped or failed to connect. Other residents said they were losing battery power on their cellphones, making it difficult to continue calling or hang on the line for much longer.

In recent years, Facebook, Twitter and other technology platforms have allowed people to track natural disasters and acts of violence around the world with newfound speed.

In 2014, Facebook launched its safety-check tool, which al-

lows users in emergencies to mark themselves as safe on their profiles and share other information. Facebook users activated the tool on Friday, a company spokesman said in an email. As of Monday evening, users made nearly 900 requests for help and offered help in more than 2,800 posts.

"Safety Check" has been activated more than 600 times over the past two years, the company said in June.

One Facebook user said there was water in her Houston apartment, and published her full address with apartment number. Another said a friend in Corpus Christi, Texas, needed baby food and formula and the power was out. The user said her friend

received help, but declined to be quoted.

Twitter's public-policy team maintains contact with government agencies around the world, including those that handle emergencies and disaster relief.

During Harvey, first responders including the U.S. Coast Guard and the Houston Police Department have urged people to call specific phone lines for disaster response, rather than use social media for help. Adrienne Russell, professor of media, technology and society at the University of Washington, said "there are privacy issues associated with all of that personal info flooding into the public in times like these."

Engineers have warned that if the reservoirs were to fail, the flooding could be catastrophic. Officials said the integrity of the reservoirs' dams remained sound, but that water would begin flowing uncontrolled through spillways.

Residents in neighborhoods near the reservoirs had been asked to voluntarily evacuate. Officials said water levels wouldn't return to normal for weeks. All the water from the reservoirs flows into the Buffalo Bayou, the main waterway that snakes through the heart of Houston, and additional releases could also flood neighborhoods along the bayou.

In the Houston suburb of Sugar Land, people streamed into evacuation centers throughout the evening Monday. Officials had forced many of them to leave their homes on the chance the reservoirs would overflow and cause a new round of flooding that would threaten their homes and make streets impassable.

Henry Rosas sat with his family among hundreds of others in the lunchroom of Thurgood Marshall High School in Missouri City, Texas, late Monday. The 46-year-old brought his family here after his neighborhood in the nearby city of Sugar Land ordered a mandatory evacuation.

# SPORTS

## RUNNING

# A Marathon Icon Races the Clock

60-year-old Joan Benoit Samuelson will try to become the first female sexagenarian to crack three hours in her signature race

BY MATTHEW FUTTERMAN

**JOAN BENOIT SAMUELSON** is 60 years old. That's 33 years removed from winning the first Olympic women's marathon in 1984, and 34 years past running a world best time for 26.2 miles and nine years after she qualified for the Olympic Trials at 50.

But her addiction to milestones hasn't abated.

So Benoit Samuelson is spending her summer training hard, on the Maine coast, for the Bank of America Chicago Marathon in October, where she will try to become the first female sexagenarian to crack three hours in her signature race.

Benoit Samuelson, seemingly even trimmer and fresher-faced than when she won gold in Los Angeles, describes the attempt as "a long shot." Those who have watched her set age-group records for 20 years think differently.

Regardless, Benoit Samuelson's mind is fixed on her 3-hour barrier. "It's the human body against the clock," she said in a recent interview.

Eventually, everyone loses that race, but Benoit Samuelson has forced a lot of running experts to re-examine their notions of athletic decay. What makes her different from nearly every other elite athlete is how long she has remained elite.

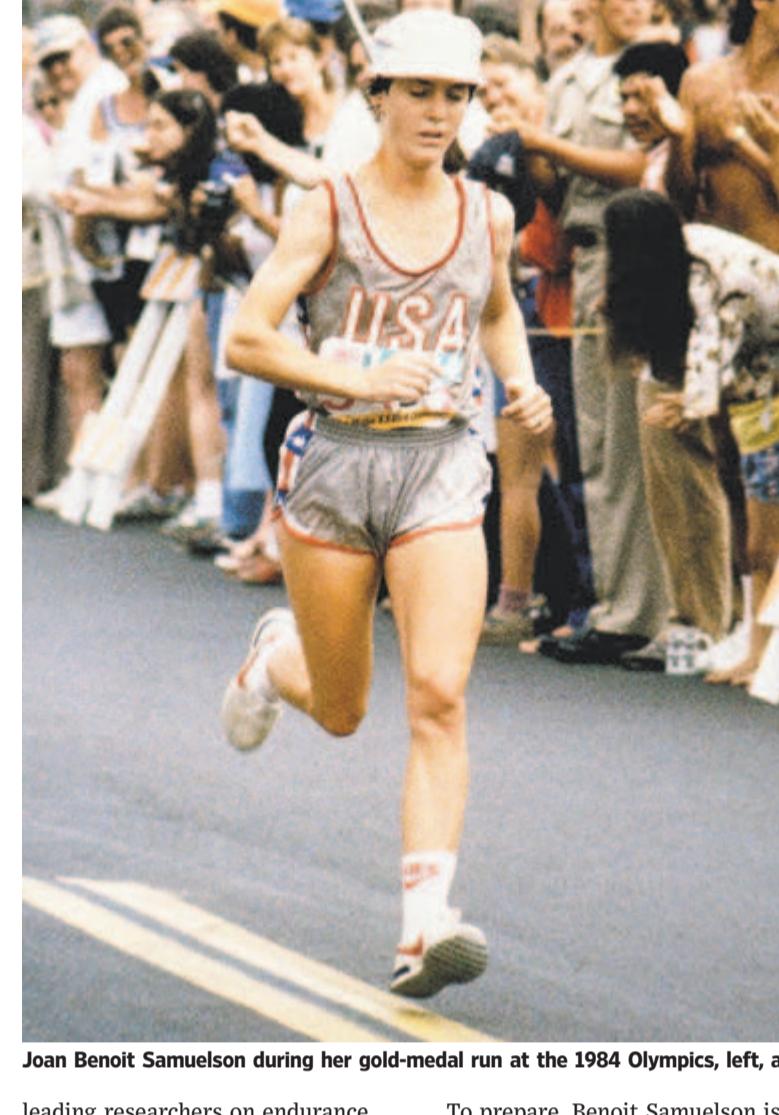
In all but the rarest cases, the intense training and competition that elite athletes endure leaves them limping in middle age on balky knees, replaced hips and sore backs.

Benoit Samuelson was the best-ever at 25, when she finished the 1983 Boston Marathon in 2:22:43, and again at 55, when she ran 2:50.29 in Boston in 2013, finishing about two hours before the bombs exploded at the finish line. In August, she set the U.S. record for her age group for 10,000 meters, finishing the Beach to Beacon race in Maine, an event she created, in 39:19. That translates to a 6:21 per mile pace.

Such performances have made her an icon of the sport. Earlier this year, she held the tape in Italy as Eliud Kipchoge came within 26 seconds of breaking two hours in the marathon in a Nike-produced stunt.

"What is most remarkable about Benoit is both her greatness while younger and an incredible record of longevity at the highest level," said Dr. Michael Joyner, an expert in exercise and physiology at the Mayo Clinic in Minnesota.

Joyner, who once ran a sub 2:26 marathon and is one of the world's



Joan Benoit Samuelson during her gold-medal run at the 1984 Olympics, left, and during the Quad-City Times Bix 7 in July.



L-R: RON HEFLIN/ASSOCIATED PRESS; JOHN SCHULTZ/QUAD-CITY TIMES/ZUMA PRESS

leading researchers on endurance performance, said at age 35 performance generally begins to decline a minimum of 6% per decade and then accelerates with time, especially after age 60.

Benoit Samuelson's marathon times, beginning with her personal record of 2:21:21 in 1985 on Chicago's fast and flat course, track almost perfectly with a 6% per decade decline.

She has managed that with a regimen that gives new meaning to cross-training and will be music to the ears of runners who hate the labors of quarter and half-mile speed intervals. She says she hasn't been on a track in two decades, fearing the turns will wreak havoc with an irritable "lower back and hip thing" that can aggravate the opposite knee and ankle if she compensates by altering her natural stride.

"I am playing with fire," she said of the attempt to break three hours after her joints have pounded so much pavement the past 40 years.

To prepare, Benoit Samuelson is now stretching her weekly long run to 20 miles every other week. On the other days, she runs no less than three and no more than 12 miles, varying her speed and distance depending on how she feels. She races against cars for short stretches during her runs to keep her speed sharp.

She maintains her upper-body strength partly with cross-country skiing in the winter. A typical winter day will include a morning run, downhill skiing until 1 p.m., and skiing cross-country until darkness descends. In the spring and summer, she stays toned with kayaking and working in her garden, lugging bags of topsoil and digging through the dirt to grow celery, kale, chard and every kind of lettuce she can. Staying ahead of woodchucks has proved challenging, she said.

She didn't foresee competing with herself and ticking clocks at 60, but she is a sucker for numbers and the stories they tell. She

figured she was finished after the 2008 Olympic Trials marathon. She wanted to break 2:50 at 50 and finished in 2:49.08.

The following year organizers of the New York City Marathon convinced her to use their race to celebrate the 25th anniversary of her Olympic gold medal. (Result:

2:49:09, a course record for the 50-plus division). In October 2010 she couldn't resist running Chicago on 10/10/10, 25 years after she set the American record there. (Result: 2:47:50, first woman to go sub-three hours in five separate decades.) Three weeks later she was in Athens to celebrate the 2,500th anniversary of the Battle of Marathon doing, well, you know.

In 2013, she marked her the 30th anniversary of her then-best-ever time in Boston with that 55-plus best-ever time.

If Benoit Samuelson does go "sub-3" at 60, her record may stick for a good while. The current 50-and-over world record holder,

Tatyana Pozdnyakova (2:31:05), is already 62. Linda Somers Smith, who set the American 50-and-over record (2:37:36) in 2012, is just 56 years old, but she said her law practice is currently too busy to consider one-upping a legend again, as tempting as it is.

"I would have to have a change in lifestyle or retire to even consider what Joanie is doing," Somers Smith wrote in an email.

With Chicago weeks away, Benoit Samuelson is searching for the right balance between wanting to set another record and not taking the race so seriously that she over-trains and wears out her legs on Maine's back roads, or goes out too hard in the first half of the race. She tends to find her rhythm as races progress, and she draws strength from passing people in the final miles as opposed to being passed. If she is under 1:28 at the halfway mark, she will be worried. "I need to run my own race," she said. "I said the exact same thing that day in L.A."

## SOCER

# JOSÉ MOURINHO'S BIG REBUILDING GAMBLE

BY JOSHUA ROBINSON

*Manchester, England*  
**JOSÉ MOURINHO** arrived at Manchester United last summer with the sole mission of restoring the club to greatness. United and its fans had just been through three of their worst seasons in decades, a spell that cost the team tens of millions of dollars, not to mention its old air of invincibility.

But with the Premier League more competitive than ever, Mourinho realized his team wasn't ready. So in his first year at England's most storied club, he did what no other elite manager would dare. Right in front of everyone, he openly put Manchester United through a rebuilding season.

It is paying off very quickly. Three games into this year's campaign, there is an unmistakable menace about the Red Devils. United has swaggered to three straight victories, outscoring opponents by a combined 10-0, and sits atop the standings. The club that hasn't finished in the top three since 2013 is now the British bookmakers' second-favorite to win the title.

"If the best needed that time, it means the others also need that time," Mourinho said last winter, recalling that even United's legendary manager Alex Ferguson got off to a rocky start.

The difference between Ferguson and Mourinho, however, is that United wasn't the global sports behemoth it is today when Ferguson took over in 1986. Back then, missing out on Champions League qual-

ification didn't blow a \$40 million hole in the following season's income. And Premier League managers lasted somewhat longer than the current average of 18 months.

That's why, at the top of English soccer, rebuilding years are like embarrassing rashes. People have them once in awhile, but it's best if no one brings them up. Arsenal's Arsène Wenger has been attempting to rebuild for a decade, though he never once conceded that the club was punting on a season. Chelsea and Manchester City have had similar restructuring campaigns, but their wild spending makes it too awkward to admit that they aren't hoping for immediate returns.

Mourinho had no such qualms. He settled for sixth place last season and made a gutsy call to focus on winning the second-tier Europa League instead of fighting for a top-four spot to secure a lucrative Champions League berth—and it worked.

"We didn't have many matches last season where we played 90 minutes with the control we had today," he said after a commanding 2-0 victory over Leicester City on Saturday.

That United is vastly improved after a year under Mourinho is no surprise. In every head-coaching job he has ever held—at Porto, Inter, Real Madrid and Manchester United—have all opened their vaults and Mourinho has promptly burned every penny available. By some measures, he is the highest-spending manager of all time.

Fourteen months into Mourinho's tenure in Manchester, his transfer-market tab is already \$406 million. That includes the then-world record \$130 million he spent on French midfielder Paul Pogba last summer and the \$98



previous stops, Mourinho has alienated veteran players, accused his team of "betraying" his work, and lost the confidence of his stars. There's a reason Mourinho has never lasted longer than 3½ years at a club.

But a more tangible secret of Mourinho's signature turnarounds is the bluntest instrument in soccer: money. His employers over the past decade—Chelsea, Inter, Real Madrid and Manchester United—have all opened their vaults and Mourinho has promptly burned every penny available. By some measures, he is the highest-spending manager of all time.

Fourteen months into Mourinho's tenure in Manchester, his transfer-market tab is already \$406 million. That includes the then-world record \$130 million he spent on French midfielder Paul Pogba last summer and the \$98

million he shelled out for Belgian striker Romelu Lukaku this year.

It means that Mourinho finally has this squad where he wants it. In his first campaign, he was able to shore up the team's issues at the back and turned it into the second best defense in the league. Yet problems remained.

The club scored only 54 league goals last season, five fewer than it should have, according to the expected goals statistic, which projects results based on the quality of scoring chances.

Mourinho feels that he has already gone a long way toward fixing that. Nothing made that clearer than the fact that both of United's goals against Leicester came off the bench.

And the squad is only getting deeper. United announced last week that striker Zlatan Ibrahimovic would rejoin the club for

one more season as soon as he recovers from a knee injury.

Of course, Mourinho knows that the first three weeks of a campaign never reflect the reality of midseason—so far he has faced only one game a week with five days to dissect each opponent. Once European competition kicks off in mid-September, United will play every three or four days for at least three straight months.

If that means occasionally reverting to the more defensive style that bored United fans last season, Mourinho said, so be it. At least they know that this season, no longer a reconstruction project, holds the potential for more.

"Probably in some matches where the opponent is playing better than us, we will have to be pragmatic and realistic and defend," Mourinho said. "But in these three matches we didn't need that."

# LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

## When Is it O.K. to Play Hooky?

An educational vacation might give students something school can't, but teachers don't always support such trips

**AS SCHOOLS REOPEN**, some parents are yielding to a timeless temptation: Playing hooky.

Five-year-old Erica Reed and her siblings Alex, 9, and Katelyn, 12, missed school in Denver on Aug. 21. Their father Scott took them on a camping trip to Halsey, Neb., to see the solar eclipse in totality. Katelyn had told her teachers she'd be absent and Mr. Reed let Erica's and Alex's teachers know, too. But he didn't ask permission.

Mr. Reed has loved astronomy since seeing Neil Armstrong walk on the Moon on his sixth birthday, he says, adding, "I want my own kids to have a similar kind of wonderment and hope" about future discoveries.

Parents often dream of traveling with their children to teach them about science, geography and culture. Many teachers support them, as the Reed children's teachers did. Other teachers bristle at the extra work such absences impose on them. Resistance from school officials is also mounting amid closer tracking of student absences.

Kim Milnes took her sons, Colin, 11, and Cooper, 8, out of school for five days in May to visit a Bigfork, Mont., dude ranch, Flathead Lake Lodge. She was happy to see the boys set aside their phones and iPads to ride horses and build makeshift forts, says Ms. Milnes, owner of Family Travel Boutique in Cherry Hill, N.J.

Ms. Milnes notified her sons' school and teachers a week in advance and had them complete homework while away. Still, she received a letter from the school after the trip, saying Colin, who had missed some additional days because of illness, needed to improve his attendance.

A 2015 federal law, the Every Student Succeeds Act, requires states to report chronic absenteeism—usually defined as being absent for any reason on 10% of school days or more, typically about 18 days a year. This marks a departure from the past practice of tracking only truancy, or unexcused absences. Some states are also using chronic absenteeism as a yardstick for measuring school quality.

British parents can be fined and prosecuted for taking their children out of school for holiday travel without advance permission from their school's head teacher.

The focus on absences is rooted in research showing that students who are absent often, for any reason—excused or unexcused—perform more poorly in school.

Teacher Amanda Grundel says she feels frustrated when parents take students out of school for family trips. If she sends homework, she finds it's often returned incomplete or incorrect, because the absent student didn't hear her



explanation in class. Ms. Grundel, English department chair at Ponaganset High School, a public school in North Scituate, R.I., says some students suffer anxiety as they struggle to catch up.

Some parents switch to private schools, partly to gain flexibility, but meet resistance there, too. At Aspen Country Day School in Aspen, Colo., the school's parent handbook "plays the guilt card—reminding parents what they're missing," including group projects, class discussions and labs, says Carolyn Hines, a school spokesperson.

Parents under age 37 plan to increase travel spending by 19% in the 12 months ending in January 2018, compared with no increase for all U.S. travelers, according to a survey of 2,900 people by MMGY Global, a Kansas City, Mo., travel-marketing agency.

Confining family travel to school breaks sharply increases the cost as popular peak-season destinations jack up their prices. Neal and Ginny Kistler of Laguna

Niguel, Calif., try to confine trips overseas with their children Conrad, 13, and Sophia, 11, to school breaks, but they often pay about 20% to 40% more, Mr. Kistler says.

Many children missed school to watch the eclipse, not always with their school's blessing.

Many parents try to book travel far ahead to take advantage of early discounts that are offered over a year in advance. But waiting for schools' annual calendars can make that difficult, says Angela Pierson, co-owner of an Amelia Island, Fla., travel agency.

Some schools issue calendars as far as three years in advance to ease planning, says Gail Pletnick, a Surprise, Ariz., superintendent and president of AASA, a national su-

perintendents' association.

Parents should check on schools' absence policies before planning travel and notify officials and teachers as early as possible. Some officials are strict in penalizing absences, but others consider them case-by-case, says Daniel Kelley, president of the National Association of Secondary School Principals. Mr. Kelley, principal at a public high school in Smithfield, R.I., says he weighs requests based on the student's attendance record, the purpose of the trip and the kinds of classes involved.

Dr. Pletnick suggests asking whether students could do activities while traveling that would meet specific learning goals a teacher has set.

When Kate Bostrom's school had to cancel plans for students to view the Aug. 21 eclipse because of problems with viewing glasses, her mother Nancy took her 9-year-old daughter out of class and met her husband Eric near her Holly Springs, N.C. office so the family

could watch the eclipse together. "It was a once-in-a-lifetime opportunity," Kate says.

Valiena and Dan Allison of Troy, Mich., give their children Garrick, 18, and Sky, 16, a say in planning their family trips to Europe, the Galapagos and elsewhere, as well as responsibility for planning homework with teachers at their private school. When Garrick asked to postpone a planned trip to Antarctica three years ago because he didn't want to miss five days of eighth grade, his parents complied.

Garrick agreed to miss five days of school for the Antarctica trip last year as a junior, however. Managing the homework was a challenge, but it helped him gain time-management skills. And the trips are worth the effort, he says, sparking his interest in international relations. "You can't really put a price on altering your world view," Garrick says. "That's what travel has done for me. It has changed how I think about things."

MY RIDE | By A.J. Baime

## A CLASSIC LITTLE RED CORVETTE

Vinnie Pacifico of Massapequa, N.Y., 62, owner of wholesale meat and trucking businesses in New York City, on his 1963 Chevrolet Corvette Sting Ray, as told to A.J. Baime.

When I was 9, I had a neighbor who owned a red 1963 Corvette Sting Ray. I would watch him wash that car. I would watch him drive it down the block. Once he

gave me a ride and I was hooked.

In the 1980s, I was visiting my partner's friend's place in Colorado, and he had a 1963 Corvette Sting Ray rusting in his barn. Mice were living in it. I said, "What are you, crazy? Why don't you fix this up?" Two years later, the owner decided to sell. He was asking \$12,000—a lot of money for a

beat-up car back then. I said, "Sold." I put it on a flatbed and had it delivered. It took me 12 years to restore the car. I had it painted red, just like the 1963 Corvette I remembered as a kid.

