

# THE WALL STREET JOURNAL.

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ASIA EDITION

As of 12 p.m. ET DJIA 21440.59 ▼ 0.12% NIKKEI 20138.79 ▼ 0.45%

STOXX 600 388.50 ▼ 0.18%

BRENT 45.74 ▼ 0.61%

GOLD 1242.00 ▲ 0.08%

EURO 1.1144 ▲ 0.07%

DLR ¥111.53 ▲ 0.07%

## What's News

Business & Finance

Uber's Kalanick has resigned after a group of investors pressured him to step down following a bruising six months of scandal and setbacks. A1

◆ The Japanese government seized the lead role in buying Toshiba's chip unit after expressing concerns about technology leaking to China. B1

◆ MSCI's decision to include mainland Chinese shares in its global benchmarks could prompt changes to how firms are run. A1

◆ Wang Shi's decision to step down from the helm of China Vanke marks the end of an era. B1

◆ Pricewaterhouse is adding independent directors to its governing board, a first for the private partnership. B5

◆ SoftBank is investing \$100 million in a Boston-based cybersecurity firm run by former Israeli counterintelligence members. B4

◆ Tesla parted ways with another senior leader on its self-driving technology team six months after he was hired away from Apple. B3

◆ Altice USA is hoping to woo investors back into telecom in its IPO, which is set to be the biggest U.S.-listed telecom IPO since the early 2000s. B5

◆ An alliance between Theranos and Walgreens that soured into a costly feud for the drugstore giant will soon come to a close. B3

### World-Wide

◆ King Salman named his son as Saudi Arabia's new crown prince, a move that deviates from the country's usual power dynamics. A1

◆ Police said that a Moroccan man who was shot dead by a soldier in a Brussels train station had a nail-packed bomb that initially failed to detonate. A3

◆ The EU is in talks with South Korea and China about potentially mediating negotiations with North Korea on ending its nuclear program. A5

◆ Trump's travel ban remains on hold due to court rulings, but his administration is resuming a global review of nations that may lead to more travel restrictions. A6

◆ Queen Elizabeth II delivered a speech outlining the U.K.'s plans for Brexit talks and counterterrorism. A3

◆ Islamic State militants attacked a village and fought with security forces in the southern Philippines. A5

◆ A senior U.S. official told Congress that there is evidence that election systems in 21 states were targeted by Russian hackers during the 2016 elections. A6

◆ Romania's Prime Minister Grindeanu was ousted after only six months, a decision prompted by corruption protests. A3

◆ Most Australians harbor disdain for Trump and see China as an economic blessing, a survey found. A5

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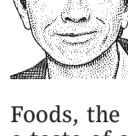
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## WORLD NEWS

CAPITAL ACCOUNT | By Greg Ip

# The U.S. Needs Amazons, but Mostly Has GEs



When Amazon.com Inc. announced Friday it was buying Whole Foods, the stock market got a taste of something long missing: volatility.

The turmoil, however, was confined to retail. While the two companies' stocks rose sharply and their competitors' tanked, the rest of the market remained placid. Indeed, months of historically low market volatility has begun to look like dangerous complacency.

Yet there is another, potentially more troubling explanation: stagnation. Muted markets may be the inevitable product of steady, sluggish growth, low and predictable interest rates, declining business startups and failures, and decreased competition. In other words, the problem is, there aren't enough Amazons disrupting the stock market and the economy.

Since Jeff Bezos founded Amazon in 1994, he has put expansion and innovation ahead of profit. In its early years, free cash flow—cash from operations minus capital spending—hovered around zero. Mr. Bezos approaches new products like a venture capitalist. Many will flop (like

the Fire smartphone), but some will be home runs (such as Amazon Web Services, its cloud computing arm).