I am in the meat business, but I have also spent years in the art world. I owned a Manhattan art gallery, and I currently have



Vinnie Pacifico sits in his 1963 Chevrolet Corvette Sting Ray, near his home in Massapequa, N.Y.

a large collection of graffiti. To me, the 1963 Corvette Sting Ray is a real example of the American art form. [Chevrolet still makes Stingrays today, but now spells them with one word.]

The 1963 model was special for many reasons. It was the first year of the second-generation Corvette, the one that really made this vehicle America's sports car. It was also the only year of the so-called "split window." A metal bone runs down the back, splitting the rear window into two sections. It truly looks like the spine of a sting ray, and because the 1963 model is the only year of the split window, it is considered today perhaps the most desirable production Corvette ever.

The car is also a blast to drive. I put disc brakes on it and I upgraded the engine for more power, but other than that, it is pretty original. When I am not driving it, I park it in my driveway, grab a chair and an iced tea, and just look at it. Some art you can hang on your walls, and some you park in your driveway. All Corvettes from the 1960s are beautiful, but the 1963 Sting Ray is the Picasso.

## OPINION

### REVIEW & OUTLOOK

#### Political Central Bankers

J anet Yellen didn't run for President, but you wouldn't know it from her policy dé-marche Friday at the Federal Reserve's annual Jackson Hole retreat. The Fed Chair unleashed a defense of postcrisis financial regulation that shows how political the world's central bankers have become.

"Already, for some, memories of this experience may be fading—memories of just how costly the financial crisis was and of why certain steps were taken in response," Ms. Yellen said. She added that regulatory changes "should be modest" and retain the superstructure built under Dodd-Frank.

Ms. Yellen's comments followed a blunter recent warning from Fed Vice Chair Stanley Fischer, who told the Financial Times that "one can understand the political dynamics of this thing, but one cannot understand why grown, intelligent people" would "reach the conclusion that" you should "get rid of all the things you have put in place in the last 10 years." Thank you, Senator Warren, er, Fischer.

\* \* \*

This is extraordinary. Fed officials are launching a political campaign to retain their vast discretionary control over the American financial system. The brazenness of the effort shows how far afield central bankers have roamed from their traditional remit of monetary policy, which Ms. Yellen barely mentioned. You'd think she'd focus on that duty given that the Fed faces a watershed as soon as next month as it decides whether to begin rolling back the \$4.5 trillion balance sheet it has amassed since the 2008 financial panic.

The size and scope of that balance sheet is itself a political intrusion because the Fed's bond purchases are a form of credit allocation. The purchase of mortgage securities favors housing, while the Fed's focus on long-duration bonds has been a deliberate attempt to push investors into riskier assets.

These decisions haven't done much for the real economy, which has grown at a historically slow pace since the recession ended in June 2009. But the Fed has succeeded in lifting some asset prices, and no one knows what will happen to those prices once the Fed begins unwinding its portfolio. Perhaps it will all unfold without a hitch, but some very smart people aren't as sanguine.

As for the stability of the financial system, Ms. Yellen and Mr. Fischer are at pains to assure us that, due to their efforts, all is well. "Banks are safer," she says, thanks to capital and liquidity mandates and the wisdom of financial regulators. Oh, and "credit is available on good terms."

#### Fed officials defend regulation that's great for Goldman Sachs.

But Ms. Yellen wasn't nearly as optimistic about lending in the later Obama years. She often fretted that tight credit conditions were limiting growth, and the facts bear out that concern. Bank lending in the current expansion has trailed that of seven previous recoveries, and lending for small business has been especially slow. None of this is cause for Fed triumphalism.

Banks are safer, but they should be after eight years of modest expansion. The real test of financial stability comes in times of economic stress, when interest rates rise or investors get nervous and rush to safer assets. The system has already had one liquidity panic, in October 2014, when the yield on U.S. Treasuries moved some 40-basis points in a day.

You have to ignore history to believe that regulators are suddenly so wise that they know the current regulatory regime will prevent the next crisis. The Fed misjudged the economy in the mid-2000s and kept feeding easy credit that produced the housing bubble. Fed officials Ben Bernanke and Tim Geithner then underestimated the financial risks in early 2008 when the stresses were already apparent.

That's one reason to support a financial regime with high levels of capital to defend against potential losses but with less regulatory micro-managing. This is the trade-off that House Financial Services Chairman Jeb Hensarling has proposed, which contrasts with the lower capital and lower regulatory barriers that the Trump Administration seems to prefer.

This is the debate we should be having, but the Fed wants Americans to believe that Dodd-Frank is gospel and the only alternative is to return to precrisis policies. The irony is that Ms. Yellen is thus associating the Fed with the post-crisis status quo that has been splendid for Goldman Sachs and giant banks that have gained market share and can afford higher regulatory costs.

Ms. Yellen did concede that "there may be benefits to simplifying aspects of the Volcker rule" that limits proprietary trading, which is the least she can do since the rule as written is more than 950 pages of text and explanation. But until she runs for public office, she and the Fed ought to stick to executing regulatory policy rather than trying to dictate it.

Ms. Yellen's term as Fed chair expires early next year, and her Jackson Hole foray is a signal to President Trump about what he can expect if he reappoints her. The Fed needs a leader who won't bend to political pressure. But it also needs a leader who understands the limits of the Fed's political role.

#### Behind the Bedlam in Berkeley

P olitically charged street brawls broke out in Berkeley, Calif., on Sunday, with police arresting 13 charming participants on charges including assault with a deadly weapon. One Twitter video showed masked activists kicking a man curled into a fetal position on the ground; the beat-down stopped only when a journalist, Al Letson, shielded the man with his body. "I was scared they were going to kill him," Mr. Letson said.

As Charlottesville drew attention to the worst elements of the far right, Sunday's melee revealed an increasingly violent fringe of the radical left that has received far less media coverage, much less criticism. It's called Antifa, pronounced "An-tee-fa," which is short for antifascist.

\* \* \*

Antifa members sometimes claim their movement spans the globe and dates to the 1920s and '30s, citing the 1936 Battle of Cable Street, where protesters shut down a march by the British Union of Fascists. But in the U.S. and Britain, Antifa grew in the 1980s primarily out of the punk-rock scene. As Nazi and white supremacist skinheads became a bigger part of this largely unpoliced subculture, far-leftists met violence with violence, calling it self-defense.

As it grew beyond punk, Antifa's adherents organized through the now-defunct Anti-Racist Action network and now sometimes through the Torch Network, as well as other less visible groups. Many activists also aligned themselves with the broader antiglobalization movement. But Donald Trump's election has become the catalyst launching Antifa into a broader political movement.

The Antifa members we've interviewed shun the Democratic Party label, saying their activism constitutes its own political orientation. They're mostly anarchists and anarcho-communists, and they often refer to fellow protesters as "comrades." Adherents typically despise the government and corporate America alike, seeing police as defenders of both and thus also legitimate targets.

The antifascist anarchist website CrimethInc.com recently summarized its philosophy: "In this state of affairs, there is no such thing as nonviolence—the closest we can hope to come is to negate the harm or threat posed by the proponents of top-down violence... so instead of asking whether an action is violent, we might do better to ask simply: does it counteract power disparities, or reinforce them?"

Antifa's activists use the Orwellian-sounding notion of "anticipatory self-defense" to justify

Antifa activists believe in censorship and don't rule out violence, as they showed again Sunday.

direct confrontation. That can include violence, vandalism and other unlawful tactics. Many draw a false moral distinction between damaging private property and "corporate" property.

Antifa activists have also developed their own moral justification for suppressing free speech and assembly. As anarchists, they don't want state censorship. But they do believe it's the role of a healthy civil society to make sure some ideas don't gain currency.

So they heartily approve of the heckler's veto, seeking to shut down speeches and rallies that they see as abhorrent. Antifa activists also search for and publicize damaging information on their targets or opponents, or launch campaigns pressuring their bosses or companies to fire those opponents.

Words don't constitute violence, despite what Antifa activists believe. But there are dangerous ideas and practices, and the radical left has embraced several of them. Democracies solve conflict through debate, not fistfights. But Antifa's protesters believe that some ideas are better fought with force, and that some people are incapable of reason.

Implicit in this view is that Antifa alone has the right to define who is racist, fascist or Nazi. It's a guerilla twist on the culture wars, when a microaggression must be met with a macroaggression.

Antifa has also widely embraced "Black Bloc" tactics, including disguising themselves with black garb and covering their faces with bandanas and balaclavas. It's not a good look for a supposedly antiauthoritarian group to show up in uniform, like the KKK in white hoods, much less armed with batons.

\* \* \*

Which brings us back to Berkeley. This weekend two right-wing groups sought to hold peaceful rallies. Their leaders—Patriot Prayer's Joey Gibson, a Japanese-American, and Amber Cummings, a transgender Trump supporter—explicitly denounced racism. Amid fears of violence, both cancelled their events. Antifa showed up anyway, outnumbering and terrorizing any right-wingers or Trump supporters who dared show their faces.

Antifa views itself as fundamentally reactionary, as a necessary opposition to corrosive ideologies. But because your foe is a really bad guy doesn't mean you're inherently a good one. Movements are defined not merely by what they oppose but by what they do. Antifa's censorious criminality resembles the very political behavior it claims to fight. The mainstream left ought to denounce it as much as the right should reject white supremacists.

#### Steve Bannon's Revenge



MAIN  
STREET  
By William  
McGurn

When Steve Bannon phoned an editor at the American Prospect and unloaded on his White House colleagues, he effectively issued his own pink slip. His offense was particularly egregious because it came right after the president had brought in a new chief of staff to end West Wing behavior like Mr. Bannon's.

But on his way out Mr. Bannon said something interesting. "The Democrats," he told Robert Kuttner, "the longer they talk about identity politics, I got 'em. I want them to talk about racism every day. If the left is focused on race and identity, and we go with economic nationalism, we can crush the Democrats."

Mr. Bannon's words, like President Trump's remarks during his ill-fated post-Charlottesville press conference two weeks ago, have been interpreted as smiling on white supremacists. Even some of the president's own top appointees have felt compelled to put space between themselves and Mr. Trump over his comments about a protest that saw a young woman who was counterprotesting fatally run down by a protester's car.

Still, Mr. Bannon invites the question whether the spectacle of mobs targeting public statues they don't like and suppressing the speech of those with whom they disagree really advances the Democratic cause.

Let us stipulate two points. First, Mr. Trump did attack the neo-Nazis and white nationalists in his press conference. He further called the driver who ran down 32-year-old Heather Heyer a "disgrace" and a "murderer."

Second, the president also rambled, which contributed to his bungling any distinction he hoped to make between Nazis and KKK marchers on the one hand from any others opposed to tearing down the park's statue of Robert E. Lee.

For Democrats, this Trump Tower press conference was an *Aha!* moment: The president is dog whistling to racists! For the press, it vindicated their abandonment of even the pretense of objectivity in all things Trump.

As for the self-styled Antifa movement, it helped justify Sunday's effort in Berkeley to deny the First Amendment rights of yet another protesting group.

Mr. Trump was also mocked for asking whether statues of George Washington would be next on the chopping block. We now have our answer: Since Charlottesville, vandals have attacked a bust of Lincoln, a monument to Christopher Columbus and a statue of St. Junípero Serra.

Oh, yes, a Chicago pastor has asked Mayor Rahm Emanuel to take down a statue of Washington from a park because he was a slave owner.

Undoubtedly more is to come. But if Mr. Bannon is right, the anti-Trumpers behind it all might not be making the point they think.

A recent Reuters poll shows 54% of Americans want to keep the statues in place. Surely this majority doesn't reflect any national love for the Confederacy. More likely it means that, whatever their feelings about Gen. Lee or President Trump, the American people recognize those banging on about "hate" aren't really pushing tolerance and inclusiveness.

Which feeds Mr. Bannon's point. In his phone call with Mr. Kuttner, he referred to the KKK, Nazi and white identity marchers as "a collection of clowns." But he also appreciates that the anti-Trump movement isn't

The anti-Trump response seems bent on outdoing the president's excesses.

helped when it is revealed that the woman who toppled a Confederate statue in North Carolina is a member of the Workers World Party that backs North Korea.

Turns out Mr. Bannon has some odd bedfellows here. Take Ohio Gov. John Kasich. While blasting the president's pardon of Sheriff Joe Arpaio on "Meet the Press" Sunday, he also suggested the Democratic Party is squandering a "golden opportunity" to win elections because Americans don't know what Democrats stand for "other than the fact that they don't like Donald Trump."

Ditto for Bernie Sanders. Like Mr. Bannon, Mr. Sanders appreciates that identity politics is a loser for Democrats. He says the Democratic Party won't stop "losing elections" until it changes direction and focuses on an *economic* agenda that speaks to American working families and the young.

With all this, the received wisdom, especially after the failure of the Republican Congress to repeal Obamacare, is that the GOP is in the midst of a collapse that may cost them their majorities in Congress come 2018. Maybe. But it won't be easy to find the good Democratic candidates necessary to gain the 24 seats the party needs in the House. As for the Senate, 10 Democrats are up for re-election in states that went for Mr. Trump, against only one Republican in a state carried by Hillary Clinton.

During his campaign for the presidency Mr. Trump infamously declared, "I could stand in the middle of Fifth Avenue and shoot somebody and I wouldn't lose voters." If it ends up that Charlottesville doesn't do the president any lasting damage, it won't be because of any genius. It will be because as bad or uncouth as Mr. Trump may be, he has a knack for bringing out even worse in his opponents.

*Write to mcgurn@wsj.com.*

#### Houston, It Gets Harder From Here

By Danny Heitman

M y wife and I sobbed when we saw Houston underwater. After witnessing Hurricane Katrina and last year's massive Louisiana flood up close, we know in a special way what the people of Texas and parts of my state are going through today. Part of our grief comes from knowing that for those touched by Hurricane Harvey, the hardest part is yet to come.

After last year's flood destroyed my sister's house, forcing her family to move in with friends, she asked me to store her salvaged dining-room set until they rebuilt. I made space for the lovely oak table in our living room and dispatched the matching chairs to several corners of the house. The table seemed, in its first few days under our roof, a solemn shrine to my sister's ordeal, a useful reminder of her daily challenges long after the floodwaters had receded.

But any horizontal plane in our house becomes a kind of coral reef, as oddities large and small quickly colonize the vacant surface. In no time, our 16-year-old son, a robotics buff, had appropriated the table for a workbench. A scatter of copper wire, pliers and screws accumulated where, not long before, a now-displaced household had shared its meals.

I was initially troubled by the thought that my son, a typically sensitive young man, had converted a casualty of catastrophe into a spot to tinker. But I'd done essentially the same thing, using one of my sister's chairs to hold some books overflowing from my bedroom nightstand. Soon the legacy of loss blended into the background of life. During the year since the flood, I've sometimes gone weeks without remembering the extra furnishings and why it's there.

All of this has made me think about the human capacity to domesticate any disaster into a dim memory. The aftermath of Hurricane Harvey has been terrible, yet the real struggle will

emerge in the months ahead, after the news caravans and the national attention migrate elsewhere, as inevitably they will.

The true challenge for disaster victims can be a sense of isolation as people like me, those not directly hit, slip back into comfortable complacency.

It's easy to think of short attention spans as a weakness of the Twitter age, but the New Orleans journalist Lyle Saxon put his finger on it after the Flood of 1927. "We are a strange people—we Americans: we so soon forget," he wrote.

After a hurricane, the cameras move on and the world forgets.

"Before the water had begun to recede, and while some of the worst floods of the year were taking place, newspaper readers had become tired of the disasters along the Mississippi. It was already an old story. Newspaper men in the flooded area were fed up on horror, fed up on bravery, bored with the terrible sameness of destruction. Even the rescuers were sated. They had seen too much suffering, had endured too much.... The men who had seen the most could not talk about it."

The tragedy of Harvey has reminded me that compassion for catastrophic suffering shouldn't be a momentary impulse, but a commitment of months, maybe years. So I'll clear my sister's table and chairs, then invite her family over to eat dinner on her dining set. We'll hold hands and pray for the day when she, those hit by Hurricane Harvey, and all flood victims near and far will be made whole.

*Mr. Heitman, a columnist for The Advocate newspaper in Baton Rouge, is the author of "A Summer of Birds: John James Audubon at Oakley House."*

## OPINION

# The Danger of a Jihadist Pakistan

By John Bolton

**A**lmost certainly, the war in Afghanistan will be won or lost in Pakistan. President Trump's announcement last week that he will send more U.S. troops—some sources say another 4,000—to Afghanistan represents a change in tactics from President Obama's policy. But the ultimate objective is still opaque, and even once the specifics are articulated, what may ultimately matter more is the still-undeveloped "South Asia policy" promised by Defense Secretary Jim Mattis.

**Careless U.S. pressure could push the country's nukes into the hands of Islamic fundamentalists. China can be helpful.**

That means dealing with Pakistan. Islamabad has provided financial and military aid, including privileged sanctuaries, to the Taliban, the Haqqani network, Gulbuddin Hekmatyar, Islamic State, al Qaeda and other malefactors, allowing them not just to survive but flourish. Mr. Trump rightly says this must stop and is encouraging Pakistan's principal adversary, India, to increase its economic assistance to Afghanistan.

But the task isn't so straightforward. The Bush and Obama administrations also criticized Pakistan's support for terrorists, without effect. Putting too much pressure on Pakistan risks further destabilizing the already volatile country, tipping it into

the hands of domestic radical Islamists, who grow stronger by the day.

Peter Tomsen, a former U.S. State Department regional expert, once described Pakistan as the only government he knew consisting simultaneously of arsonists and firefighters—often the same people, depending on the situation.

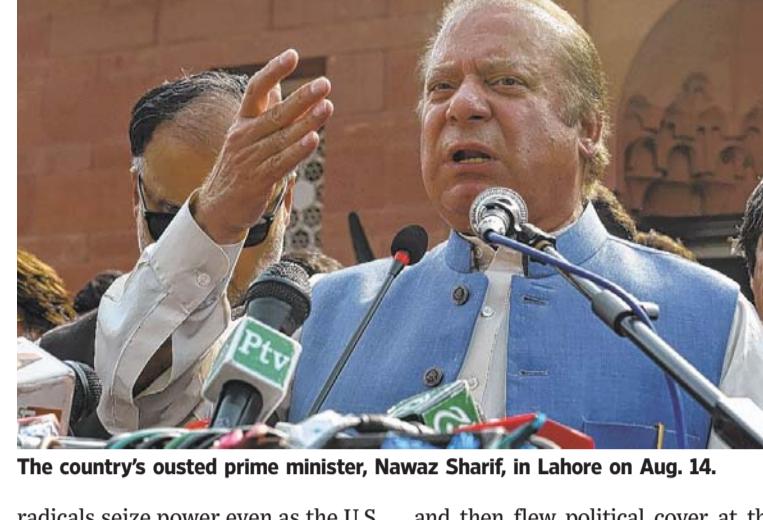
Pakistan has teetered on the edge of collapse ever since it was created in the 1947 partition of British India. Its civilian governments have too often been corrupt, incompetent or both. The ouster last month of Prime Minister Nawaz Sharif, who stepped down after the Supreme Court disqualified him for not having been "honest," is no reassurance. If anything, it shows the judiciary's excessive politicization, which further weakens constitutional governance.

Islamabad's military, sometimes called the country's "steel skeleton," is equally problematic. It recalls the old remark about Prussia: Whereas other countries have armies, Pakistan's army has a country.

The military is also becoming increasingly radicalized, with Islamists already in control of its intelligence services and now working their way through the ranks of the combat branches.

In this unstable environment, blunt pressure by the U.S.—and, by inference, India—could backfire. Just as America must stay engaged in Afghanistan to prevent the Taliban and other terrorists from retaking control, it is also imperative to keep Islamabad from falling under the sway of radical Islamists. Hence the danger of inadvertently strengthening their hand by supplying a convenient narrative of overt U.S. dominion.

Such a blunder might help Pakistan's



AFP/GETTY IMAGES

The country's ousted prime minister, Nawaz Sharif, in Lahore on Aug. 14.

radicals seize power even as the U.S. battles terrorists in Afghanistan.