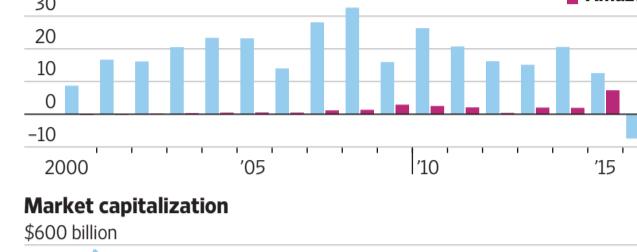
Amazon launched Prime, which offers free delivery in exchange for an annual fee, in 2005. John Blackledge, an analyst at Cowen & Co., notes Amazon has repeatedly innovated in ways that make Prime even more valuable to subscribers: the Kindle e-book reader lending library, streaming video and music, discounted access to FreeTime, which offers children's books, games and media content, and Amazon Family, which offers discounts on baby products. Innovation is also exceptionally rapid. Mr. Blackledge says Prime Now, which offers same-day delivery, launched in New York in less than four months after conception without so much as a focus group.

Amazon is now profitable, yet cash retention remains secondary to retaining customers. Asked by an analyst in April whether Alexa, a voice-activated assistant, was boosting sales, the company's finance chief, Brian Olsavsky responded: "The monetization, as you might call it, is...not our primary issue right now. It's about building great products and

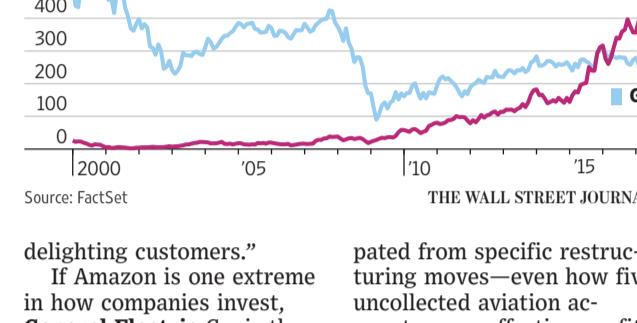
### The GE Way vs. the Amazon Way

General Electric has long generated copious 'free' cash flow (i.e., after capital spending) but Amazon's focus on investment has been better for shareholders.

#### Annual free cash flow



#### Market capitalization



Source: FactSet

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delighting customers."

If Amazon is one extreme in how companies invest, General Electric Co. is the other. It has long been fastidious about capital and cash deployment. On its last quarterly earnings call, the company meticulously laid out profit growth by product and business segment, the sources of margin improvement, cost savings anti-

pated from specific restructuring moves—even how five uncollected aviation accounts were affecting profit.

Chief Executive Jack Welch perfected this approach in the 1990s, and it continued under his successor, Jeffrey Immelt.

Last week, Mr. Immelt said he would retire, after 16 years struggling to restore growth. In part, that reflected how financial engineering had in-

fated profits under Mr. Welch. Yet Mr. Immelt's investment decisions too often chased the conventional wisdom on Wall Street and in Washington. Thus, GE Capital bulked up on residential mortgages and commercial real estate in the run-up to the financial crisis. From 2010 to 2013, the company announced many acquisitions in oil and gas services, only to see the price of oil crash, taking orders with it.

Growth is hard for any company that dominates its markets as much as GE does. GE's size also attracts debilitating political scrutiny. Its proposed acquisition of Honeywell was derailed by European antitrust regulators just before Mr. Immelt took over. It took 18 months for Mr. Immelt's purchase of Alstom's power business to clear regulatory barriers. GE Capital after the financial crisis became the poster child of dangerous, unregulated finance. In response to new regulations and pressure from Wall Street, Mr. Immelt largely dismantled the business.

Investors still want GE to return cash to shareholders, and it has obliged, spending \$79 billion on share buybacks and dividends between 2012 and 2016 compared with \$50 billion of capital expenditures.

Indeed, for two years, cash flow of U.S. corporations has exceeded capital spending. Much of the difference has gone into buying back stock.

Yet while good for shareholders in the short run, this is no recipe for growth in the long run. GE's cash flow is shrinking despite the company's focus on preserving it, while Amazon's is growing despite that company's readiness to spend it.

Amazon is clearly not a template for most companies. Defying conventional wisdom usually fails, which is why for every successful long shot like Amazon there are hundreds if not thousands of failed startups. Amazon has come near death more than once, and may again. Moreover, the larger it gets, the more it will bump against the constraints of size, such as antitrust concerns. As for GE, a history of reinvention suggests it is more likely to be around in 125 years than is Amazon. Given investors' tendency to go to extremes, now may be a bad time to buy Amazon shares, or sell GE's.

Yet the country as a whole badly needs some rules-defying risk-taking. For business, that means a bit more Amazon in the boardroom and a bit less GE.

derson, head of investments for Asia-Pacific at State Street Global Advisors. "There will now be a lens shone on Chinese companies, with an eye on improving shareholder value, corporate governance and returns from those companies," he said.

Yet others were less upbeat. Chinese stock markets "still suffer from serious institutional shortcomings as well as heavy political influence," according to analysts at research firm Eurasia Group.

Since China's market crashes in 2015 and early 2016, the presence of state-backed investment funds in the market has risen in importance. Local traders say such funds often step in to buy or sell shares during periods of volatility.

In addition, China's market regulator continues to exert strong control over the pace of initial public offerings. Despite recent revamps, the country's tight capital controls can still make it difficult for investors to move money across the border.

The MSCI decision is unlikely to lead to huge inflows of capital from abroad until China makes further changes to the structure of its capital markets, said Liu Weiming, Beijing-based chief investment officer at Fuxi Investment Management Co.

"Has MSCI given China a chicken wing to help it fly higher or is it just chicken ribs that carry little meat or value? I think it's chicken ribs," he said. "If you don't make your home clean and tidy enough, how do you expect your guests to come for a visit?"

—Chao Deng and Shen Hong contributed to this article.

## CHINA

Continued from Page One stock trading Wednesday, and followed three years of rejections by MSCI—drew a muted reaction from mainland investors. The Shanghai Composite Index closed up 0.5%, while its Shenzhen counterpart gained 0.4%.

The tepid response was viewed in the market as a reflection of the relative caution apparent in MSCI's decision. After discussions with major fund managers including BlackRock Inc., the index provider said it would admit roughly half the largest number of companies it had considered including in past years.

MSCI estimates some \$17 billion will flow into Chinese markets—both from passive funds that automatically track its indexes and active fund managers—when the country's stocks are included a year from now. That is a fraction of the Shanghai and Shenzhen markets' combined \$7.5 trillion market capitalization.

Still, the decision was heralded by market participants who have long salivated over the prospect of gaining greater access to the world's second-largest economy. The move could change the way that global investors look at China, said Chin-Ping Chia, head of research for Asia-Pacific at MSCI.

"It's about the opening of a new phase of emerging-mar-

ket investing," he said. "The opening of the Great Wall, so to speak."

Including Chinese stocks in MSCI benchmarks will have "far-reaching implications" for global equity investors, said Rakesh Patel, head of equities for Asia-Pacific at HSBC. He said some \$500 billion could flow into Chinese markets in time, as they become more accessible and companies such as

MSCI and FTSE Russell give a full weighting to Chinese

stocks in their indexes.

The country's stock-market regulator, the China Securities Regulatory Commission, said in a statement that the decision reflected confidence from global investors in the Chinese economy and financial markets.

The regulator also pledged to further revamp its capital markets. "The Chinese capital market must welcome foreign investors more openly," it said.

In the year since MSCI's most recent rejection of Chinese

stocks' inclusion in its indexes, the country has further opened up the Shenzhen market to global investors via a trading link with Hong Kong. It has also overhauled the rules governing share suspensions, making it more difficult for companies to halt trading in their shares.

One question for investors is whether having more shareholders from overseas will encourage greater transparency and better corporate governance at Chinese companies.

"Now that China's domestic stock market has become a member of the international family, it has become easier for us to have a dialogue with companies and regulators to express our views," said Victoria Mio, Hong Kong-based chief investment officer for China at asset manager Robeco.

Following MSCI's decision, global investor attention will focus on improvements in the quality of management at Chinese companies, said Kevin An-

### Mismatch

China's domestic markets are underrepresented in some major benchmarks relative to the nation's output.