Remember that Pakistan has been a nuclear state for nearly two decades. The gravest threat is that its arsenal of nuclear warheads, perhaps up to 100 of them, would fall into radical hands. The U.S. would instantly face many times the dangers posed by nuclear Iran or North Korea.

If American pressure were enough to compel Pakistan to act decisively against the terrorists within its borders, that would have happened long ago. What Mr. Trump needs is a China component to his nascent South Asia policy, holding Beijing accountable for the misdeeds that helped create the current strategic dangers.

Of all the external actors, China bears primary responsibility for Pakistan's and North Korea's possession of nuclear weapons and ballistic missiles. For its own strategic reasons, China gave both countries direct financial, scientific and technological assistance

and then flew political cover at the United Nations and elsewhere. Empowering Islamabad was a hedge against India, China's biggest threat in South Asia. Helping Pyongyang was a play against the U.S. and its Asian allies. (And, increasingly, against the wider world, since North Korea appears to have sold its technology.)

In both cases China recklessly disregarded the risks of proliferation and breached its obligations under the Nuclear Non-Proliferation Treaty. By comparison, Beijing's flagrant violations of its World Trade Organization commitments are trifles.

China was hardly unaware that Pakistan has fostered and aided Islamic terrorists in Kashmir, threatening Indian control. Yet Beijing has done nothing to stop it, thus indirectly keeping Indo-Pakistani relations tense.

China has also made Pakistan a considerable beneficiary of the massive transportation infrastructure

and other projects related to its "One Belt, One Road" initiative. Clearly Beijing intends to bind Islamabad ever more tightly into its modern-day "co-prosperity sphere."

It must be core American policy to hold China to account, even belatedly. The U.S. can use its leverage to induce China to join the world in telling Pakistan it must sever ties with terrorists and close their sanctuaries. The Trump administration should make clear that Beijing will face consequences if it doesn't bring to bear its massive interests in support of this goal. Washington could also point out that this is in Beijing's own interest, lest the terrorists rise next among the Uighurs in China's Xinjiang province, what was once "East Turkestan."

Whether Beijing truly intends to be a "responsible stakeholder" in international affairs, as its U.S. advocates insist, should be put to the test—and not merely on monetary and trade issues.

Fighting international terrorism and nuclear proliferation requires determination and action, not the kind of smiling repetition of bumper-sticker phrases that the People's Liberation Army and China's political leadership blithely ignore.

Starting now in Afghanistan and Pakistan, China should be told its bona fides as a state engaging in a "peaceful rise" are on the line. If real proof of that conceit doesn't emerge, Washington will be entitled to draw the appropriate conclusions.

*Mr. Bolton is a senior fellow at the American Enterprise Institute and author of "Surrender Is Not an Option: Defending America at the United Nations and Abroad" (Simon & Schuster, 2007).*

## The Bitcoin Valuation Bubble

By Andy Kessler

**T**he price of a Bitcoin broke \$4,000 this month. It's up 400% in 2017, and only two years ago it stood at around \$230. With 16.5 million Bitcoins in "circulation," and the potential for 4.5 million more, the market value of Bitcoin is now a whopping \$72 billion. Sister currency Ethereum is worth another \$32 billion.

Early Snapchat investor Jeremy Liew thinks Bitcoin will reach \$500,000 by 2030. Tech eccentric John McAfee believes it'll take only three years. That's \$1 trillion of digital coins. Now companies with an idea for applications built on top of these currencies are raising hundreds of millions through initial coin offerings.

Is Bitcoin the greatest rocket ship ever or will it end up a giant smoking hole in the ground?

In its simplest form, Bitcoin enables financial-transaction services on a peer-to-peer network that no one controls. Decentralized and anonymous, it uses an innovative software structure known as the blockchain to

store a public ledger across an ever-growing network of servers.

Unlike Visa or Mastercard, no single company buys computers. Instead, an ingenious incentive system pays entrepreneurs fees and rewards in a made-up currency to add servers to run the intense math of cryptography algorithms.

Many sit in places where electricity is cheap, like Iceland, to minimize operating costs. This blockchain is the future and the path for decentralized innovation to roll out on the cheap.

And how does one value Bitcoins? Those who own them believe they are a currency or an asset like gold, valued for its scarcity. Others, like the U.S. Securities and Exchange Commission and the Internal Revenue Service, view them as a security to be regulated and taxed.

But Bitcoin is actually a business. It's software as a service—transactions for a price, like credit cards. To record a transaction on the blockchain, a customer pays an average recommended fee of 450 satoshi per byte. (A satoshi is one hundred millionth of a bitcoin.)

Miners also get bitcoin rewards for

adding blocks to expand capacity. Around 1,700 bitcoins are paid daily in rewards. But business-wise, this is more like being paid in equity. Each day sees about \$1 million in fees and \$7 million in rewards.

**The faithful think in the coming decades one coin will be worth \$500,000.**

Visa and Mastercard, who have a combined 75% of the credit-card market, get paid close to a 3% fee when you buy gas or stuff on Amazon. That is a ridiculously high fee in this day and age, and it is precisely what Bitcoin hopes to destroy.

Visa and Mastercard have a combined \$377 billion market capitalization. Bitcoin can go up five times just on those high 300-basis-point fees.

Wait a second: Visa's value is based on its 300-basis-point fees. I've been elbow deep into Bitcoin accounting, studying transaction fees, rewards and \$1 billion in daily trans-

action volumes. Bitcoin fees come to less than one-tenth of a basis point—some 3,000 times less than Visa—and I'm rounding up.

Let's generously assume these fees will rise to one basis point. That means even if Bitcoin and other cryptocurrencies take the entire credit-card market, this business is probably worth no more than a few billion. That pegs one Bitcoin's value at around \$100, assuming everything goes right.

Or looked at another way, Bitcoin is a \$400 million a year software-as-a-service business like Salesforce, which sells for around eight times its sales. That implies a \$3 billion value. Potential profits might be 30% net and even at 50 times earnings you get at most \$6 billion or \$300 for each bitcoin in enterprise value.

I've spoken to developers who tell me they aren't seeing much traction with merchants accepting Bitcoin. Most transactions on the blockchain are still mining and trading. Silk Road used Bitcoin to transact illegal drug sales. Bitcoin is a favorite of money launderers and those evading capital controls and I think much of the rise

in price is from Chinese and other foreign buyers trying to move capital out of their economies. Sixty percent of Ethereum was bought with Korean won. That's scary.

I'm not here to burst anyone's bubble. The blockchain will radically alter financial services, much as Napster changed the music business. But at some point the market will wake up and apply rational valuation techniques.

That price—\$4,361—implies a lot of belief in Bitcoin as a long-term store of value well beyond the economic value of the transaction platform. Solid currencies are based on the growth and productivity of their countries. You can't simply declare a currency value—not at \$72 billion, much less a trillion.

Sure, Bitcoin could trade to \$10,000, \$100,000, who knows? I just can't get there. Maybe coin owners should appeal for tax-exempt status if the IRS would consider Bitcoin a faith-based organization.

*Mr. Kessler writes on technology and markets for the Journal.*

## Why Would Anyone

By Thomas P. Vartanian

**B**ank regulators in America have imposed responsibilities on directors that are hindering good governance of banks. But don't take my word for it. The Board of Governors of the Federal Reserve System and the U.S. Treasury Department say so.

Treasury concluded in June that regulators' expectations may be crowding out critical board functions, blurring the responsibilities between directors and management, and imposing a "one size fits all" approach. On Aug. 3, the Fed asked for comment on the elimination or amendment of redundant and ineffective director responsibilities, including 170 it identified in 27 different regulatory pronouncements.

This represents an about-face. In response to every financial crisis over four decades, Congress and regulatory agencies, including the Treasury

and Fed, have sought to improve bank regulation—which in practice has meant continuously increasing it. That has created a "rising dough" syndrome of regulation—a continuing expansion of regulatory obligations imposed on directors, and a corresponding expansion of the basis for lawsuits against them when their institutions fail.

I had a front-row seat at the outset of this trend in 1982, when in the face of the projected failure of nearly all of the nation's 4,000 savings-and-loans, the Federal Home Loan Bank Board launched programs that resulted in an unprecedented number of administrative enforcement actions and liability cases against directors and officers. The goal was to inject market discipline to counter the "heads I win, tails you lose" risk-reward ratio created by federal deposit insurance. The effort focused on those who overtly caused the failures.

## Sane Want to Be a Bank Director?

Ten years later the Federal Deposit Insurance Corp. issued a similar policy statement articulating its standards for suing directors and officers after the failures of their institutions.

The Fed now believes that "supervisory expectations for boards of directors and senior management have become increasingly difficult to distinguish."

Boards that meet periodically cannot effectively undertake management's day-to-day operational responsibilities, or the oversight role of regulators. Record-keeping, board process and regulatory noncompliance criticisms have increased, but the blizzard of increasing responsibilities hasn't necessarily improved board performance or reduced the risk of financial distress.

The Fed now wants to improve corporate governance by having boards devote less time to satisfying supervisory expectations that don't directly relate to their core responsibilities, and devote more time to what really matters, such as establishing strategy and risk tolerance and holding senior management accountable.

The Fed and Treasury are years late to this conclusion, and two im-

portant factors are missing from their analyses. Neither focuses enough on the most important challenge that directors face: determining how to balance the need to make an objectively measurable profit against

**They're asked to do too much, and then they get sued for failing to do the impossible.**

more subjective judgments about how much risk a bank can safely assume. If directors mess up that job, not much else matters.

The second unaddressed question is the all-important endgame for directors: When and how are they held financially accountable if their institutions fail? As director obligations have expanded since 1982, FDIC receivership suits against directors of failed banks have multiplied, with an increased focus on the FDIC's recouping its financial losses.

That is a legitimate goal. But when FDIC lawsuits are driven by the avail-

ability of insurance coverage or personal assets, rather than whether directors made inappropriate decisions, the incentives for directors turn perverse. If directors believe they'll be sued in the event of failure no matter how they acted, why not throw a financial Hail Mary when failure looks likely? The FDIC should follow the Fed and Treasury leads and re-evaluate its director and officer liability program to ensure that justice and the facts are the prevailing standards.

Recalibration of the regulatory demands on and potential liabilities of bank directors would give them the tools, incentives and freedom to be more effective overseers of the backbone of the U.S. economy and better avoid future financial crises. Holding bank directors financially responsible only for the actions they can control, rather than the economic events they cannot, would strengthen the banking system, improve corporate governance, and deepen the pool of qualified bank directors.

*Mr. Vartanian is a partner at the law firm Dechert LLP and a former general counsel of the Federal Home Loan Bank Board.*

## Notable & Quotable: Silicon Valley Conformity

*From "Trump Damaged Democracy, Silicon Valley Will Finish It Off" by Joel Kotkin, DailyBeast.com, Aug. 27.*

For all its talk about "disruption," Silicon Valley is increasingly about three things: money, hierarchy, and conformity. Tech entrepreneurs long have enjoyed financial success, but their dominance in the ranks of the ultra-rich has never been so profound. They now account for three of world's five richest people—Bill Gates, Jeff Bezos, and Mark Zucker-

berg—and dominate the list of billionaires under 40.

Unlike their often ruthless and unpleasant 20th century moguls, the Silicon Valley elite has done relatively little for the country's lagging productivity or to create broad-based opportunity. The information sector has overall been a poor source of new jobs—roughly 70,000 since 2010—with the gains concentrated in just a few places. This as the number of generally more middle-class jobs tied to producing equipment has fallen by half since 1990 and most new em-

ployment opportunities have been in low-wage sectors like hospitality, medical care, and food preparation.

The rich, that is, have gotten richer, in part by taking pains to minimize their tax exposure. Now they are talking grandly about having the government provide all the now "excess" humans with a guaranteed minimum income. The titans who have shared or spread so little of their own wealth are increasingly united in the idea that the government—i.e., middle-class taxpayers—should spread more around.

## LIFE & ARTS

### MUSIC

# A Rapper Sends a Suicide Lifeline

Logic's anthem '1-800-273-8255' drives calls to a national hotline—while fueling the artist's breakthrough on the charts

BY JOHN JURGENSEN

**A SONG THAT BEGAN** with the working title "Suicide" has brought a new burst of life to the career of a rapper who is hammering a message of "peace, love and positivity."

Logic, 27 years old, has used that mantra and a tour de force rap flow to transcend outsider status and build a groundswell of fan loyalty. Now he has earned an unlikely breakthrough with an anthem that he named for the National Suicide Prevention Lifeline: "1-800-273-8255."

"Most people don't usually give a sh-t about songs like this," he says of his first commercial hit. On the radio and the streaming music charts, it's the odd tune out, surrounded by songs about seduction, self-congratulation and nightlife adventure.

It's not a one-off for Logic. His third album, "Everybody" (which made its debut at No. 1 on the Billboard album chart in the spring) is a front-to-back exploration of thorny human problems, and includes a running dialogue with God (voiced by astrophysicist Neil deGrasse Tyson). Logic burrows into personal issues: a rough upbringing in Gaithersburg, Md., and struggles as a biracial rapper in a no-man's-land of hip-hop, where identity is strictly policed. After nearly a decade of trying to show off his rap prowess, he says, he shifted his priority: "How about just trying to send the biggest message I can?"

"1-800-273-8255" is written from the perspective of someone who reaches out for help and the operator who answers the call. The chorus shifts from "I don't wanna be alive" to "I want you to be alive." It has 167 million streams on Spotify and 46 million views for official versions on YouTube, including a seven-minute music video featuring actor Don Cheadle and a story about a gay teen who fights through his desperation.



Logic performed the song at the MTV Video Music Awards on Sunday, joined by suicide-attempt survivors.

Logic performed the song on Sunday night at the MTV Video Music Awards, where he and the singers featured on the track, Alessia Cara and Khalid, were joined on stage by suicide-attempt survivors wearing white T-shirts. Separately, the award show paid tribute to two rock singers who committed suicide this year, Chris Cornell and Chester Bennington.

Since the release of "1-800," call volume is 33% higher than the same period last year for the National Suicide Prevention Lifeline, which is on track to field 1.8 million calls this year, director John Draper says. Unlike other portray-

als of suicide in entertainment, such as the recent Netflix series "13 Reasons Why," he says "1-800" is the rare example that sends a message of prevention, noting that the increase in calls doesn't take into account the people who heard the song and "just felt more hopeful" without needing to call.

A couple of weeks before the song's release, the organization gave approval to use its phone number, but didn't hear the track until the day it was released. Dr. Draper recalls his first listen and his relief that it didn't include any F-words in its lyrics. "After all, [the hotline] is funded by the govern-

ment," he says. Staff members have taken to shouting out one of the song's signature lines to each other at the office: "Who can relate?"

Logic's birth name is Sir Robert Bryson Hall II and he is known to friends as Bobby. On the song "Take It Back," he describes a childhood with a black father and white mother "addicted to crack cocaine, alcohol and various other drugs." Though he grew up poor and identifying as black, people often assumed he was white—and thus more privileged—based on his appearance, a cultural split that would carry over into his music career. The "Everybody" album

is his most public effort to reconcile his past and both sides of himself, a sometimes uneasy peace.

On the title track, he raps: "Everybody talkin' 'bout race this, race that. I wish I could erase that, face facts."

With a tightknit group of collaborators, including a manager his age, Chris Zarou, Logic built a big grass-roots following by touring and releasing a series of underground mixtapes. After signing to the Def Jam label in 2013, he released two albums that got little mainstream notice, setting the stage for the more personal and ambitious "Everybody."

"I always wanted a hit record. I always wanted to be on the radio. I always wanted love and respect on a mainstream level. I never got it," Logic says. "When I said, 'Screw it, I'm going to make this album for me,' that's when all that mainstream success started happening."

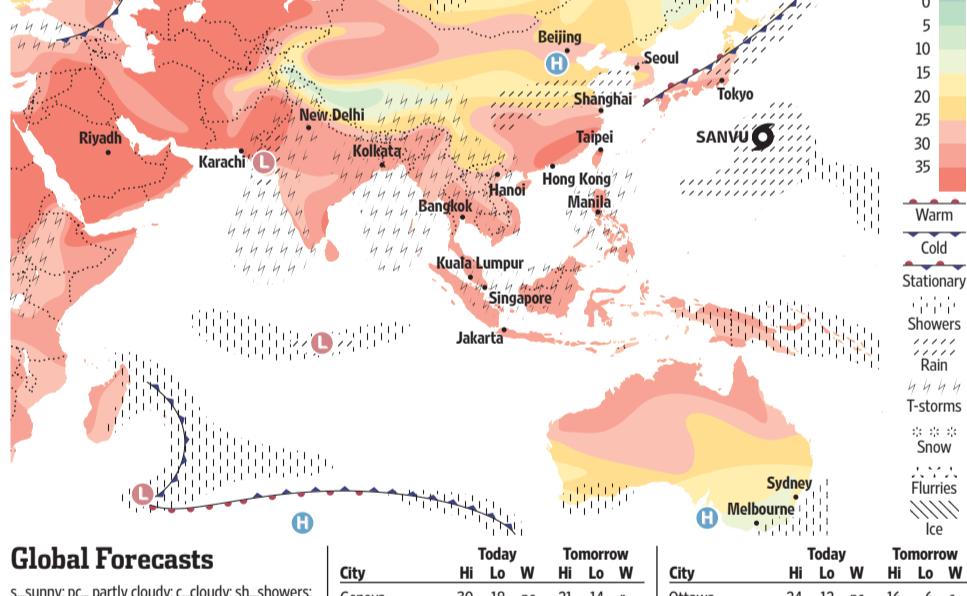
In a genre where decadence and toughness is the norm, Logic's image is proudly nerdy. In Chicago last week, the last stop on a summer tour, he started the show by urging audience members to stay hydrated and to say hi to the fellow fans standing next to them.

Wearing glasses, jeans and loosely laced Nikes, he paused the show to take on members of his crew in a game of Nintendo Mario Kart, with the race shown on the venue's giant video screens. He closed out the concert by asking audience members their names and inviting a 17-year-old girl on stage to rap along with him at breakneck pace.

Though he built a career on rap skills, he's planning to expand his style, starting with the song he now performs at a piano during his shows.

"I'm done with rapping all the time," he says. "I want to sing and play ballads. I want to give you something like Queen meets James Brown with a positive message. That's where my mind is going from here."