#### Country weights, percentage share

MSCI ACWI INDEX	U.S.	52.8%	China (offshore)	28.0%
Japan	7.7		Korea	15.6
U.K.	5.8		Taiwan	12.3
France	3.5		India	8.9
Germany	3.2		South Africa	6.7
China	3.1		Brazil	6.6
Canada	3.1		Mexico	3.7
Switzerland	2.8		Russia	3.2
Australia	2.3		Indonesia	2.4
Korea	1.7		Malaysia	2.4

#### Largest countries by gross domestic product



Sources: MSCI (weights); World Bank (GDP)

◆ Chinese liquor manufacturers and breweries are well represented on MSCI's list. They include Kweichow Moutai Co., which distills the potent *baijiu*. With annual sales of 36.5 billion yuan (\$5.35 billion), it recently overtook Diageo PLC as the world's biggest spirits maker by market value.

◆ Makers of traditional Chinese medicine stand out among the LED manufacturers, banks and real-estate developers on MSCI's list. Take Dong-E-Jiao Co., whose supplement made from donkey-hide gelatin can "promote sleep, nourish the brain and improve intelligence" as well as improve physique, the firm says.

◆ The Shenzhen market is home to a number of companies exposed to China's vast

consumer sector. Among the more colorful: retailer Suning Commerce Group Co., one of the country's biggest nonstate companies and owner of a majority stake in Inter Milan, the famous Italian soccer club.

◆ China's shadow-banking sector has been a rapidly growing source of finance outside the traditional banking system, as well as a worry for regulators. Anxin Trust, one of a handful of listed shadow banks, is the only one on MSCI's list.

◆ MSCI's target stocks include a number from China's scandal-prone brokerage sector, such as Sealand Securities Co., which sparked a panic in December when it disclosed that bond transactions worth almost 20 billion yuan had been made with forged corporate stamps. The firm took responsibility.

—Gregor Stuart Hunter

By NIKHIL LOHADE

DUBAI—Saudi Arabian stocks rallied on Wednesday after index provider MSCI Inc. said it would consider classifying the kingdom as an emerging market as early as next year, a move that could potentially divert billions of dollars into the Middle East's biggest economy and boost appetite for oil giant Saudi Aramco's share sale.

The Saudi Stock Exchange's benchmark Tadawul All Share Index rose 5.5% to close at 7334.87.

Investor sentiment was boosted by the elevation of Mohammed bin Salman as crown prince, a move that clarifies the succession plan in Saudi Arabia, analysts say, and strengthens the young leader's mandate to steer the kingdom's ambitious program to reshape its energy-dependent economy.

Those overhauls, which include the opening of its stock market to international investors to attract foreign capital, were cited by MSCI as part of the reasons for Saudi Arabia's inclusion in its watch list.

In its annual market classifi-

cation review, announced late on Tuesday, MSCI said it is launching a consultation on Saudi Arabia's potential inclusion. The kingdom could win the coveted emerging-market tag in June 2018 depending on feedback from foreign investors, especially on accessibility to the region's biggest stock market.

If it is successful in clinching the classification in next year's review, Saudi Arabia could be included in MSCI's emerging-market index by June 2019, analysts say.

That tag could potentially help Saudi Aramco secure bil-

lions of dollars in additional investments from global funds that track such benchmarks. The oil giant plans to list shares worth tens of billions of dollars in 2018 on Saudi Arabia's main stock market and is also considering other global bourses, in what is likely to be the world's biggest initial public offering.

An emerging-market classification by compilers such as MSCI can help attract billions in additional inflows from funds that use such gauges. The MSCI Emerging Markets Index, for instance, is tracked

by money managers with some \$1.6 trillion of assets. For Saudi Arabia, which is seeking to attract more foreign capital in its push to diversify away from its dependence on oil revenue, an emerging-market classification will potentially give its listed companies easier access to funding.

Investment bank EFG Hermes estimates Saudi Arabia could account for about 2.4% of MSCI's emerging-markets index if included, which would result in about \$7 billion of inflows from global passive funds.