### Weather

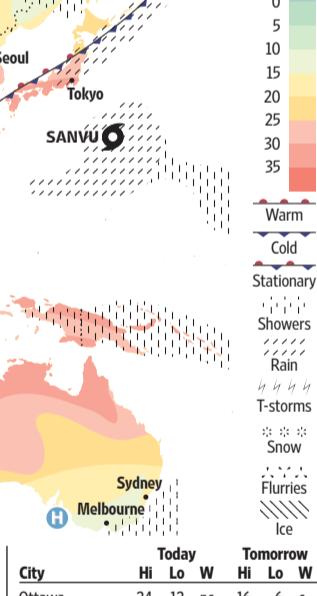


### Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

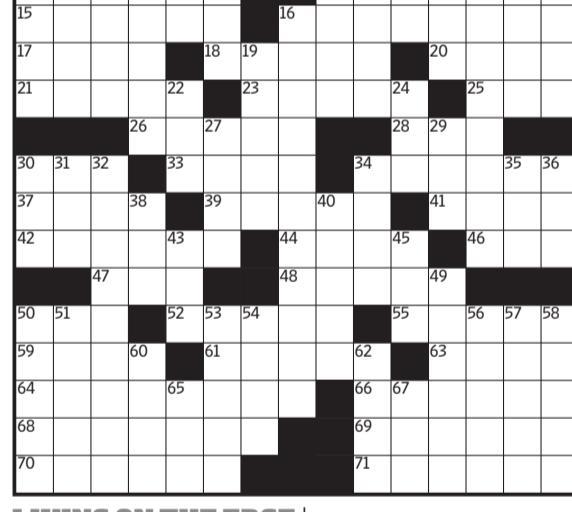
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	19	14	t	18	10	c
Anchorage	15	10	c	14	10	r
Athens	27	22	pc	29	21	s
Atlanta	24	20	sh	28	21	t
Bahrain	47	29	s	48	28	s
Baltimore	26	17	pc	29	16	pc
Bangkok	33	26	t	34	26	t
Beijing	28	17	s	27	18	pc
Berlin	29	19	pc	27	13	t
Bogota	19	9	c	20	7	pc
Boise	34	18	pc	33	15	s
Boston	21	15	pc	27	13	pc
Brussels	26	13	t	19	11	c
Buenos Aires	16	8	s	18	13	s
Cairo	34	23	s	34	24	s
Calgary	33	14	pc	26	10	pc
Caracas	32	24	pc	32	25	pc
Charlotte	28	20	pc	26	20	t
Chicago	27	18	pc	23	14	pc
Dallas	31	22	pc	30	21	pc
Denver	34	16	pc	30	16	pc
Detroit	27	16	pc	23	10	pc
Dubai	41	29	s	40	30	s
Dublin	17	9	pc	16	8	pc
Edinburgh	17	7	pc	18	7	pc
Frankfurt	32	19	t	22	12	c

### AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	24	12	pc	16	6	c
Paris	25	12	t	20	12	pc
Philadelphia	26	18	pc	29	15	pc
Phoenix	43	30	s	42	30	c
Pittsburgh	25	17	pc	25	11	c
Port-au-Prince	35	23	pc	37	23	pc
Portland, Ore.	26	16	pc	27	14	s
Rio de Janeiro	29	19	s	24	19	c
Riyadh	42	26	s	42	26	pc
Rome	30	20	s	30	20	s
Salt Lake City	34	20	t	32	20	t
San Diego	30	22	s	30	23	s
San Francisco	22	14	s	26	18	s
San Juan	32	25	pc	33	26	pc
Santiago	20	4	s	21	5	s
Santo Domingo	33	24	pc	33	24	pc
Sao Paulo	30	16	s	18	14	c
Seattle	23	15	pc	25	14	c
Seoul	25	17	pc	27	16	s
Shanghai	29	24	pc	29	24	c
Singapore	31	26	t	31	26	t
Stockholm	20	10	pc	15	11	r
Sydney	18	8	s	16	8	s
Taipei	35	28	t	35	28	pc
Tehran	36	23	s	37	23	s
Tel Aviv	30	22	s	30	24	s
Tokyo	30	21	r	26	20	r
Toronto	24	13	s	19	7	s
Vancouver	22	15	pc	22	13	pc
Washington, D.C.	26	20	pc	30	17	pc
Zurich	30	18	pc	22	12	r

### The WSJ Daily Crossword | Edited by Mike Shenk



LIVING ON THE EDGE | By Herre Schouwerwou

Across	Down
1 Crude abode	28 Lord of the rings?
7 Sorting through data	30 "Bull" carrier
13 Brunch beverage	33 City known for its beef
14 Holiday centerpiece	34 Hardly swanky
15 Impediment to romance, perhaps	37 Presidential promise
17 One that inspires?	39 Heading up?
18 Uncomplaining	41 Words to a betrayer
20 Audition rejects	44 Evil spell
21 Winona's role in "Beetlejuice"	46 Work group
23 Set out	47 Syrupy sentiment
25 Bit of code?	48 Microscope part
26 Eminent	50 Future fish
	52 Plea from eager beavers
	55 West Coast NFLer

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- 4 Bean  
5 Scanners at JFK  
6 Squeaks from Pekes  
7 Islam's holiest city  
8 Coverage by the press  
9 Shipwright of old  
10 Pasteurize, in a way  
11 Watts of "The Impossible"  
12 He might make himself clear  
14 Naturalist nicknamed "John of the Mountains"  
16 Mexicali and Calexico, and a hint to this puzzle's perimeter answers  
19 Gym routine popular in the 1990s  
22 Just fine  
24 "Fargo" affirmative  
27 Broadway statuette  
29 "To Kill a Mockingbird" author  
30 Mama moose

31 Ebenezer's utterance  
32 Theatrical pieces  
34 Shoot the breeze  
35 Sch. support group  
36 Plural possessive  
38 Care provider, briefly  
40 Prairie dwelling  
43 Soft shoe, casually  
45 "Cool" amount of cash  
49 Check for messages, perhaps  
50 Mississippi or Missouri  
51 Like a lamb  
53 Take in, take on or take up  
54 Daytime refreshers

56 They may reveal one's true colors  
57 Athlete's optimal effort

58 Be a real poser?

60 Successor of Claudius

# BUSINESS & FINANCE

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Wednesday, August 30, 2017 | B1

Yen vs. Dollar 109.0760 ▼ 0.17%

Hang Seng 27765.01 ▼ 0.35%

Gold 1317.00 ▲ 0.56%

WTI crude 45.97 ▼ 1.29%

10-Year JGB yield 0.004%

10-Year Treasury yield 2.127%

## U.S. Miner Soothes Indonesia Tensions

By ANITA RACHMAN  
AND I MADE SENTANA

JAKARTA, Indonesia—**Freeport-McMoRan** Inc. will give up its majority stake in the giant Grasberg copper and gold mine in a significant step toward ending a long dispute with Indonesia, dropping the U.S. mining company's ownership from 90.64% to 49%.

The agreement, announced by Indonesian and Freeport officials on Tuesday, will extend the mining company's permit until as long as 2041. It

caps an important chapter in a struggle between Jakarta and foreign mining companies in recent years, as the Southeast Asian nation seeks a greater share of the wealth made from its vast mineral resources.

The agreement requires Freeport to build a smelter by October 2022—consistent with a goal of President Joko Widodo's government to increase domestic-processing capacity in Indonesia, but seen by mining companies as an extra cost at the same time that slowing demand from China

has hurt commodity prices.

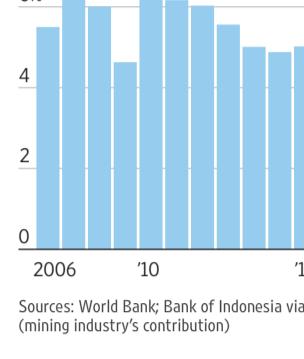
Freeport Chief Executive Richard Adkerson said the company will invest as much as \$20 billion between now and 2041 to develop what had been a largely open-air mine underground. Freeport has invested \$12 billion in developing Grasberg, located in Indonesia's eastern province of Papua, since the 1970s. The company is Indonesia's largest taxpayer.

The divestment and the agreement to build the smelter, estimated to cost \$2 billion, amounted to a "major

### Waning

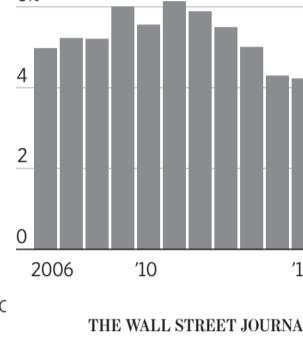
Mining's contribution to Indonesia's growth has declined amid policies aimed at boosting revenue from commodities.

#### GDP growth



Sources: World Bank; Bank of Indonesia via PwC (mining industry's contribution)

#### Mining industry's contribution to GDP



THE WALL STREET JOURNAL.

concession" from the company, Mr. Adkerson said.

"For us, the big issue is having confidence that we can make these investments and,

having an agreement with the government, that we will have time to recover those investments," Mr. Adkerson said.

Please see MINE page B2

## Strangers Approach Insurer's Critics

By MARK MAREMONT

Critics of AmTrust Financial Services Inc., which is being probed by a regulator and pressured by investors, say they have been approached by a series of purported overseas consultants dangling enticing offers. Afterwards, the critics discover these people aren't who they say they are.

Chris Irons, an analyst at research firm GeoInvesting LLC, which has published several reports critical of AmTrust's accounting practices, said he was contacted in July by a woman who identified herself as a London-based consultant to a European software multimillionaire seeking contributors to a new investment website. He agreed to meet at a Philadelphia-area restaurant.

At the dinner, Mr. Irons said, the woman, whom he described as gorgeous, plied him with drinks and slipped in several questions about critiques of AmTrust and its accounting methods. "It was the second or third follow-up question on AmTrust that gave me a lot of pause," he said, adding that she "laughed at many things I said that probably weren't that funny."

But the name the woman gave—Diana Ilic—appears to be a pseudonym. The email address she used with Mr. Irons links to a domain name established a few days before the meeting.

The London address for her consulting firm turns out to be a mailbox drop.

A woman who made initial contact on social media on behalf of the purported Ms. Ilic doesn't appear to be who she said she was either. The social-media pages under her name used photos of another woman, a French retail marketer. The purported Ms. Ilic didn't return phone calls or emails sent to the contact information provided to Mr. Irons.

AmTrust, a fast-growing, New York-based insurance company with \$5.5 billion in 2016 revenue, in recent years has attracted skepticism about its results from investors betting against its stock, which has nearly halved this year. The Wall Street Journal, citing people familiar with the matter, reported this year that the Securities and Exchange Commission was investigating AmTrust's accounting practices.

Other AmTrust critics described similar odd approaches to The Wall Street Journal, including an investor who is betting against AmTrust's stock; a journalist who has published articles critical of AmTrust's founders; and Mr. Irons's boss, who said he had met two months earlier with a different "consultant" dangling a lucrative offer, who then brought up AmTrust.

That consultant, the GeoInvesting team later found, used the same London mailbox drop as Ms. Ilic.

Battles between companies and short sellers sometimes

Please see INSURER page B2



Jeremiah Goldsmith, an in-home adviser for Best Buy in Austin, Texas, can help arrange for repairs, installations and deliveries.

MATTHEW MAHON FOR THE WALL STREET JOURNAL

## Gadget Sellers Make House Calls

Best Buy and Amazon send staff to homes to advise on devices, drum up business

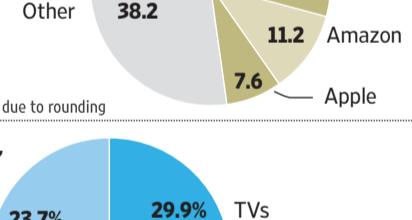
By KHADEEJA SAFDAR  
AND LAURA STEVENS

Best Buy Co. and Amazon.com Inc. see the future of selling electronics—and it is happening in your living room. Best Buy is hiring hundreds of salespeople to sit down with consumers inside their homes and recommend electronics to buy, part of a free service it has been testing in several cities and plans to roll out across the U.S. this fall.

The company hopes its in-home salespeople will help

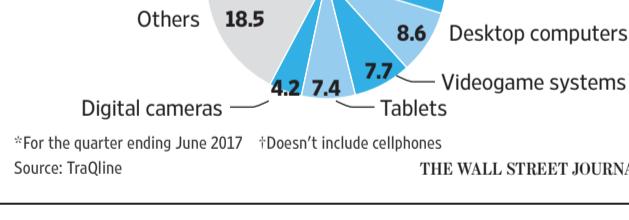
### Plugged In

U.S. electronics sales leaders, by dollar value\*



Note: figures don't equal 100% due to rounding

### U.S. category leaders\*, by dollar value\*



\*For the quarter ending June 2017 †Doesn't include cellphones

Source: TraQline

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drive sales of TVs and gadgets at a time when fewer people are visiting shopping centers, as well as drum up business for Best Buy's Geek Squad, which provides tech repairs and in-home installations for a fee.

The new program "allows us to unlock latent demand," Best Buy Chief Executive Hubert Joly said in an interview. "What we're finding is people in the home tend to spend more because we address a bigger need for them compared to what they spend in the store."

Amazon, meanwhile, is expanding a program that sends its employees into homes to provide free "smart home consultations" and let shoppers

Please see HOME page B2

## Unlimited Vacation Time Isn't for Everyone

By FRANCESCA FONTANA

Unlimited vacation time sounds like a great way to encourage employees to take time off—at first.

A small but growing number of companies including Glassdoor Inc., Netflix Inc. and Twitter Inc. offer employ-

ees as much paid time off as they want. Employers say they like the policies because they can minimize staff burnout. It doesn't hurt that they can save on costs, as the policies mean they no longer pay employees who leave the company for unused vacation days.

But experts say unlimited

vacation time isn't a perfect solution to an overworked workforce. Employees can become more hesitant to take time off when they're allowed to do it any time—and for as long as they desire.

Kyle Bergman, who leads merchandising for men's products at the online beauty sub-

scription company Birchbox, has balanced his full-time job with a spot on Israel's national lacrosse team. He uses his unlimited vacation time to travel to tournaments, and in July, Mr. Bergman spent 16 days in Finland competing in the European Box Lacrosse Championships.

Still, he says he thought about work often and checked his email regularly. "Stepping out for two weeks can be anxiety-inducing," he says.

That is a common concern and part of the reason American workers don't take all of their allotted vacation time. More than half of workers say their bosses are ambivalent or send mixed messages about taking vacation, according to a 2017 survey of more than 7,000 workers from the U.S. Travel Association's Project: Time Off. Last year, the average American worker earned 22.6 days of vacation, but only used 16.8 days, according to the survey.

"If you're the only one taking every single day you have, compared to everyone else, it looks like you're not dedicated

Please see TIME page B2



Indrani Ray-Ghosal is better able to visit India with family, but unlimited time off makes some workers anxious.

INDRANI RAY-GHOSAL

## INSIDE



GOOGLE TO OUTLINE CHANGES TO EU

TECH, B4

## 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	Expedia.....A1,B10
B	Facebook.....A7
C	General Electric.....A2
D	Hewlett Packard Enterprise.....A1
E	IAC/InterActiveCorp.B10
F	HHGregg.....B9
G	Home Depot.....B4
H	IAC/InterActiveCorp.B10
I	Ishares Gold Trust.....B7
J	Joly, Hubert.....B1
K	KKR.....B9
L	Kmart.....B9
M	Kohl's.....B9
N	Lockheed Martin.....A1
O	Lembong, Tom.....B2
P	Loeb, Dan.....B1
Q	Stroebek, Axel.....B4
R	Sullivan, Bill.....B2
S	Trifilo, Tim.....B9
T	Voggenreiter, Dietmar.....B4
U	Wilmath, Tim.....B9
V	Witkoff, Steven.....B9

## INDEX TO PEOPLE

A	Adkerson, Richard.....B1
B	Buffett, Warren.....B1
C	Dobrowski, Thomas.....B9
D	Goebel, Wendelin.....B4
E	Irons, Chris.....B1
F	Joly, Hubert.....B1
G	Khosrowshahi, Dara.....B10
H	Lembong, Tom.....B2
I	Loeb, Dan.....B1
J	Seitz, Alexander.....B4
K	Stadler, Rupert.....B4
L	Stroebek, Axel.....B4
M	Sullivan, Bill.....B2
N	Trifilo, Tim.....B9
O	Voggenreiter, Dietmar.....B4
P	Wilmath, Tim.....B9
Q	Witkoff, Steven.....B9



Freeport's Grasberg copper and gold mine in Indonesia. The firm agreed to reduce its stake in the mine to 49% from 90.64%.

## MINE

Continued from the prior page

Freeport's current operating license expires in 2021 and negotiations over its renewal had been going on for years. The company had been reluctant to make new investments without an agreement in place, and labor unrest had been increasing.

Tom Lembong, chairman of Indonesia Investment Coordinating Board, called the agreement "a positive milestone" but said both parties still have to talk about details, such as pricing and fiscal terms.

Under the new pact, Indonesia has agreed to extend Freeport's license 10 years to 2031, and if requirements are being met, a further 10 years.

The value of the 41.64% stake Freeport will have to sell remains to be determined. The government and its state-owned enterprises are unlikely to have the financing to buy it in one piece, so the divestiture could be spread across many holders and Freeport might retain the largest single holding, analysts said.

Bill Sullivan, a Jakarta-based legal adviser to mining companies, said foreign investors could see the agreement as a positive development—depending on how outstanding details are resolved.

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## BUSINESS & FINANCE

## HOME

Continued from the prior page  
test its Echo smart speakers and voice-controlled devices. These consultants can also provide fee-based installation services after shoppers purchase the gadgets on Amazon.

The Seattle-based company launched the service in its home market in July 2016 and has since expanded to six other cities. It has job listings for technicians in additional markets, such as Chicago and Hoboken, N.J.

Rohan Joseph recently spent an hour walking room to room in his Seattle suburban home with an Amazon technician, discussing everything from smart light switches to locks. He already has a few Echo Dot speakers and an Echo Show, and was curious to see what else Amazon would recommend. "We're about to have our first kid, so there were a couple things related to the nursery," he said.

Mr. Joseph said he hasn't yet acted on any of the recommendations—but many are now on his wish list. He didn't feel any pressure to buy. "That's what I liked about it," said the 34-year-old CrossFit studio owner. "He wasn't trying to sell me anything."

Best Buy, which had revenue of \$39.4 billion last year, controls about 29% of the U.S. market in consumer electronics, followed by Wal-Mart Stores Inc., with 14%, and Amazon, with 11.2%, according to research firm TraQline.

Best Buy's modest growth over the past five years has stood apart in a retail industry that has struggled with declining foot traffic and a glut of stores. The electronics giant, whose shares are up 45% so far this year, was slated to report second-quarter results on Tuesday.

Unlike its Geek Squad workers who fix gadgets, Best Buy's in-home advisers are traveling sales consultants who are paid a salary or on an hourly basis,



The U.S.-based retailer is hiring hundreds of in-home salespeople.

doorbell costs around \$99.

"Amazon Smart Home Services isn't just about buying or even installing smart home products, it's about educating customers on how it all works and customizing the products," said an Amazon spokesman.

To free up costs for new services, Best Buy has been outsourcing some tech support jobs at its Geek Squad unit to Accenture, which uses cheaper labor in the Philippines. Last month, the retail chain eliminated about 400 U.S. Geek Squad positions for online and phone tech support.

The company said it has about 1,000 job openings and encouraged laid-off workers to apply. "Using that highly skilled labor in people's homes and in our stores, directly interacting with customers, seems like the very best way we could humanly use that asset," said Best Buy finance chief Corie Barry.

Increasing face-to-face interactions in the home could help with sales of extended warranties. Warranties accounted for nearly \$900 million of Best Buy's \$40 billion annual sales, but analysts say the high-margin offering made up a significant share of the company's profit, which was about \$1.2 billion last year.

Amazon, with its Echo devices, is vying for market share with Alphabet Inc.'s Google and Apple Inc., both of which have been working on their own voice assistants for the home. Google and Apple, which will begin shipping its HomePod in December, don't currently deploy in-home salespeople.

Best Buy is hoping its brand-agnostic approach will give it a leg up when it comes to consultations. "Despite what the vendors might want, there's no customer who has only one brand in the home," said Mr. Joly, the retailer's CEO.

"This is not a zero-sum game between Amazon and Best Buy," said Mr. Joly. "There's room, frankly, for several players."

founders.

Mr. Boyd said he later discovered the consultant's background had holes; his Hong Kong phone number has since been disconnected. "Something was very wrong," Mr. Boyd said.

He said the consultant was armed with a printout of an AmTrust critique by Mr. Nelson, the short seller.

Mr. Nelson, of Dallas-based Alistair Capital Management LLC, said he was contacted around the same time by a London-based consultant, purporting to represent a Middle Eastern investor looking to hire Mr. Nelson's firm to manage at least \$50 million.

He said the man offered to fly him to London to discuss the offer. Mr. Nelson said he was suspicious and declined the offer. The consultant's email address is no longer active; his website domain was registered to a mailbox drop address.

The Israeli firm employed by AmTrust in the Italian market, Black Cube, has an office in London. Black Cube declined to comment, saying it can't discuss clients "or the work we have done for them, if any." The firm said its work always complies with local laws.

GeoInvesting co-founder Dan David—Mr. Irons's boss—this month filed a civil suit in a Pennsylvania state court against the woman who identified herself as Ms. Ilic and a second purported consultant who contacted Mr. David in May, also asking questions about AmTrust. AmTrust wasn't named in the suit.

Though this second consultant said he was French, Mr. David—whose wife is French—believed the man spoke English with an Israeli accent. The consultant didn't return calls or emails sent to the contact information he gave Mr. David. The legal action allowed Mr. David to get subpoenas for security-camera footage of the meetings with the consultants, in the hope of identifying them.

Unilever.

Mr. Schneider has been doing his best to dampen expectations; his latest results commentary was notably upbeat. If he does unveil a big package of overhauls the stock could jump. But investors are probably better off preparing for another dose of reality.

## INSURER

Continued from the prior page  
turn nasty and both sides in such disputes occasionally have used private investigators to dig up information, usually in a legitimate fashion. The investigators often are hired through law firms and the information sometimes is used in litigation.

An AmTrust spokeswoman said the company didn't employ investigators to probe its critics.