## CORRECTIONS & AMPLIFICATIONS

Pathmatics estimated that spending on certain YouTube ads rose 50% to an estimated \$739 million in the period from March 15 to June 13 compared with a year earlier. A Business & Finance article Wednesday about YouTube advertising incorrectly said such spending fell by 50%.

In an interview published June 14 in the Journal Report about WSJ D.Live Asia, Rich-

ard Liu spoke about JD.com Inc.'

# WORLD NEWS

## Terror Suspect's Bomb Initially Failed

Officials say Belgium attacker sympathized with Islamic State; travelers escape injury

By VALENTINA POP  
AND JULIAN E. BARNES

BRUSSELS—Belgian authorities said Wednesday that a 36-year-old Moroccan man who was shot dead by a soldier in a Brussels train station tried to use a homemade, nail-packed bomb and had sympathy for Islamic State.

Prosecutors said the suspect in the attack, which caused no casualties, had no previous known links to terrorism and had acted alone. They said chemicals and materials found at his apartment suggested he made the bomb.

The prosecutors said they had indications the suspect sympathized with Islamic State, but provided no further details.

An official briefed on the investigation identified the suspect as Oussama Zariouh. Other officials, who identified the suspect officially only as O.Z., said he had lived in the Brussels neighborhood of Molenbeek since 2013 and had been investigated for drug-related crimes.

However, officials said that while the man wasn't considered high-risk by Belgian authorities, he had communicated with other self-radicalized individuals. Those contacts weren't with people considered dangerous terror suspects, said one official, although U.S. and Belgian intel-



A Belgian soldier patrols outside the Brussels rail station where Moroccan suspect Oussama Zariouh was shot dead a day earlier.

ligence agencies are investigating whether he communicated with other, higher-ranking suspects.

Eric Van Der Sypt, a spokesman for the prosecutors, declined to comment on any ties to a broader network.

Offering new details of the Tuesday night attack, officials said the man entered Brussels Central Station at 8:39 p.m. and approached a group of passengers before grabbing his suitcase, shouting and causing a small explosion.

No one was hurt in the ini-

tial blast, but the suitcase caught fire. The man then fled, leaving the luggage burning, and ran downstairs, prosecutors said.

The abandoned bag exploded in what prosecutors described as a second, more violent blast. The man returned to the hall where the explosion occurred, rushing a soldier and shouted "Allahu akbar," Arabic for God is great.

The soldier fired several times, killing the suspect, prosecutors said. The man's body then lay in the station

for hours as the Belgian military bomb squad examined the scene for undetonated explosives.

"It's clear he wanted to do more damage than he did. He tried to set off the luggage, which exploded a second time, so it could have been much worse," said Mr. Van Der Sypt.

The man lived in Molenbeek, the Brussels neighborhood where a number of terrorists connected to the Paris and Belgium attacks were based, authorities have said. Police raided the man's home

Tuesday night, officials said, and other searches were conducted in Molenbeek on Wednesday.

Police conducting the raid on Zariouh's apartment in a small, redbrick townhouse took away a laptop, a phone, a tablet computer and hard drive, witnesses and officials said. Officials briefed on the investigation said such electronic devices could provide more clues about his contacts.

U.S. officials said they have offered assistance, as is standard practice, in analyzing any

electronic devices recovered in the investigation.

Several of the apartments in the building were raided, a bomb squad was on site and police took in at least one resident in for questioning, who was released later.

Mustafa Er, spokesman for Molenbeek town hall, said the suspect was self-employed and had come to Belgium in 2002 and lived in other towns before moving to Molenbeek in 2013.

Neighbors said they didn't see much of Zariouh.

"He...had a petty criminal past in connection to drugs," said Annalisa Gadaleta, a local councilor in Molenbeek, who added that the community was awaiting the result of the investigation and whether Zariouh had connections to other groups.

Ms. Gadaleta highlighted the difficulty of tracking people who self-radicalize and aren't known to authorities.

More than 100 radicalized suspects listed by national authorities live in Molenbeek, although Zariouh wasn't on that list, said Ms. Gadaleta. Such lists are shared with local authorities.