It declined to say whether its lawyers or others in its service had done so. The company has declined to comment on the SEC probe.

AmTrust this year restated some results with relatively minor changes after switching outside auditors.

Investigators using fake identities and misrepresentations could run afoul of several state and federal laws, said Gavin P. Lentz, a Philadelphia attorney and former prosecutor, who isn't involved in the matter. A company that hires such investigators potentially could be held civilly liable, Mr. Lentz said, because these are agents acting on their behalf.

"Generally speaking, as a private investigator you can't misrepresent yourself" in the U.S., said James Cesarano, vice president of ethics and compliance at Kroll Associates Inc., a corporate investigations firm.

In 2016, AmTrust said it hired private Israeli investigators claiming to be consultants to secretly tape a former Italian business partner in Italy, according to a lawsuit AmTrust filed last year against the former partner.

The parties settled after the tape allegedly revealed the former partner had offered a bribe to an arbitrator. Both parties said the settlement was confidential and the former business partner said in a text message that he didn't "corrupt anyone."

AmTrust has been in a long-

## Unusual Offerings

Some critics of insurer AmTrust have cited odd consultant outreaches.

### AmTrust share price



1 June 27, 2016: Casey Nelson, a vocal AmTrust short seller, contacted by consultant offering to invest in his fund and fly him to London

2 July 12, 2016: Journalist Roddy Boyd meets in London with adviser to Asian family looking to set up venture; is asked AmTrust questions

3 April 27, 2017: Mr. Boyd, who has written about AmTrust's founders, contacted by British man wanting information on AmTrust in exchange for donation

4 May 10, 2017: Dan David of GeoInvesting, a research firm critical of AmTrust, meets French/British consultant who wants him to speak at London conference, asks questions about AmTrust

5 July 18, 2017: GeoInvesting's Chris Irons meets London consultant who makes repeated AmTrust queries after offering work with investing website

Sources: WSJ Market Data Group (price); the critics

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running battle with short sellers—investors who bet against its stock—and other critics, who have claimed the insurer burns its financials partly by underestimating future claims and through reinsurance transactions with overseas affiliates that had the effect of hiding losses.

AmTrust, which denies such allegations, several years ago filed a legal notice threatening to sue GeoInvesting and a vocal short seller, Casey Nelson. AmTrust also has attacked short sellers several times on investor conference calls. On a May call, CEO Barry Zyskind called short-seller claims "false" and "baseless."

The ostensible consultants contacting AmTrust critics have legitimate-seeming websites and social-media identities.

They also leave little apparent trace of their whereabouts. The woman who called herself Ms. Ilic, for example, arrived

and left in an ordinary taxi and paid for the meal with cash, Mr. Irons said.

Roddy Boyd, who has written articles for his Southern Investigative Reporting Foundation that raised questions about charitable foundations run by AmTrust's founders, said he received two unusual approaches.

A few months ago, he said, a man claiming to be calling from London offered to donate money to his journalistic foundation, in return for answering questions about AmTrust. Mr. Boyd said he provided a few generalities about the company and told the man not to do that.

In mid-2016, Mr. Boyd said, he traveled to London to meet a man identifying himself as a Hong Kong-based adviser to a wealthy family interested in starting an Asian journalism venture. The consultant, he recalls, asked detailed questions about his articles on AmTrust

hardly a game-changer; activists with a record of influencing European companies, such as Cevian Capital and Elliott Management, typically build stakes of at least 5%.

Nestlé's stock trades at a premium to Unilever's, even though prospects for earnings growth look better at

## HEARD

Continued from the prior page

next month.

These hopes seem ripe for disappointment. Mr. Schneider has stressed the need to balance cost savings with investment in new products.

He has already committed to achieving mid-single-digit percentage growth by 2020; pursuing a punchy margin target at the same time would leave little room to maneuver such a large company, particularly following weak second-quarter numbers.

Mr. Loeb's 1.29% stake is

## BUSINESS NEWS

# Amazon Gets Jump on Food Prices

Online giant veers from its matching strategy at newly acquired Whole Foods

By LAURA STEVENS AND HEATHER HADDON

Amazon.com Inc. on Monday put itself in the unusual position of being a first mover on price cuts when it slashed the sticker price on more than 100 items at Whole Foods Market Inc., many by more than 30%.

Amazon typically relies on algorithms that scrape competitors' prices before automatically matching or narrowly undercutting them on its website. It focuses on items that are most popular on the site and that drive traffic, according to former executives in Amazon's retail divisions. That gives the retail giant a reputation for having the lowest prices.

With Whole Foods, which it officially acquired Monday for about \$13.5 billion, Amazon has broken with its reactive approach. For example, a package of a dozen organic eggs was for sale at a Chicago store for \$3.99, compared with \$4.39 the day before and lower than the \$4.19 that Mariano's, a division of Kroger's Co., was charging at a nearby store.

The price cuts could partly be a marketing stunt to mark Amazon's ownership of the chain. But they also shed light on how the company is adapting its strategy to seek success in the physical retail world it has long disrupted.

The cuts could improve Whole Foods' reputation for high prices and lure more shoppers into the chain's 470 stores. They also offer a first sign of Amazon's intent to apply order to Whole Foods' decentralized structure. Prices had varied across the grocer's 12 regions, but Monday's cuts brought those of the selected items in line nationally.

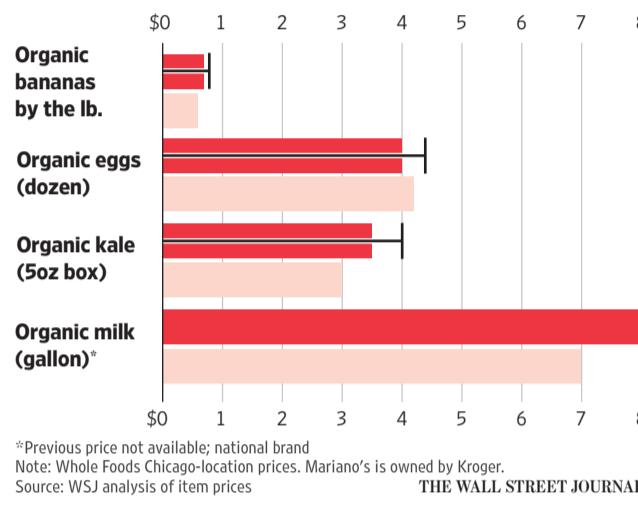
"This will make me come more," said Jen Harris, 33



Price cuts Amazon.com made at Whole Foods shed light on how the company is adapting its strategy to bricks-and-mortar retail.

### Modest Cuts

Amazon is lowering prices at Whole Foods following its acquisition of the organic grocer, hoping to boost sales, but it still can't beat nearby stores on some items.



\*Previous price not available; national brand

Note: Whole Foods Chicago-location prices. Mariano's is owned by Kroger.

Source: WSJ analysis of item prices

THE WALL STREET JOURNAL

years old, who skipped her Sunday shopping trip in favor of stopping by Monday morning, looking for cheaper prices on staples like chicken and fish. "I feel like Amazon is great for customers."

The occupational therapist from Chicago typically shops for milk, eggs and snacks at Trader Joe's, Costco Wholesale Corp. or stores under Albert-

Amazon's strategy of being a price follower, not a price leader, has helped make Amazon a major player in everything from books to apparel.

"They can be a cent below the other competitors, they don't need to go all the way down," said Guru Hariharan, chief executive of retail technology company Boomerang Commerce and a former Amazon manager.

Grocery shoppers typically

enter a store with a set list of items but often make impulse purchases once there. Customers at Whole Foods in particular are generally more focused on quality and are less price conscious, making it tougher for Amazon to predict how discounting products may affect traffic. Whole Foods, for example, began cutting prices two years ago, but the cuts didn't reinvigorate sluggish sales growth.

Whole Foods has some way to go to match other grocers. Analysts estimate that prices before the Amazon takeover were roughly 15% higher than conventional competitors for similar items.

"Amazon cutting prices at Whole Foods likely doesn't mean undercutting other grocers, but rather bringing prices more in line with average market prices," said Forrester retail analyst Brendan Witcher.

For example, Amazon cut the price of Whole Foods' private-label creamy and crunchy almond butters to \$6.99 from \$7.99, matching Trader Joe's.

A Whole Foods spokeswoman said that many store items couldn't be directly compared with competitors because the chain has higher quality and ethical standards. The price cuts and promotions will continue in the weeks to come as the merger progresses, she said.

"This is just the beginning," she said.

Amazon declined to comment on its pricing policies, but the company has previously said it finds the lowest prices and meets or beats them every day.

Investor concern that Amazon's price cuts at Whole Foods will trigger a price war led to a stock selloff among traditional grocers Monday, continuing last week's slide. Sprouts Farmers Market Inc.'s stock tumbled 10%, while Natural Grocers by Vitamin Cottage Inc. was down by more than 2%. Kroger, the largest U.S. grocery chain by stores and revenue, slipped 1.4% before largely recovering.

# United Tech Nears Rockwell Deal at Over \$20 Billion

United Technologies Corp. is nearing a deal to buy Rockwell Collins Inc. for more than \$20 billion, a tie-up that would create one of the world's biggest aircraft-equipment makers.

By Dana Mattioli,  
Joann S. Lublin  
and David Benoit

The companies are discussing a per-share price for Rockwell of \$140 or less and could come to an agreement as soon as this weekend, according to people familiar with the situation. Rockwell shares closed at \$127.99 Monday, giving the company a market value of \$20.8 billion.

As with all acquisition talks, it is possible they could hit a snag and not result in a deal, or the expected price could change.

The deal would boost United Technologies' business supplying Boeing Co. and Airbus SE as the aerospace industry ramps up for a new generation of jets. The company already owns one of the world's biggest jet-engine makers, Pratt & Whitney, part of an aerospace division that also makes parts such as wheels and landing gear.

Rockwell specializes in cockpit displays and communications systems for passenger jets and military programs. In April, the Cedar Rapids, Iowa, company closed its roughly \$6 billion acquisition of B/E Aerospace Inc., a maker of plane seats and interiors.

Since word of the talks surfaced this month, several analysts have said they don't expect significant antitrust issues, given that United Technologies and Rockwell make different airplane parts. But airplane manufacturers might voice concerns about any con-

solidation among their suppliers. Boeing and Airbus have also been nudging their way into aftermarket business to capture some of the profit from selling and servicing parts—putting them on a collision course with suppliers.

The possibility of a United Technologies deal for Rockwell caught some analysts by surprise. In June, United Technologies Chief Executive Greg Hayes told analysts the Farmington, Conn., company was looking to spend roughly \$1 billion on acquisitions this year. It had about \$7 billion in cash.

"As far as bigger M&A, it's something we always look at, but I am reluctant to go out and pay some of the prices that we see today," Mr. Hayes said at the Paris Air Show.

United Technologies has a market value of about \$92 billion. Last year, the industrial giant, which also makes Carrier climate-control systems and Otis elevators, rebuffed unsolicited takeover approaches from Honeywell International Inc.

—Thomas Gryta contributed to this article.



Rockwell Collins specializes in supplying aircraft systems.

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## TECHNOLOGY

# Google Readies Europe Search Changes

Plan would address order to give rivals equal treatment in shopping results

BY NATALIA DROZDIAK  
AND SAM SCHECHNER

Alphabet Inc.'s Google was set to sketch out to the European Union's antitrust authority on Tuesday how it plans to implement the regulator's recent order to stop illegally tipping the scales in favor of its own comparison-shopping service, according to people familiar with the matter.

The European Commission, which has for roughly seven years been investigating Google for breaching the bloc's antitrust rules in various areas, in June fined Google a record €2.42 billion (\$2.9 billion) for discriminating against rival comparison-shopping sites in search rankings.

As part of the decision, the EU at the time also ordered

Google to overhaul its shopping search results by late September so that the company treats its competitors' offerings and its own shopping service equally. The changes would have to apply for users in all European countries in which Google offers its shopping service.

Google was due to notify the EU by Tuesday about how it plans to implement the decision—a deadline the company is expected to meet, according to the people familiar with the matter.

The commission has left it up to Google to decide how to change its service and doesn't have to sign off on the company's plans.

But should the offered remedies fall short, the EU could issue additional penalties of as much as 5% of average daily global revenue for each day the regulator deems Google not to be in compliance with the decision.

Tuesday's proposals aren't the first time Google has at-



A Google booth at a Berlin digital conference earlier this year.

tempted to resolve the EU's concerns about how it displays rivals' products in its search results. Since the bloc opened the case in 2010, Google has made at least three separate settlement offers—only to watch them fall apart because the EU's executive arm ruled them insufficient.

Google's final binding offer in February 2014, which the EU made public, would have changed results pages that display Google shopping ads to also include shopping results from rival companies. Those results would have appeared in a shaded box next to Google's shopping ads, accord-

ing to screenshots the EU published at the time to illustrate the proposed settlement.

That settlement extended beyond the shopping case to include Google specialized results for local search, which searches for nearby businesses such as restaurants, and for travel search, which includes flights and hotels.

Neither of those two categories of specialized results would be covered in Google's proposals on Tuesday.

The EU continues to investigate Google's behavior with these and other specialized results as well as with its Android mobile-operating service and AdSense advertising service.

Behind the scenes, rivals from the German publishing business, but also from U.S. companies such as Yelp Inc., had lobbied heavily for the executive arm to scrap the settlement deal.

The complainants objected that the placement they would receive—to the right of

Google's own results—wasn't prominent enough. And they also complained that Google would make them bid for the space via an auction mechanism, essentially making money from the settlement.

Rivals could again file complaints to the EU if they find Google's remedies in the shopping case to be insufficient. Should the commission find any merit in the complaints, it could then penalize Google for not complying.

Google has to comply with the EU's order to change its behavior regardless of a potential appeal by the company to the bloc's higher courts.

In addition to an appeal, Google could also file for an injunction, or so-called interim measures, to pause the order to change its behavior, pending the outcome of the appeal. But the bar for that relief is high, according to legal experts, as Google would have to prove to a judge that implementing the EU's order would cause the company "irreparable harm."

## 'Amazon Effect' Sparks Deals for Tracking Firms

BY JENNIFER SMITH

A growing number of companies are paying to track in real time everything from truckloads of pork chops to shipping containers full of exercise equipment.

Logistics providers, retailers and suppliers are signing deals with software companies that use location data and weather and traffic information to monitor shipments and alert customers to events that could hold up delivery, such as a loaded truck sitting in a yard for more than an hour.

"It's the Amazon effect—customers are putting more pressure on their supplier to know where their product is," said Bart De Muynck, a supply chain analyst with Gartner Inc. Mr. De Muynck said he expects more tracking startups to get snapped up by larger software companies.

Pork producer Smithfield Foods Inc. hires more than 230 trucking companies to ship about 1,000 truckloads of product in the U.S. a day.

"Managing that is an awful lot of phone calls," said Dennis Organ, Smithfield's senior vice president of supply chain.

Smithfield's on-time delivery rate improved to 94%,

shoppers demand faster, more precise delivery. Many **Amazon.com** Inc. customers have become accustomed to reliable two-day shipping, forcing other retailers to offer similar service. Businesses are making new demands of their suppliers as they trim inventories and reduce supply-chain costs.

Wal-Mart Stores Inc. in July said it would penalize companies that made deliveries too late or too early.

This month, supply-chain software company **Descartes Systems Group** bought MacroPoint LLC, which provides location-based truck tracking, for \$107 million. Descartes already tracks ocean, air and parcel delivery for customers such as **Home Depot** Inc. and **CVS Health** Corp., as well as some trucking. Other so-called visibility startups are broadening their scope, adding services such as real-time temperature tracking.

The need for these services is growing as retailers and



Home Depot and other retailers are increasingly relying on logistics software companies as shoppers demand more reliable deliveries.

from 87%, after it began tracking truck freight with software from **FourKites** Inc. Smithfield plans to test its use for ocean freight, Mr. Organ said, and is incorporating a new temperature-tracking feature introduced in June.

Some businesses are using delivery speed as a way to compete on service. "We

have a customer in Australia selling sand for a premium price because they can do time-definite, same-day delivery, with a one- or two-hour window," said Chris Jones, executive vice president of marketing and services for Descartes.

On Tuesday, logistics-software company Convey, which

specializes in last-mile delivery tracking, said it raised \$8.25 million in a Series B funding round led by Techstars Venture Capital Fund. The firm, whose platforms are largely used by retail clients such as Wal-Mart's Jet.com, plans to focus on international supply chains and expand into additional

markets, such as medical devices and construction and building materials.

Ingram Micro Inc.'s e-commerce fulfillment unit has been using Convey's software since February to monitor clients' shipments of apparel, electronics and other items from China to consumers' doorsteps.

## BUSINESS WATCH

### CHINA

#### Alliance Is Formed For Electric Vehicles

Nissan Motor Co. and alliance partner Renault SA are teaming up with Chinese auto maker **Dongfeng Motor Group** Co. to make a battery-powered automobile in the world's biggest car market, where electric-vehicle sales are expected to rise.

The joint venture, unveiled Tuesday, plans to produce a small sport-utility vehicle at Dongfeng's plant in Shijian in 2019, the Renault-Nissan alliance said.

The vehicle will be based on an SUV platform developed by the alliance, it said.

Global car makers have been searching for local partners for EV production in China.

Chinese regulations require

foreign car makers to form ventures with local companies to produce automobiles there. Nissan and Dongfeng have an existing joint venture to produce conventionally powered vehicles.

Nissan and Renault will each own 25% of the latest joint venture, and Dongfeng will hold the remaining 50%.

—Sean McLain

#### ADVISORY BOARD CO.

#### Firm to Be Split, Sold In \$2.21 Billion Deal

The Advisory Board Co. will be split up and sold in a deal valued at around \$2.21 billion, with its health-care business going to UnitedHealth Group Inc. and its education unit to private-equity firm Vista Equity Partners Management LLC.

The consulting and software company announced in Febru-

ary that its board was exploring strategic alternatives, including a possible sale. That move came after activist hedge fund Elliott Management Corp. said it and related entities had bought about 8.3% of the company's shares, adding at the time that they were undervalued and it wanted to engage in a dialogue with the company's board.

The companies said that the total value of the deal was around \$2.58 billion, a figure that includes the assumption of debt.

Vista will pay about \$1.55 billion for EAB, the education unit, which focuses largely on colleges and universities.

After that deal closes, UnitedHealth will complete its acquisition of the Advisory Board's health operation, which goes by the name of the parent company, paying \$1.3 bil-

lion, including the assumption of debt.

—Anna Wilde Mathews and Laura Cooper

#### AUDI

#### Car Brand Shuffles Management Board

Volkswagen AG's luxury car brand, **Audi** AG, said it would shuffle more than half its management board as the group continues to grapple with a diesel-emissions scandal.

The German car maker said Monday that it would replace four of seven board members as of Sept. 1, but keep Rupert Stadler as chief executive officer until 2022, as previously announced.

Like its parent company, Volkswagen, Audi has been shaken by the diesel-emissions scandal that started in 2015 when Volkswagen admitted it had installed software in millions of vehicles that allowed them to dodge emissions testing.

Some Audi models were also affected.

On Audi's board, Alexander Seitz succeeds Axel Strotbek as board member for finance, information technology and integrity. Bram Schot succeeds Dietmar Voggenreiter as board member for marketing and sales, a position Mr. Voggenreiter had held since 2015.

Wendelin Goebel will be the new member for human resources and organization, succeeding Thomas Sigi, who had held the position since 2010.

Peter Koessler will take over production and logistics from Hubert Waltl, who had been in the position since 2014.

—Max Bernhard

## Uber Payments End A Ban in Philippines

BY JAKE MAXWELL WATTS

Uber Technologies Inc. paid nearly \$10 million in fines and compensation to drivers to lift a temporary suspension of its services in the Philippines after a dispute with regulators that had left the U.S.-based company trying to protect its market share in one of its best-performing markets in Southeast Asia.

The one-month suspension, imposed by regulators on Aug. 14, was part of a crackdown by authorities in the Philippines on ride-hailing companies that had operated in the market largely without formally registering their drivers. The ban, met with strong opposition on social media by Filipinos, had hobbled Uber in a market where it was performing well against Singapore-based rival **Grab Taxi Holdings** Pte. Ltd.

The Land Transportation Franchising & Regulatory Board, which oversees regulation for taxi companies, said Tuesday that it had lifted the suspension. Board member Aileen Lizada said Uber had submitted proof that it had paid 190 million Philippine pesos (\$3.7 million) in fines, which will go to the Treasury.