In the wake of the attack, Interior Minister Jan Jambon said Belgium's highly visible security presence was justified. "It's unfortunate you need certain things, like what happened last night, to prove that certain decisions are the good ones," Mr. Jambon said. "There's a lot of debate, but I'm still happy we were able to keep the soldiers."

—Natalia Drozdiak contributed to this article.

## Queen Spells Out May's Agenda

BY JENNY GROSS

LONDON—Britain's Queen Elizabeth II on Wednesday unveiled the Conservative government's legislative agenda in a speech that confirmed Britain's negotiating aim in Brexit talks and set out the government's intention to come up with a new counter-terrorism strategy after a spate of recent attacks.

In a ceremony marking the official reopening of Parliament after the election earlier this month, the queen read out a list of bills that Prime Minister Theresa May hopes to pass in the two years to come, ranging from plans to improve data protection in the wake of a recent cyberattack on the National Health Service to an outline of major bills related to Britain's exit from the European Union, set for March 2019.

Whether Mrs. May can pass the bills through Parliament is another story: Her poor electoral performance has diminished her authority in the legislature. Having fallen short of a majority, her Conservative Party will require support from Northern Ireland's Democratic Unionist Party to pass legislation. After days of discussion the two parties haven't reached an agreement, but talks are continuing.

Mrs. May said earlier that while the election result wasn't one she had hoped for, she would respond with "humility and resolve" to the message the electorate sent her government.

"We will work hard every day to gain the trust and confidence of the British people, making their priorities our priorities," Mrs. May said.

Jeremy Corbyn, leader of the main opposition Labour Party, speaking in Parliament, called the Conservatives' agenda thin and disappointing.

"This is a government without a majority, without a mandate, without a serious legislative program, led by a prime minister who has lost her political authority and is struggling to stitch together a deal to stay in office," Mr. Corbyn said. "We will use every opportunity to vote down government policies that failed to win public support and we will use every opportunity to win support for our program."

To continue as prime minister, Mrs. May will need a majority of Parliament's 650

## French Minister Resigns

BY WILLIAM HOROBIN

PARIS—Emmanuel Macron's justice minister, François Bayrou, quit the government Wednesday, depriving the French president of a key ally who rallied centrists to his successful election campaign.

Mr. Bayrou's centrist party Mouvement Démocrate, known as MoDem, is being targeted by a preliminary investigation into allegations of benefiting from a breach of confidence in relation to parliamentary assistant jobs at the European Parliament.

The party has denied any wrongdoing.

The justice minister told Agence France-Presse he was planning to give a news conference later Wednesday to explain his decision to quit the government.

Defense Minister Sylvie Goulard, another member of Mr. Bayrou's party, said Tuesday she would also leave the government.

"It was a personal choice. That was the choice announced yesterday by Sylvie Goulard and the choice today of François Bayrou," government spokesman Christophe Castaner said on French radio.

"It simplifies the situation," he added.

Mr. Castaner also said he can't see how the third MoDem member of the government, European affairs minister Marielle de Sarnez, wouldn't also quit.

Mr. Bayrou, head of MoDem, backed Mr. Macron's election campaign in February, giving a surprise boost to the upstart candidate. An alliance with MoDem also provided Mr. Macron with extra seats in the parliamentary majority he won Sunday.

As justice minister, Mr. Bayrou presented a law for the moral improvement of public life after a series of scandals over party financing and par-



Justice Minister François Bayrou  
CHARLES PLATIAU/REUTERS

liamentary assistants hobbled rival candidates in the presidential election.

## Romania Leader Booted in Graft Protest

BY DREW HINSHAW

Romania ousted its prime minister of only six months, dissolving a government that was knocked off balance by one of Europe's biggest anti-corruption movements.

A majority of 241 lawmakers in the 428-seat Parliament on Wednesday voted no confidence in Prime Minister Sorin Grindeanu, who took office in January. The key votes came from his own Social Democratic Party, which has become so frustrated with his leadership that it expelled him from its member list last week.

Within days, Parliament is expected to form Romania's fourth government in two years.