In addition, Uber paid a further \$5.9 million in compensation to drivers over the two weeks it was banned.

Uber said its services had resumed at 5 p.m. local time Tuesday. The company said it is "grateful for the opportunity to serve the Philippines again."

The regulator had banned

Uber after it found that the company had continued registering and activating new drivers after being ordered not to do so.

A month's absence could be highly damaging in this competitive Southeast Asian market, one that analysts see as a winner-take-all opportunity. Uber had initially sought to resist the ban, continuing operations until the regulator threatened its drivers with detention. The company backtracked hours later, but said it was disappointed.

Uber told a government hearing this month that it had more than 66,000 registered drivers who had worked at least once in the past year in the Philippines.

Grab has said it had 52,000 vehicles on the two networks had been accredited by the regulator.

Uber's decision to comply with the regulator's suspension order marks an unusual turnaround by the company, which has in other markets around the world often forged ahead with its service despite clashes with regulators.

This has been a tumultuous year for Uber, the world's most valuable startup, which has been beset by legal challenges, the departure of its founder and chief executive, and accusations that its corporate culture encourages sexual harassment. Uber on Sunday selected Expedia Inc. Chief Executive Dara Khosrowshahi as its new CEO, capping a nine-week search.



Audi and its parent company, Volkswagen, have been shaken by the diesel-emissions scandal.

## MANAGEMENT

### WORKAROUNDS

#### A Nudge Can Help Workers Save More

There is new evidence that employers can help persuade even their most stubborn employees to save more for retirement.

When the state of North Carolina's retirement division sent email "nudges" to older public employees taking part in its supplemental savings plans, those workers were more likely to reassess their savings strategies or increase their contributions, according to the findings of a working paper by the National Bureau of Economic Research.

The results suggest employers can have an impact on employee retirement beyond simply offering savings plans such as 401(k)s and 457s.

Even though companies leave retirement-savings plans to outside vendors like Prudential Financial Inc. and the Vanguard Group, it is important for employers to encourage workers to periodically reassess their retirement security, says Robert Clark, a professor of economics and management at North Carolina State University and one of the study's authors.

"Encouraging workers to be prepared for retirement is certainly in a company's interest," says Mr. Clark. "An employer obviously wants satisfied workers as well as satisfied retirees."

As private employers have shifted away from traditional pensions, Americans are less prepared for retirement. Financial experts advise individuals to

**The average working household has virtually no retirement savings.**

save eight to 11 times their annual incomes to maintain their standard of living in retirement, but the average working household has virtually no retirement savings, according to the nonprofit National Institute on Retirement Security.

The median retirement account balance for all working-age households is \$3,000; for near-retirement households, it is \$12,000.

The North Carolina experiment, conducted in 2014, involved a sample of 14,710 active workers 50 through 69 years old, a demographic seen as set in its ways and harder to nudge, the paper says. Some messages emphasized the benefits older workers derive from increased retirement savings. Others pointed out that income from social security and employer pensions may not cover unanticipated health conditions.

Results showed workers who received the emails were more likely to change their contributions, increasing them at a rate of 2.8% in the short-term compared with 1.8% for the control group.

The research builds on earlier studies showing that nudges can change people's behavior, such as helping patients manage chronic diseases.

Reaching out to employees around career milestones like a big raise or a promotion is an easy, low-cost way to help workers prepare for the future, Mr. Clark says.

—Francesca Fontana

# Corporate World Recruits Generals

Their leadership skills are seen as suited to the 'fog of business'; Gettysburg as a teaching tool

By VANESSA FUHRMANS

At companies across America, generals are bringing battlefield lessons to business.

Software maker Red Hat Inc. and computer-security firm Symantec Corp. are among the employers turning to generals for help on numerous fronts, from corporate governance to grappling with cyberwarfare. At not-for-profit Florida Hospital, a retired general is developing global partnerships and leadership talent, while Finland's Cargotec Oyj has one running its rough-terrain-equipment unit in Texas.

Military brass have gained clout in the White House, too. Often referring to them as "my generals," the president has tapped a trio of leaders to impose order and shape his national-security policy. Retired Marine Corps Gen. John Kelly swiftly brought a forceful management style to his job as the president's new chief of staff, staffers say, while both Republicans and Democrats see Defense Secretary Jim Mattis, also a retired Marine Corps general, and national security adviser H.R. McMaster, an Army lieutenant general, as calming forces in a turbulent presidency.

Discipline, though, is only one of the traits companies say military leaders bring to boards and management teams.

In the fog of war, and in peacetime, generals are trained to anticipate unknown risks, build high-functioning teams and make quick, strategic decisions in high-pressure situations.

"They are the same traits necessary in the fog of business," says Henry Stoever, a captain in the Marine Corps who is now chief marketing officer of the National Association of Corporate Directors.

The group has put some 500 retired generals and admirals through a three-day course to prepare them for corporate board duty; half of them now sit on private and public boards, including those of Wells Fargo & Co., USA Truck Inc. and aerospace supplier Wesco Air-



Stephen Speakes addressed staff this month. The retired Army general heads a Texas unit of cargo-equipment maker Cargotec.

craft Holdings Inc.

Companies, especially those in crisis, covet the reputational boost that comes from seeking the counsel of a former military leader, says Wendy Monsen, president of executive recruiter Korn/Ferry's federal-government practice. Whereas more than three-quarters of Americans trust the military to act in the public's interest, according to a 2016 Pew Research Center survey, only 41% feel the same way about business leaders.

For companies seeking cybersecurity skills or geopolitical know-how, "general officers end up on our short list quite a bit for industry clients," says Ms. Monsen.

However, outside the defense industry, military brass remain rare in c-suites and boardrooms. The number of top executives who once served has shrunk over the decades as Vietnam War-era veterans have retired. Among S&P 500 firms, only 13 are led by former service members, and just under 5% of their combined board members are veterans, according to S&P Global Market Intelli-

gence data.

Before her retirement in 2013, Maj. Gen. Suzanne Vautrinot led the U.S. Air Force's cyber operations. She has parlayed that expertise into board seats at companies such as Wells Fargo and water treatment- and cleaning-products maker Ecolab Inc.

Like many senior officers in the private sector, Gen. Vautrinot urges others not to use her Air Force title, and instead call her "Zan." Ecolab Chief Executive Doug Baker says her disarming style lets her push her points without ruffling feathers. "Think about that generation of women generals," he says.

"You have to have pretty good [emotional intelligence] skills, and she does."

Gen. Vautrinot says she examines company strategies much like military leaders are trained to do: "You're looking at the future and connecting the dots, and you're looking at the risks," she said.

Lt. Gen. Mark Hertling brought disparate brigades and regiments into a cohesive force as commander of the U.S. Army Europe. Simi-

lar challenges awaited when he joined Florida Hospital in 2013. Hired to develop idea-exchanges and other partnerships abroad, he soon after was asked to devise a leadership course for doctors, in part to improve collaboration with administrators and get physicians more involved in broader decisions at the 32,000-employee hospital group.

Gen. Hertling's course culminates in several dozen doctors, nurses and administrators going to Gettysburg, Pa., each year. There, he assigns each to be a different figure in the pivotal Civil War battle; afterward the staff discuss how the lessons apply to health care. "They really dig into that person's personality and see how their achievements or dysfunctions contributed to the bigger disaster or accomplishment," he says.

Generals learn lessons, too. After retiring from the Army seven years ago, Lt. Gen. Stephen Speakes developed enterprise strategy at financial-services firm USAA for three years before he was let go. In hindsight, he says

he failed to grasp the need to build consensus around his decisions and didn't recognize when colleagues weren't on board.

"In my old days, I was a decision-making machine. It was a quick look around the room and if no one had objections, it was go," he says. "In the corporate world, once you make a decision, you have to continue to sell its execution."

Now rounding his fourth year as CEO of Kalmar Rough Terrain Center LLC, a Texas unit of cargo-equipment maker Cargotec, Gen.

Speakes says he has learned to encourage staff input and allow time for them to get behind ideas.

He keeps up other practices honed during his 35-year military career, such as making sure he knows the situation on the ground, frequently holding company meetings on the plant floor.

"When manufacturing companies get too big, the leaders leave the manufacturing floor," he says. But "the people on the line will tell you in a heartbeat what's going on and why."

### TIME

Continued from page B1

or slacking off," says Maura Thomas, a workplace productivity trainer. She says giving employees more time off doesn't help. Employees won't take vacation if the company's leadership doesn't take time off or if their manager's response to vacation requests is less than favorable, she says.

For some workers, unlimited time off can be liberating. Before Kronos Inc., a workforce management software firm, switched to an unlimited policy, Indrani Ray-Ghosal had to save up two years' worth of vacation time to enjoy a lengthy visit with her family in India. The strategy meant the

corporate communications manager would sacrifice time off with her children during holidays to collect unused days and roll them over to the year she planned to travel abroad.

"It was a balancing act," Ms. Ray-Ghosal says.

Before Kronos changed its policy in 2016, Ms. Ray-Ghosal took about three weeks of vacation. Now she takes 3½ weeks, and doesn't have to choose between time with her children and visits with her in-laws overseas.

While many employees were happy with the change, some were upset that they wouldn't receive a payout for their unused vacation time upon leaving the company, says Dave Almeda, Kronos'

chief people officer.

To address those concerns, the company told workers it would use the money it saved on vacation-time payouts to increase maternity leave, introduce paternity and adoption leave, and boost 401(k) contributions.

"We invested in the people who chose to stay rather than those who chose to leave," Mr. Almeda says.

Kronos also found that employees took more time off. Mr. Almeda says the average vacation usage in 2015 was just below three weeks. In 2016, it was a little more than 3½ weeks.

At Birchbox, employees have had unlimited vacation since the company was founded in 2010, but workers

wanted more guidance.

Over time, the company developed guidelines, requiring, for instance, two weeks' notice for more than three days of vacation leave. It also asked employees not to plan trips during busy weeks leading up to the holiday season, says Melissa Enbar, vice president of people and culture at Birchbox.

To encourage time off, Birchbox offers all full-time employees a mandatory three-week vacation, called a "tributal," on the anniversary of their third year at the company. It comes with a stipend of \$750, as a way to reward loyalty to the company. After six years with the company, employees get \$1,500 along with three weeks off.



Kyle Bergman now feels free to play in lacrosse tournaments.

## Micro Trends, Macro Context. In Minutes.

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## FINANCE & MARKETS

THE INTELLIGENT INVESTOR | By Jason Zweig

# What to Ask Your Financial Adviser

  
Getting all stockbrokers, financial planners and insurance agents to act in the best interests of their clients is a struggle that financial firms and their regulators still haven't resolved. That should be their job, but for now, it's yours.

The obligation of those who give investment advice to serve clients, not themselves, is called fiduciary duty.

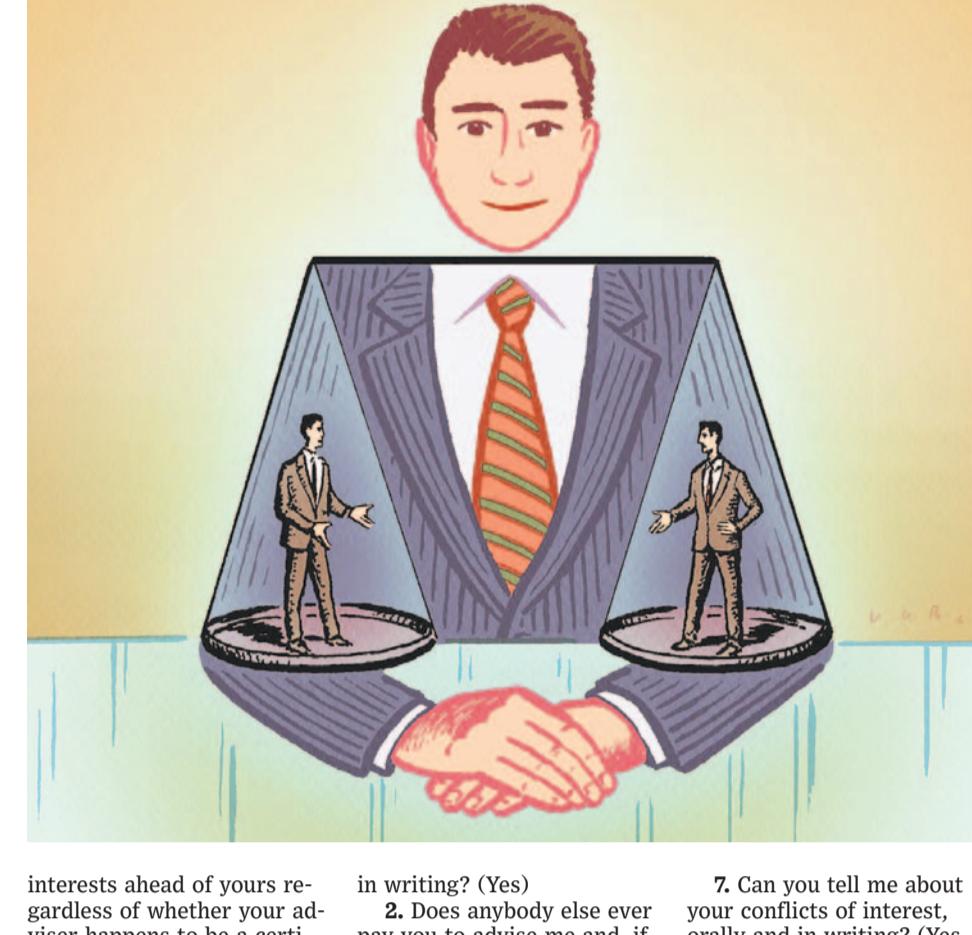
That obligation is far from universal and, in some ways, is in retreat.

The U.S. Labor Department, which last year released a rule requiring brokers getting paid for investment advice on a retirement account to be fiduciaries, is reviewing the regulation. The rule is only partly in effect; the department has drafted a proposal to delay full implementation until 2019.

Meanwhile, the Certified Financial Planner Board of Standards, which sets competency requirements criteria and ethical rules for the nearly 78,000 certified financial planners in the U.S., is seeking to compel them to act in clients' best interests "at all times" when "providing financial advice."

The board's proposed standards require its financial planners to "disclose and manage" such conflicts as gifts, bonuses or investment choices that can increase their compensation. Planners would also have to provide additional details about how, but not how much, they are paid.

Some brokerage firms warn that they may put their



CHRISTOPHE VOLET

interests ahead of yours regardless of whether your adviser happens to be a certified financial planner.

Until regulators and trade groups sort this out—and the next total solar eclipse may come first—the burden of finding someone who will act in your best interest is on you.

That means asking an adviser the right questions (and listening for the best answers.) I encourage you to clip or print out this column and bring it to your next meeting with your financial adviser.

1. Are you always a fiduciary, and will you state that

in writing? (Yes)

2. Does anybody else ever pay you to advise me and, if so, do you earn more to recommend certain products or services? (No)

3. Do you participate in any sales contests or award programs creating incentives to favor particular vendors? (No)

4. Will you itemize all your fees and expenses in writing? (Yes)

5. Are your fees negotiable? (Yes)

6. Will you consider charging by the hour or retainer instead of an annual fee based on my assets? (Yes)

7. Can you tell me about your conflicts of interest, orally and in writing? (Yes, and no adviser should deny having any conflicts.)

8. Do you earn fees as adviser to a private fund or other investments that you may recommend to clients? (No)

9. Do you pay referral fees to generate new clients? (No)

10. Do you focus solely on investment management, or do you also advise on taxes, estates and retirement, budgeting and debt management, and insurance? (Here, the best answer depends on your needs as a client.)

11. Do you earn fees for

referring clients to specialists like estate attorneys or insurance agents? (No)

12. What is your investment philosophy?

13. Do you believe in technical analysis or market timing? (No)

14. Do you believe you can beat the market? (No)

15. How often do you trade? (As seldom as possible, ideally once or twice a year at most.)

16. How do you report investment performance? (After all expenses, compared with an average of highly similar assets that includes dividends or interest income, over the short and long term.)

17. Which professional credentials do you have, and what are their requirements? (Among the best are CFA (chartered financial analyst), CPA (certified public accountant) and CFP (certified financial planner), which all require rigorous study, continuing education and adherence to high ethical standards. Many other financial certifications are marketing tools masquerading as fancy diplomas on an adviser's wall.)

18. After inflation, taxes and fees, what is a reasonable estimated return on my portfolio over the long term? (If I told you anything over 3% to 4% annually, I'd be either naive or deceptive.)

19. Who manages your money? (I do, and I invest in the same assets I recommend to clients.)

*Are there other questions you would add to the list? Please send them my way at intelligent.investor@wsj.com and I'll write another column with your best recommendations.*

## FINANCE WATCH



Bank of Montreal said less active capital markets reduced its revenue in the latest quarter.

### BANK OF MONTREAL Net Profit Rises As Revenue Falls

Bank of Montreal reported a stronger profit as it lowered its provision for bad loans and benefited from growth in its Canadian personal- and commercial-banking unit and wealth-management segment.

Still, the bank, which also operates as BMO Financial Group, said revenue fell in its latest quarter due to less active capital markets and lower levels of client activity.

Revenue fell 3.1% to 5.46 billion Canadian dollars (US\$4.37 billion) in its third quarter. Analysts polled by Thomson Reuters expected C\$5.31 billion.

Revenue net of certain insurance claims and changes in liabilities rose 5.5% from a year ago to C\$5.21 billion. Expenses rose 6% to C\$3.28 billion.

The total provision for credit losses was C\$134 million, down from C\$257 million in the same quarter last year.

Net income was C\$1.39 billion, or C\$2.05 a share, up from C\$1.25 billion, or C\$1.86 a share.

—Austen Hufford

### BANK OF NOVA SCOTIA

#### Business Expands At Home and Abroad

Bank of Nova Scotia's income grew in its latest quarter as it expanded its business both in Canada and internationally.

Scotiabank said it earned 2.1 billion Canadian dollars (US\$1.69 billion) in the quarter ended July 31, up from C\$1.96 billion a year earlier.

Earnings per share climbed to C\$1.66 from C\$1.54 while revenue rose 4% to C\$6.89 billion. Analysts polled by Thomson Reuters had expected earnings per share of C\$1.64 on revenue of C\$6.98 billion.

Scotiabank Chief Executive Brian Porter said both Canadian and international personal and commercial banking earnings jumped more than 10% from last year as loans and deposits increased.

Fee-based income rose by 1% while net interest income increased 6%.

—Cara Lombardo

# Saudis, Russia Push Extending Oil Cut

By SUMMER SAID  
AND BOENOT FAUCON

Saudi Arabia and Russia are pushing to extend a deal to limit crude-oil output for an additional three months, which would leave the agreement between OPEC and non-OPEC producers in place through the end of June, people familiar with the matter said.

Saudi Arabia's energy minister, Khalid al-Falih, discussed the proposal with his Russian counterpart, Alexander Novak, in July at a meeting in St. Petersburg about compliance with the production cap, according to two of the people familiar with the matter.

The two ministers, who are the most powerful figures among the producing countries participating in the cut, have been lobbying for support from other countries since the St. Petersburg meeting, the people said.

Neither minister responded to a request for comment.

The Organization of the Petroleum Exporting Countries joined forces with 11 non-OPEC nations late last year to reach a production deal aimed at ending a global glut that has weighed on oil prices and shaken the economies of countries dependent on crude.

So far, the pact has failed to lift oil prices to levels desired by OPEC, in part because

American shale producers ramped up output. The deal also has been undermined by relatively low compliance by some producers.

An OPEC official confirmed that a three-month extension was discussed at the St. Petersburg meeting and is being considered by OPEC leaders.

OPEC and other major oil-producing nations agreed to withhold about 1.8 million barrels a day, or about 2% of global daily output. Early Tuesday afternoon in New York, oil was down 1.3%, to \$45.96 a barrel, as Tropical Storm Harvey knocked out refining operations along the Texas coast, which is expected to reduce refining capacity and hit U.S. crude demand. Brent crude, the global benchmark, was off 0.1%, to \$51.83.

The original output deal was renewed at the end of May and is in place through the end of March.

Efforts to extend the deal now are aimed at ensuring that there isn't another precipitous price drop.

"There are concerns that if OPEC and non-OPEC producers exit the market in March, traders will react quite negatively to it and behave as if the market is in a free fall," one senior Saudi oil official said. "This also ensures that producers won't pump full tilt and push prices down."

For more on oil, see page A1.

## INTERNATIONAL INVESTMENT FUNDS

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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: 65-6835-8865, Website: [www.cam.com.sg](http://www.cam.com.sg), Email: [cam@cam.com.sg](mailto:cam@cam.com.sg) CAM-GTF Limited OT MUS 08/28 USD 1.0 0.7 5.1

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OT CNY 08/28 USD 1.0 0.7 5.1

FUND NAME GF AT LB DATE CR NAV YTD 2-YR %RETURN—

VP Class-Q Units AS EQ HKG 08/28 USD 154.47 34.8 26.8 16.4

VP Classic-C Units AS EQ HKG 08/28 USD 19.40 34.3 26.1 16.2

VP Classic-C Units AUD H AS EQ HKG 08/28 AUD 15.91 32.2 25.5 16.4

VP Classic-C Units CAD H AS EQ HKG 08/28 CAD 15.49 33.8 24.4 16.0

VP Classic-C Units HKD H AS EQ HKG 08/28 HKD 13.32 35.2 27.3 NS

VP Classic-C Units NZD H AS EQ HKG 08/28 NZD 15.85 31.4 24.5 15.7

VP Classic-C Units RMB H AS EQ HKG 08/28 CNY 12.66 21.5 21.0 NS

VP Classic-C Units RMB H AS EQ HKG 08/28 CNY 13.35 38.9 31.5 NS

VP Multi-Asset Fund C USD OT HKG 08/28 USD 10.72 11.4 7.7 NS

VP Multi-Asset Fund C USD OT HKG 08/28 USD 10.78 10.3 6.7 NS

VP Taiwan Fund AS EQ CNY 08/28 USD 20.39 21.7 19.7 20.6

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UK official Greg Clark says steps promote accountability.

HANNIBAL MOYK/REUTERS

# British Firms to Disclose More on Salaries

BY NINA TRENTMANN

The U.K. government on Tuesday launched guidelines on executive pay and worker representation aimed at strengthening the country's reputation as a leader in corporate governance as it moves to leave the European Union.

About 900 listed companies for the first time have to publish annual pay ratios between their chief executives and their average U.K. worker, according to a set of changes published by the Department for Business, Energy and Industrial Strategy.

The corporate-governance overhaul includes the world's first public register of listed companies where one-fifth of investors have objected to executive annual pay packages. It also requires firms to make sure employee interests are represented at board level.

The new laws, to be introduced in the coming months and effective by June 2018, come after a months-long consultation on a so-called green paper on corporate governance changes that was published last November. They are part of an effort to attract new, international investment following last year's Brexit vote.

"One of Britain's biggest assets in competing in the global economy is our deserved reputation for being a dependable and confident place in which to do business," said Business Secretary Greg Clark. "Today's reforms will ensure our largest companies are more transparent and accountable to their employees and shareholders."

Currently, public companies must disclose their compensation policy to shareholders at least every three years and publish an annual remuneration report.

CEOs at Britain's 100 largest firms on average receive pay packages of £4.5 million (\$5.8 million) a year, according to data published earlier this month by the High Pay Centre, a nonprofit focusing on executive pay. The average annual salary for a U.K. worker stands at £28,000.

"Pay ratios will sharpen the awareness of boards on the issue of remuneration, but they can be a crude measure," said Stephen Martin, director general of the Institute of Directors. "Companies will have to prepare themselves to explain why executives are worth their packages."

Under the new laws, companies of a "significant" yet unspecified size will have to explain how their directors take interests of employees and shareholders into account. All large companies are obliged to make their responsible business arrangements public.

The Financial Reporting Council, the country's watchdog for corporate governance, will introduce a new requirement to the U.K. Corporate Governance Code forcing listed firms to make sure that employee interests are represented at board level.

Companies are obliged to assign a nonexecutive director to represent employees, create an employee advisory council or nominate a director from the workforce.

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## FINANCE & MARKETS

# Euro's Surge Puts ECB in a Bind

By MIKE BIRD

The euro jumped above \$1.20 for the first time in 2½ years on Tuesday, a growing headache for the European Central Bank as it balances weak inflation with constraints on the bond-buying program that it uses to boost prices.

The common currency has been rising for months on expectations among many investors that the central bank will begin tapering its monthly €60 billion (\$72.3 billion) of bond buying as it runs out of assets to purchase, even as inflation falls short of its target.

The euro gained as much as 0.7% to \$1.2069 in early European trading, up more than 14% against the dollar since the beginning of the year to reach the highest level since just before the ECB announced its stimulus program in January 2015.

On Friday, ECB President Mario Draghi didn't provide fresh clues on the direction of monetary policy at a speech in Jackson Hole, Wyo. That didn't put investors off the euro.

"The market is challenging the ECB," said Richard McGuire, head of rates strategy at Rabobank. "The path of least resistance is for the euro to strengthen unless markets are explicitly told otherwise."

One reason that quantitative easing can boost inflation is by reducing the value of a local currency. It does that by pushing down yields on bonds, making the region less attractive for foreign money.

Like many other analysts, Mr. McGuire believes the bank will start running out of some bonds to buy, making the program hard to implement in its current structure.

"We believe they'll have to rein in stimulus even if they're

doing so at a time when the inflation outlook is deteriorating," he added.

Those constraints include a self-imposed limit preventing the ECB from holding more than 33% of any country's outstanding debt. If the Bundesbank continues bond purchases at its current rate, Rabobank believes that limit will be reached around April.

The rise in the euro exacerbates the tension between those technical constraints and the ECB's main target, keeping inflation close to, but below, 2%.

A 10% rise in the trade-weighted index, which measures the euro against a basket of other currencies, reduces consumer-price inflation in the eurozone by around 0.45 percentage point over the subsequent 12 months, according to analysts at BNP Paribas.

So far this year, the euro

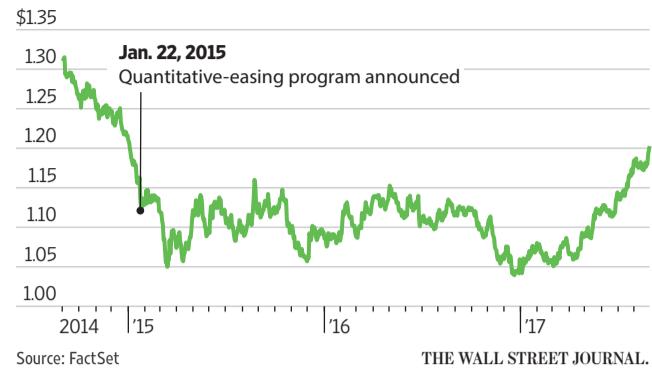
has performed its strongest since its inception in 1999, rising more than 7% on a trade-weighted basis.

The euro is also gaining on the strength of the economy, keeping pace with the current U.S. expansion. A series of recent elections doused fears that a series of anti-establishment politicians would break up the eurozone, concerns that had pressured the currency. Meanwhile, the dollar has weakened, as political concerns and a recent spate of weaker-than-expected economic numbers weigh on it.

At the ECB's most recent monetary policy meeting, the growing strength of the currency was mentioned as a potential worry. "Concerns were expressed about the risk of the exchange rate overshooting in the future," according to official minutes from the meeting. The central bank has

### Climbing Back

The euro now buys the most dollars since the European Central Bank's bond-buying plan began.



THE WALL STREET JOURNAL.

trimmed its own forecasts for inflation this year. In March, it predicted that prices would rise 1.5% in 2018, but in June that expectation fell to 1.3%—a forecast that then presumed a euro-dollar exchange rate of \$1.08.

But many investors aren't convinced that will spur the bank to keep up its monetary stimulus.

"It's really hard for the ECB to talk down the euro right now, especially when you take into account that the dollar has its own reasons to be weak," said Viraj Patel, foreign-exchange strategist at ING Bank.

"[The euro] is now getting to the region where it's going to have a negative effect on the ECB's aims."

# Conditions Appear Right for Gold to Move Higher Still

By CHRIS DIETERICH

Another missile launch by North Korea has investors reaching for gold.

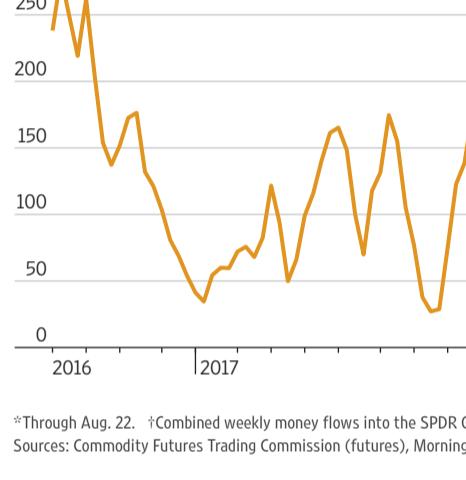
The fact that retail and professional investors are now in sync with their bullish bets is a sign that the precious metal can continue higher.

Gold for August delivery on Monday shot up 1.3% to \$1309.70 an ounce on the Comex division of the New York Mercantile Exchange, and was climbing higher still in the early going Tuesday. The precious metal is at levels it hasn't seen since September, before Republicans took the White House and retained Congress. The election boosted hopes for economic growth and prompted traders to dump gold.

Now, for the first time since June, both futures contracts and flows into exchange-traded funds are looking similarly supportive, as The Wall Street Journal's

### Charging Into Gold

Net futures-market bets that gold will rise are at their highest level since October<sup>\*</sup>...



\*Through Aug. 22. <sup>\*</sup>Combined weekly money flows into the SPDR Gold Shares ETF and the iShares Gold Trust, through Aug. 23.

Sources: Commodity Futures Trading Commission (futures), Morningstar (funds)

Morning MoneyBeat newsletter noted. Bullish futures positioning in gold has risen for six straight weeks and the two

largest gold ETFs have pulled in new money in each of the past two, according to Commodity Futures Trading Com-

mission and Morningstar.

Investors big and small moving the same direction is an important step for prices

to break out through key levels of resistance, market technicians say. Twice this year, gold's charge higher was denied around the \$1,300 level, but positioning is more bullish this time around.

Futures contracts tend to be the domain of hedge funds and big speculative traders, while ETFs, with their lower per share prices, tend to be a favorite of retail investors and retail-facing financial advisers.

Some analysts had been reluctant to endorse gold until ETF money flows turned positive. Investors withdrew \$2.6 billion from the \$33 billion **SPDR Gold Shares** exchange-traded fund and \$8.9 billion **iShares Gold Trust** from the week ended April 26 through the second week of August.

Now a shift is taking place. The two large gold ETFs pulled in \$680 million in the two weeks ended Aug. 22. And, on Friday, the SPDR Gold Shares ETF by itself recorded

an inflow of \$245 million, the largest one-day flow since June 7, according to FactSet.

North Korea is a concern and that drove the climb again on Tuesday, but gains have mostly been powered by a weakening dollar and diminished expectations for the Federal Reserve to boost interest rates again this year. Gold is priced in dollars and a weaker dollar makes the metal cheaper for overseas buyers.

Higher interest rates, adjusted for inflation, make owning bonds more appealing than gold, which begets no income.

Another reason to favor gold in the weeks ahead: There is a risk lawmakers will fail next month to authorize new spending and raise the statutory debt limit. A government shutdown or questions about the Treasury Department's ability to pay its bills could stoke market turmoil favorable to gold.

—Amrit Ramkumar contributed to this article.

WSJ TALK / EXPERIENCE / OFFER / GETAWAY



# Enjoy Two Complimentary Nights in a Luxury Residence

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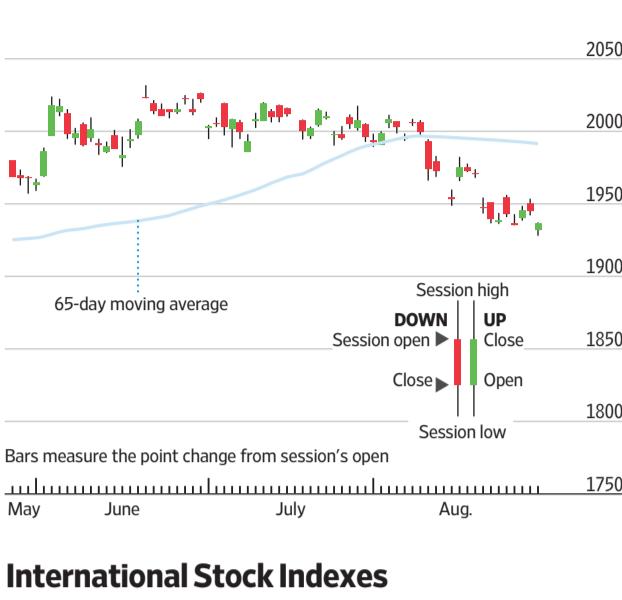
a fini  
ASIA'S LUXURY DESTINATION CLUB

## MARKETS DIGEST

### Nikkei 225 Index

**19362.55** ▼87.35, or 0.45%

High, low, open and close for each trading day of the past three months.



### STOXX 600 Index

**368.42** ▼3.87, or 1.04%

High, low, open and close for each trading day of the past three months.



### S&P 500 Index

Data as of 12 p.m. New York time

Last 23.53 24.71

P/E estimate \* 18.73 18.59

Dividend yield 2.01 2.11

All-time high: 2480.91, 08/07/17

High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 23.53 24.71

52-wk high/low 396.45 328.80

All-time high 414.06 4/15/15

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



Bars measure the point change from session's open

May June July Aug. May June July Aug.

May June July Aug.

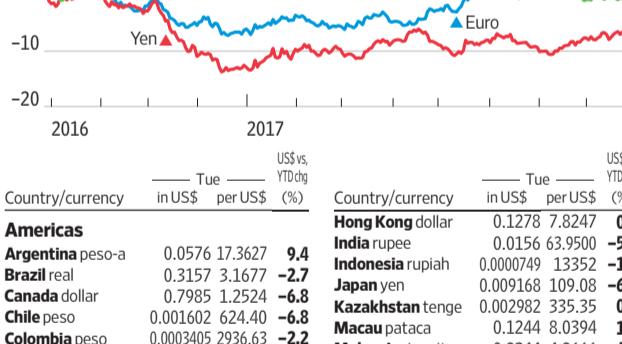
May June July Aug.

### International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	Net Chg	% chg	52-Week Range	YTD High	% chg
<b>World</b>	<b>The Global Dow</b>	2825.72	-8.12	<b>-0.29</b>	2386.93	2881.15	11.8
	<b>MSCI EAFE</b>	1923.28	-7.68	<b>-0.40</b>	1614.17	1955.39	12.1
	<b>MSCI EM USD</b>	1082.16	-2.92	<b>-0.27</b>	838.96	1085.37	36.3
<b>Americas</b>	<b>DJ Americas</b>	587.90	-1.10	<b>-0.19</b>	503.44	599.20	8.8
Brazil	<b>Sao Paulo Bovespa</b>	71057.70	41.11	<b>0.06</b>	56459.11	71505.69	18.0
Canada	<b>S&amp;P/TSX Comp</b>	15015.18	-36.85	<b>-0.24</b>	14319.11	15943.09	-1.8
Mexico	<b>IPC All-Share</b>	51220.53	-46.19	<b>-0.09</b>	43998.98	51772.37	12.2
Chile	<b>Santiago IPSA</b>	3921.02	-7.44	<b>-0.19</b>	3120.87	3945.90	21.7
<b>U.S.</b>	<b>DJIA</b>	21813.94	5.54	<b>0.03</b>	17883.56	22179.11	10.4
	<b>Nasdaq Composite</b>	6289.60	6.58	<b>0.10</b>	5034.41	6460.84	16.8
	<b>S&amp;P 500</b>	2441.32	-2.92	<b>-0.12</b>	2083.79	2490.87	9.0
	<b>CBOE Volatility</b>	11.94	0.62	<b>5.48</b>	8.84	23.01	-15.0
<b>EMEA</b>	<b>Stoxx Europe 600</b>	368.42	-3.87	<b>-1.04</b>	328.80	396.45	1.9
	<b>Stoxx Europe 50</b>	3000.95	-27.72	<b>-0.92</b>	2720.66	3279.71	-0.3
France	<b>CAC 40</b>	5031.92	-47.83	<b>-0.94</b>	4310.88	5442.10	3.5
Germany	<b>DAX</b>	11945.88	-177.59	<b>-1.46</b>	10174.92	12951.54	4.0
Greece	<b>ATG</b>	822.67	-15.80	<b>-1.88</b>	548.72	859.78	27.8
Israel	<b>Tel Aviv</b>	1381.61	-10.81	<b>-0.78</b>	1346.71	1490.23	-6.1
Italy	<b>FTSE MIB</b>	21408.62	-317.59	<b>-1.46</b>	15923.11	22065.42	11.3
Netherlands	<b>AEX</b>	510.03	-4.73	<b>-0.92</b>	436.28	537.84	5.6
Russia	<b>RTS Index</b>	1067.58	-1.17	<b>-0.11</b>	944.88	1196.99	-7.4
Spain	<b>IBEX 35</b>	10192.60	-93.30	<b>-0.91</b>	8512.40	11184.40	9.0
Switzerland	<b>Swiss Market</b>	8814.54	-49.69	<b>-0.56</b>	7585.56	9198.45	7.2
South Africa	<b>Johannesburg All Share</b>	56409.62	-146.00	<b>-0.26</b>	48935.90	56869.89	11.4
Turkey	<b>BIST 100</b>	110423.11	83.12	<b>0.08</b>	71792.96	110530.75	41.3
U.K.	<b>FTSE 100</b>	7337.43	-64.03	<b>-0.87</b>	6654.48	7598.99	2.7
<b>Asia-Pacific</b>	<b>S&amp;P/ASX 200</b>	5669.00	-40.90	<b>-0.72</b>	5156.60	5956.50	0.1
China	<b>Shanghai Composite</b>	3365.23	2.57	<b>0.08</b>	2980.43	3365.23	8.4
Hong Kong	<b>Hang Seng</b>	27765.01	-98.28	<b>-0.35</b>	21574.76	27863.29	26.2
India	<b>S&amp;P BSE Sensex</b>	31388.39	-362.43	<b>-1.14</b>	25765.14	32575.17	17.9
Indonesia	<b>Jakarta Composite</b>	5888.21	-15.13	<b>-0.26</b>	5027.70	5915.36	11.2
Japan	<b>Nikkei Stock Avg</b>	19362.55	-87.35	<b>-0.45</b>	16251.54	20230.41	1.3
Malaysia	<b>Kuala Lumpur Composite</b>	1761.14	-8.35	<b>-0.47</b>	1616.64	1792.35	7.3
New Zealand	<b>S&amp;P/NZX 50</b>	7738.34	-88.53	<b>-1.13</b>	6664.21	7879.46	12.5
Philippines	<b>PSEI</b>	7948.39	-66.75	<b>-0.83</b>	6563.67	8072.75	16.2
Singapore	<b>Straits Times</b>	3249.34	-18.28	<b>-0.56</b>	2787.27	3354.71	12.8
South Korea	<b>Kospi</b>	2364.74	-5.56	<b>-0.23</b>	1958.38	2451.53	16.7
Taiwan	<b>Weighted</b>	10496.57	-29.41	<b>-0.28</b>	8902.30	10579.38	13.4
Thailand	<b>SET</b>	1614.14	28.35	<b>1.79</b>	1406.18	1614.14	4.6

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on Aug. 29

US\$ vs. Country/currency

— Tue in US\$ — YTD chg (%)

Country/currency

— Tue in US\$ — per US\$ (%)

Country/currency

— Tue in US\$ — per US\$ (%)

Country/currency

— Tue in US\$ — YTD chg (%)

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## THE PROPERTY REPORT

# Real-Estate Vultures Get Set to Dine

Investors raise funds to buy distressed assets as commercial property weakens

By PETER GRANT

Investors are raising funds to take advantage of busted condominium projects and other distressed property as a correction shows signs of spreading in parts of the U.S. commercial real-estate industry.

Firms that are either raising money or are planning to start soliciting funds targeting commercial-property woes include **Madison Realty Capital**, **Delshah Capital** and a venture of investor Michael Ashner and New York developer Steven Winkoff.