Corruption protests have become a recurrent threat to

Romanian governments. Mr. Grindeanu's fall from power began in February with Romania's largest demonstrations since the fall of communism. More than 250,000 protesters marched through snow-packed streets against a ruling-party ordinance that would have restricted prosecutors from investigating public officeholders for corruption.

That ordinance was crucial to the leader of Mr. Grindeanu's party, Liviu Dragnea, who is under indictment for abuse of office. Mr. Dragnea says he is innocent, and his party argues that increasingly exhaustive corruption investigations—partly funded by the European Union—have made governing Romania too difficult.

Still, days of protests pushed Mr. Grindeanu to withdraw the ordinance. That move freed prosecutors to keep pursuing corruption cases against the ruling party. But it also sparked a fierce rivalry with Mr. Dragnea, who first nominated the then-obscure Mr. Grindeanu as prime minister in December, telling reporters, "I wanted a man I could trust."

Since then, bribery, abuse of office, and favoritism cases have piled up against Romanian political leaders and Mr. Dragnea has grown critical of Mr. Grindeanu. The friction between the two has proved untenable, and all but three of Romania's 27 ministers resigned before Wednesday's vote.

"It's a rivalry, a rivalry that wasn't supposed to be a rivalry," said Jacques Tohme, managing director of energy firm Amerocap LLC and a longtime investor in Romania. "Grindeanu, he was expected to be a good, loyal guy they can rely on, and he was more independent than perhaps once thought."

Romania—the fastest-growing economy in Central and Eastern Europe over the past five years—is in a protracted political deadlock over how seriously to tackle corruption.

Since November 2015, anti-corruption protests have flared regularly in the capital. Each of the past three governments were ushered into—or out of—power by such a protest.

The ruling party, which lost power in 2015 and regained it last year, has tried to refocus public attention onto popular benefit programs. Starting next year, Mr. Dragnea's party hopes to raise public wages by 25%, a \$2 billion expenditure that would reward his political base of aging rural voters.

But that program has been delayed as protesters—primarily in urban centers, home to some of Europe's fastest-growing wages—push for a crackdown on corruption. Many have been enticed home from Western Europe by rising wages, and a chance to reform an ex-communist dictatorship into something closer to the standard of governance they feel they experienced abroad.

"More and more people look at Europe, look at the U.S., and understand it's not like the '90s, when your entire dream was 'how do I get out of here,'" said Laura Stefan, a former director in the Romanian Ministry of Justice. "Now, Romania is a country worth fighting for."

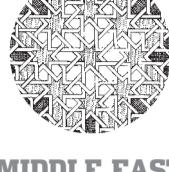


Prime Minister Sorin Grindeanu in Parliament on Wednesday, before the vote that removed him.

VADIM GHIRDY/ASSOCIATED PRESS

## WORLD NEWS

# Shuffle Means a More Activist Saudi Arabia



### MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

Brace for more turbulence. The dynastic struggle in Saudi Arabia is over, and power—for all practical purposes—is now in the hands of a young generation of princes determined to show the Middle East who's the boss.

 Mohammed bin Salman, appointed on Wednesday as the kingdom's crown prince and designated successor to his 81-year-old father, King Salman, is the face of bold changes launched by once staid Saudi Arabia in the past two years.

At just 31 years of age, he is the architect of the bloody war in Yemen, the initiator of painful economic overhauls, the instigator of moves to aggressively counter Iran and, more recently, the catalyst of a Saudi-led regional campaign to isolate tiny Qatar.

His 57-year-old cousin, the now-removed crown prince

and interior minister, Mohammed bin Nayef, was widely seen as the voice of caution and experience in the kingdom's halls of power—and a possible check on some of Mohammed bin Salman's rasher moves.

**N**ow that he is gone (and replaced at the interior ministry by a 33-year-old nephew of Mohammed bin Nayef), Saudi Arabia's regional posture is likely to become even more adventurous.

"Mohammed bin Salman is much more willing to use Saudi hyper-nationalism as a way to solidify domestic social change," said Andrew Bowen, a specialist on the kingdom at the American Enterprise Institute, a Washington think tank. "It's a risk when you put a very headstrong, stubborn, impulsive, more nationalist leader in that position compared to Mohammed bin Nayef, who was slow, deliberate and pragmatic."