Most big private-equity firms, like **Blackstone Group** LP and **KKR & Co.**, aren't raising funds specifically for distressed situations. But they have money to take advantage of condo developments falling short of sales projections, shopping centers struggling with competition from online retail, delinquent debt and other problems surfacing in several markets.

To be sure, no one expects the kind of carnage that commercial property suffered during the last downturn, which cost investors billions. Many property types—like downtown office buildings and distribution centers—continue to enjoy rent growth and have access to financing at low interest rates.

But some analysts point out that commercial property typi-

cally runs in cycles and currently is in one of the longest bull markets in recent memory. Lately, the pace of sales volume has slowed, which often is a sign that the market has topped out or is about to top out.

"There's a drop coming just like when you get to the top of a roller coaster," said Michael Shah, chief executive of Delshah Capital, which is planning to raise a \$200 million fund to focus on distressed opportunities.

At the same time, values have started falling for some property types, like shopping centers, suburban office buildings and hotels in some markets. These values are measured in terms of yields—or so-called capitalization or "cap" rates—which rise as prices fall.

According to a recent Cap Rate Survey by CBRE Group, the property type that suffered the greatest decline in value from the second half of 2016 to the first half of 2017 was retail "power centers," where two or three big-box stores are typically surrounded by other retail and parking. Their average cap rate rose to 7.31% the first half of this year, compared with 6.92% six months earlier.

The rate of owners falling behind on loan payments also has increased this year. In July, a Moody's Investors Service delinquency tracker of a popular type of commercial-mortgage-backed security was at 6.7%, compared with 6% at the end of 2016. That is well below the peak of 10.1% the tracker hit in July 2012. But the current number is much higher than the tracker was at in 2008: 0.5%.



A battle among equity investors in the Steinway building in Manhattan, a high-profile condominium project, has spilled into court.

The delinquency rate in Washington, D.C., is 2.5 times the national average, with the problem resulting largely from "suburban office properties with concentrations of government tenants," Moody's said in a report this month. "The federal government has curtailed or consolidated its footprint in the region, exacerbating recent negative trends," the report said.

One of the largest defaulted loans in the Washington area is backed by Fair Lakes Office Park, a nine-building complex in Fairfax County, Va. The property, which was almost half empty, was handed over to its lender by Shorenstein Properties LLC last year, according to a Shorenstein spokeswoman. Mr. Shah said that the mar-

ket for sales of distressed debt was quiet between 2012 and 2017. "This year I've picked up four notes worth a total of about \$30 million to \$40 million," he said.

Funds investing in distressed properties also have their eyes on hotels and high-end condominium developments that have run into problems in New York, Washington and other areas. Some developers who broke ground a few years ago when markets were booming are now running into problems because costs or sales aren't meeting projections.

Executives at firms raising distressed funds say this market offers different opportunities than previous cycles because of the large number of nontraditional lenders—like

mortgage real-estate investment trusts and private-equity firms—that have been active in recent years. Some of these are willing to sell assets to investors with more expertise in real-estate bankruptcy foreclosures and other restructurings.

One example of a nontraditional lender is Apollo Commercial Real Estate Finance Inc., a mortgage real-estate investment trust launched in 2009 by Leon Black's Apollo Global Management LLC. On its earnings call earlier this month, Apollo Commercial executives discussed several problem situations in its \$3.5 billion portfolio.

One was a high-profile condominium project on 57th Street in Manhattan known as the Steinway building.

In 2015, Apollo provided a \$325 million "mezzanine," or junior, loan for the development behind a \$400 million construction loan. Since then, a battle among equity investors on a wide range of issues, including alleged cost overruns, has spilled into court.

Apollo earlier this year sold at par a \$25 million junior piece of its loan to another investor "with strong experience in the New York City condo market," said Stuart Rothstein, chief executive of Apollo Commercial on the earnings call. Mr. Rothstein didn't identify that investor, but other people familiar with the matter say it is New York investment firm Spruce Capital Partners. Spruce executives didn't return a call seeking comment.

## Retail Pain Cuts Property-Tax Take

By ESTHER FUNG

In April, the Indiana Supreme Court handed **Kohl's** Corp. a victory when it agreed not to review a lowered property assessment that was awarded to one of the retailer's stores because of the growing vacancy and dropping values of other shopping centers in its area.

The decision, which translated into a \$219,000 refund for Kohl's, was a sign of the drain to tax revenues resulting from the worsening retail-real-estate landscape for Howard County, the taxing jurisdiction, as well as other local governments throughout the country.

Retail sales and occupancy rates are falling in many parts of the U.S., partly because of oversupply of stores and competition with online retail. That has meant lower property values, lower tax collections and—in some cases—less to pay teachers and firefighters.

But property owners and retailers say lower tax bills, which are a large part of operating costs, will help to keep them in business. "This is one of the ways to lower operating costs and the new owner would then be able to negotiate better deals with tenants and keep them in the mall," said Thomas Dobrowski, executive managing director of capital markets at real-estate services firm Newmark Knight Frank.

National statistics aren't available on reduced tax assessments and refunds for retail landlords. But the sector clearly is suffering reduced property values as landlords face more pressure these days from department stores and other tenants downsizing or filing for bankruptcy protection. Property-services firm **Cushman & Wakefield** estimates that the number of store closures this year will reach at least 8,000. That would be up from more than 4,000 in 2016.

More retail landlords are de-

pealing tax assessments. They're tax agents, and their job is to look for loopholes to get property taxes lower," said Tim Wilmath, chief appraiser at the Palm Beach County Property Appraiser's Office. "I've heard lots of reasons why taxes have to be lower due to e-commerce."

Property-tax bills are some shopping-center owners' biggest expense, outpacing salaries and rents. "There's a lot of activity in the appeals space. There's a lot of value in doing that," said Tim Trifilo, a part-

ner in the tax practice of **CohnReznick LLP**, an accounting, tax and advisory firm.

Some landlords appealing their assessments point to the declining amount of sales taxes being generated by their stores. Others cite market conditions in the region, such as sales prices of vacated stores.

Frank Lima, who heads real-estate services firm Hilco Global's tax advisory practice, recently included a value analysis of vacated stores of appliance seller **Hhgregg** Inc. to lower the assessed value of another retailer's property. "We look at market rents, what an

empty box would sell for," Mr. Lima said.

Some battles over tax assessment focus on what is known as the "dark store" method of analyzing value. According to this method, even if a shopping center has solid tenancy and cash flow, its value is affected by low vacancy and store closings in the surrounding area.

In the Kohl's case, the retailer challenged the Howard County Assessor's valuation for 2010 to 2012. The retailer's appraiser looked at sales of what the appraiser said were comparable retail property in the Midwest, including former **Wal-Mart** and **Kmart** stores.

These properties were sold for prices ranging from \$5.13 to \$63.65 a square foot. Howard County Assessor Mindy Heady hired another appraiser who opined that only one property that sold at \$63.65 a square foot was comparable. The others were in markets with smaller demographics. One was located in a "dead" mall, according to documents from the Indiana Board of Tax Review.

"We as assessors think that they [landlords and retailers] are misusing it. That's why we're battling it," said Ms. Heady, referring to the "dark store" methodology some taxpayers are using to lower their property valuations.

Kohl's didn't respond to requests for comment.

*Buyers of struggling U.S. malls often quickly pursue a reassessment to lower property taxes.*



A Kohl's store in Oklahoma. Kohl's Corp. challenged the valuation of an Indiana store and received a property-tax refund.

## Reverse-Mortgage Rules Are About To Be Tightened

By LAURA KUSISTO

The Trump administration is planning to raise premiums and place tighter loan limits on some borrowers in a mortgage program that helps seniors supplement their incomes.

The U.S. Department of Housing and Urban Development planned to announce the changes on Tuesday in a letter to lenders to the so-called reverse-mortgage program, which allows seniors to take out a loan against the value of their home. The Trump administration feels the changes are necessary to put the program, which is backstopped by taxpayers, on a sounder financial footing.

"Given the losses we're seeing in the [reverse mortgage] program, we have a responsibility to make changes that balance our mission with our responsibility to protect taxpayers," HUD Secretary Ben Carson said through a spokesman.

The modifications won't apply to borrowers with existing mortgages, but will affect those who take out new loans. Some 650,000 borrowers have outstanding reverse loans insured by the **Federal Housing Administration**, which is part of HUD.

Most new borrowers will pay bigger premiums upfront but lower ones over the life of the loan, lessening the risk to taxpayers if seniors live longer than predicted. Borrowers will now pay 2% of the amount of the home's value up front and 0.5% annually over the course of the loan.

Currently, most borrowers pay 0.5% up front and 1.25% annually over the remainder of the loan. Some who borrow more than 60% of the amount they can borrow against the home in the first year already pay 2.5% up front so they will see premiums go down slightly.

On balance, most seniors will also be able to borrow less money. The average borrower at current interest rates will be able to borrow roughly

58% of the value of their home, down from 64%. But those limits vary significantly based on interest rates and the age of the borrower. While most seniors at current interest rates will be able to borrow less, some may be able to borrow more if rates rise.

The Federal Housing Administration's reverse-mortgage program allows seniors to take out loans from private lenders against their homes to supplement pension income and help those on fixed incomes deal with unexpected or rising expenses. When the

*Officials say changes are needed to avoid unduly burdening the FHA's reserve fund.*

borrower moves or dies, the lender that originated the reverse mortgage takes possession of the home and sells it, and the proceeds are used to repay the loan.

But the program also carries significant risks for the federal government, which backs the loans.

The Federal Housing Administration covers the losses on the loans from a reserve fund that is supported primarily by premiums paid by younger borrowers on traditional FHA mortgages. Since 2009, the reverse-mortgage program has drained nearly \$12 billion from that fund.

Loans can end up losing money if home-price growth is slower than expected, seniors don't keep the homes in great repair or they live longer and more interest accrues on the loan. Without changes, federal officials say, the program is placing an increasingly large burden on the reserve fund.

Advocates for the program, who hadn't yet been briefed on the changes, acknowledged that it has issues that need to be addressed but said it remains a critical resource for many seniors.

## MARKETS

# Markets Look Again at Pyongyang Risk

Foreign money flows out of Korean stocks as worry mounts over missile launches

By ESE ERHIERIENE

After months of dismissing Kim Jong Un as the boy who cried wolf, some investors may be beginning to take the threat of North Korea more seriously.

Stock markets across Asia opened sharply lower before rebounding somewhat in the afternoon, though the selling extended into Europe and U.S. stocks were weaker after the opening bell.

Meanwhile, safe-haven assets rose Tuesday in the wake of North Korea having launched its 18th missile of the year. The projectile was the first to pass over a main Japanese island since 2009, providing some added concern to investors.

Gold and the Japanese yen both encountered strong buying interest, with the yellow metal rising to an 11-month



A trader watched the market in Seoul. The Kospi fell as much as 1.6% before recovering.

pants, Tuesday's test was a further signal that the narrative around North Korea is changing as the sophistication and accuracy of its missiles grow.

"The [tests] before this morning were kind of played down a lot, but this one is really different," said Woon Tian Yong, an analyst at Financial Intelligence. "It's an escalation of geopolitical tension."

From launching intercontinental ballistic missiles to threatening to surround the U.S. territory of Guam in an "enveloping fire," North Korea's actions are increasingly stoking angst about investing on the Korean peninsula.

That can be seen in fund-flow data, with foreign money moving out of South Korean stocks the past month as geopolitical worries have ramped up, including through a war of words between Mr. Kim and U.S. President Donald Trump.

According to Credit Suisse data, net foreign buying of South Korean stocks was \$1.25 billion in July as of the 17th. But in the wake of July 28's ICBM launch, which experts

said put the continental U.S. comfortably within striking distance, the month as a whole saw net foreign selling of \$354 million.

That has been extended this month, with a net \$1.18 billion of foreigners' stock sales through Aug. 18.

To be sure, there are other factors at play. Questions about when the U.S. may undertake its next interest-rate increase, the ability of Mr. Trump to deliver on policy promises and the valuation of South Korean stocks have been points of investor concern. Through July, the Kospi had risen for a record eight straight months.

South Korea's market has typically been more swayed by the global state of technology stocks, but some think the constant uncertainty posed by North Korea moves Pyongyang to the top of South Korean investors' worry list.

"The firing of the missile changes the story for markets," said Jingyi Pan, a strategist at IG Group. "Markets will be keeping an eye on the U.S. reaction."

## U.S. Stocks Stabilize as Havens Gold, Treasurys Gain

By RIVA GOLD  
AND MICHAEL WURSTHORN

U.S. stocks mostly recovered morning losses while investors, concerned with North Korea's launch of a ballistic missile over Japan, also moved into

TUESDAY'S gold and Treasury bonds.

The Dow Jones Industrial Average rose 19 points, or 0.1%, to 21825 at early afternoon, reversing losses posted in morning trading. The S&P 500 shed 0.05%, while the Nasdaq Composite rose 0.2%.

The missile was the first Pyongyang has fired over

Japan's main islands since 2009 and the latest in a string of direct provocations that have briefly rattled markets in recent weeks, when moves in prices are likely to be amplified by low summer volumes.

"It's clear that geopolitical tensions have risen with North Korea firing the missile over Japan," said Markus Stadtmann, chief investment officer at Lloyds Banking Group. "But I think it's too early to say whether there will be a more long-lasting impact."

Money managers say North Korea's provocations have contributed to an increase in phone calls from investors worried about the impact on

their investment portfolios.

"They're wondering if they should cash out," said Scott Colyer, chief executive and chief investment officer of Advisors Asset Management.

For the most part, investors are staying put, money managers said, with some choosing to scale back some long-held positions to lock in gains since July 4.

After those launches, declines in Samsung Electronics Co., by far the Kospi's biggest

component, dictated moves in the index more than North Korea, while Japanese stocks were driven by profit-taking and dollar strength. Meanwhile, gold and the yen both registered minimal moves.

For some market partici-

pants, Tuesday's test was a further signal that the narrative around North Korea is changing as the sophistication and accuracy of its missiles grow.

"The [tests] before this morning were kind of played down a lot, but this one is really different," said Woon Tian Yong, an analyst at Financial Intelligence. "It's an escalation of geopolitical tension."

From launching intercontinental ballistic missiles to threatening to surround the U.S. territory of Guam in an "enveloping fire," North Korea's actions are increasingly stoking angst about investing on the Korean peninsula.

That can be seen in fund-flow data, with foreign money moving out of South Korean stocks the past month as geopolitical worries have ramped up, including through a war of words between Mr. Kim and U.S. President Donald Trump.

According to Credit Suisse data, net foreign buying of South Korean stocks was \$1.25 billion in July as of the 17th. But in the wake of July 28's ICBM launch, which experts

Average finished 0.4% lower after falling as much as 0.9% earlier. Hong Kong's Hang Seng Index declined 0.35%, snapping a five-day winning streak.

The North Korean missile launch jolted a market that was largely listless around the world Monday, aside from energy-related futures, as tropical storm Harvey battered oil hub Texas and shut a significant portion of the state's shale production. U.S. crude tumbled 1.4% to \$45.94 a barrel at early afternoon Tuesday. Energy shares in the S&P 500 fell 0.7%.

—Kenan Machado contributed to this article.

## HEARD ON THE STREET

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### Another Noble Mess Arises in Derivatives

When things go wrong, insurance policies are supposed to pay out. In the case of Singapore-listed Noble Group, a once-prominent commodity trader that has fallen on hard times, that is proving complicated.

Noble has suffered a grim couple of years, with earnings slumping and its market value diving amid questions over its accounting. Still, it managed to roll over billions of dollars worth of debt earlier this year, and has also persuaded its bankers to extend its credit lines.

But should these deals by Noble to extend its debt repayments be counted as a

Buyers of credit-default swaps say sellers of protection should now pay up

credit event? That is the question now being debated by those who bought and sold derivative products designed to insure investors against any default by Noble on its bonds. Such so-called credit-default swaps were among the complex instruments that helped exacerbate the 2008 crisis, when a sudden surge in bad debts landed sellers of such protection with large bills.

In recent months, hedge funds and other investors have been selling CDS on Noble's debt, in effect betting that it wouldn't default. As of late July, over \$1 billion of CDS had been written on Noble's debt with almost \$160 million potentially owed to buyers, according to data from the International Swaps and Derivatives Association, the industry body that standardized CDS contracts.

### Phone Prices Go Toward the Edge

The newest smartphones are taking their screens to the edge. Apple Inc. and Samsung Electronics seem to be doing the same with prices, in what amounts to a gamble to revive growth.

The companies dominate the high end of the market. But that part of the business has gotten saturated, curbing the runaway growth they once enjoyed. Apple and Samsung combined accounted for 36% of smartphones sold globally last year—down from 49% five years ago, according to IDC.

Both companies also saw smartphone revenue decline in their latest fiscal years.

They are betting they can revive growth by selling ever more expensive phones.

Samsung unveiled its Galaxy

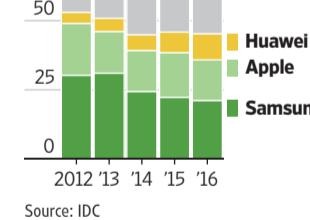
Note 8 last week, which includes the same edge-to-edge display design as the smaller Galaxy 8 smartphone that went on sale in April.

That sort of design uses

curved glass and organic

#### Dialed Down

Share of global smartphone sales



Source: IDC

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Samsung unveiled its Galaxy Note 8 last week.

light-emitting diode technology to add display space to the phone without increasing its overall size.

It is expensive: Samsung's Galaxy Note 8 will start at around \$950 depending on the carrier, which is 8% to 12% higher than the starting price of last year's Galaxy Note 7.

Apple is expected to intro-

duce three iPhone models Sept. 12. At least one is believed to feature an edge-to-edge display along with a glass-covered frame. Analysts expect this model to start at \$1,000 or more. The current iPhone 7 starts at \$649.

Price increases seem risky

in a slowing market, though Apple may be hoping to re-

peat some of the success of the iPhone 6, which launched in late 2014. That phone was the company's entry into the larger-screen smartphone segment and it paid off handsomely, boosting both iPhone unit sales and Apple's operating profit by more than 36% for the company's 2015 fiscal year.

The iPhone's average selling price rose 11% to \$671 for the same period. Apple's stock price, which rose about 30% in the six months prior to the iPhone 6 launch, gained another 30% in the six months that followed.

Still, prices approaching \$1,000 will be a shock. A Barclays survey earlier this month found that only 18% of iPhone users are willing to pay more than \$1,000.

Both Apple and Samsung have proven skilled at making eye-catching designs. But the price of those designs seems likely to make their customers' eyes bulge.

—Dan Gallagher

### New Uber Chief Appears Prepared for Next Step

#### What a Ride

Expedia's share price



Source: WSJ Market Data Group (weekly)

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better able to join with other brands and easier for consumers to use. Mr. Khosrowshahi may even be able to help the ride-hailing company expand deeper into the travel business. In 2015, Uber was granted a patent to build a travel booking platform, which it has yet to develop.

Mr. Khosrowshahi also has shown himself to be a tough negotiator. Expedia at one point used a tactic called "dimming" to deliberately minimize a hotel's appearance or ranking on its platform.

Like Uber, Expedia is a complex, global organization. It also has prioritized long-term investment, spending over \$1 billion a year on research and development, according to RBC Capital Mar-

kets. Mr. Khosrowshahi's awareness of what it takes for a technology company to compete may have set him apart from other candidates. At the same time, his background at IAC, where financial acumen is a key part of the DNA, suggests he is savvy about the metrics and practices that appeal to investors. In addition to completing numerous acquisitions, a spinoff of TripAdvisor in 2011 and the IPO of Trivago in December 2016, Expedia pays a dividend and consistently buys back stock.

Mr. Khosrowshahi faces serious challenges to get Uber ready for public life. His history says he has a good chance of overcoming them.

—Miriam Gottfried

The fact that the committee comprises lawyers that are often from banks and investors with a financial interest in Noble's CDS leaves it open to criticism from both sides.

ISDA should make a decision one way or the other, if only to avoid looking useless. The reality is that this situation could end up in the courts—hardly a great advertisement for CDS.

—Anjani Trivedi

addition of more than \$14 billion to its market capitalization. Shares of Expedia fell 4.5% Monday.

For Uber, Mr. Khosrowshahi brings expertise in both travel and technology.

He revamped Expedia's platform, making it more nimble,