While Mohammed bin Nayef didn't publicly criticize his young rival, he supported a more traditional Saudi approach of acting behind the scenes and building regional consensus—including in relations with Qatar and Iran.

Mohammed bin Salman—who has developed close ties with the activist de facto



The new crown prince has initiated economic overhauls; a view of Riyadh in January.

develop an unexpectedly warm relationship with President Donald Trump, who repeatedly bashed the kingdom during last year's campaign.

The prince visited the White House in March, paving the way for last month's high-pomp Riyadh summit at which Mr. Trump seemed to endorse Saudi claims to lead the entire Muslim world. Shortly thereafter, Saudi Arabia and its allies moved against Qatar—securing, at least at first, Mr. Trump's backing.

**O**n Tuesday, however—just hours before the Saudi leadership shake-up—the U.S. State Department issued an unusually strong rebuke of the Saudi and Emirati embargo on Qatar, which houses a major U.S. military base in the region. To many in the Middle East, this was a signal that Saudi leaders may have been overconfident in their dealings with Washington, too.

"I do not see so far that the Trump administration has given the Saudis a blank check," said Riad Kahwaji, CEO of the Institute for Near East and Gulf Military Analysis in Dubai. "It is too early to talk of this as an achievement because we are yet to see what the Trump administration will actually give to the Saudis in the near future."

ruler of the United Arab Emirates, Mohammed bin Zayed—has by contrast advocated showcasing the kingdom's military and financial might.

"Now you are going to see more decisiveness, be it in the war in Yemen or in the recent disturbance of relations with Qatar. The Saudi foreign policy is going to be more open and more dynamic," predicted Ahmad al-Ibrahim, a Saudi political commentator and businessman.

**M**ohammed bin Nayef, of course, exercised only limited authority outside his internal-security turf in recent months.

This means that—despite the consolidation of power in Riyadh—the change in the kingdom's behavior may be less dramatic than many expect, cautioned Saudi analyst Mohammed Alyahya, a non-resident fellow at the Atlantic Council.

"In terms of foreign policy, economic policy and defense, I don't foresee a seismic shift because Mohammed bin Salman has already been in charge of these files for quite some time," Mr. Alyahya said.

Indeed, over the past several months, as Mohammed bin Salman widened his authority with the appointment of young princes to key levers

of government (including a younger brother as ambassador to Washington), it increasingly seemed just a matter of time before Mohammed bin Nayef was forced out.

Yet few expected this time to be so short: As the consensus among Western diplomats in Riyadh went, Mohammed bin Salman needed to show some actual achievements before making the move.

With the war in Yemen bogged down, Qatar refusing to capitulate and the House of Saud forced to roll back unpopular austerity measures in April, the only such success has been Mohammed bin Salman's ability to de-

# State Oil Company IPO Plan Buoyed

By SUMMER SAID  
AND NIKHIL LOHADE

Mohammed bin Salman's promotion to become crown prince of Saudi Arabia will drive forward his plan to list the kingdom's state oil company and strengthen his mandate to diversify its economy.

The leadership shuffle removes almost all doubt that the Saudi state-run oil company, known as **Saudi Aramco**, will list a portion of its shares publicly—a move driven by Prince Mohammed that has been opposed in parts of the country.

Some people had feared Prince Mohammed's initiatives would stall or end if Mohammed bin Nayef—the crown prince who was replaced Wednesday—became king.

"Those dissenting voices will likely be silenced for now," said Helima Croft, head of global commodity strategy for RBC Capital Markets, in a note to clients on Wednesday morning. "It will be full steam ahead with the planned partial listing of Saudi Aramco."

The Aramco initial public offering has been billed as the most valuable listing ever, potentially fetching as much as \$100 billion when it takes place in 2018. Prince Mohammed has pledged to invest much of the proceeds in economic diversification, boosting the country's technological and industrial sectors and reducing its reliance on oil revenue.

Shares in Saudi Arabia's



An Aramco flotation would likely set a record for a public listing.

main stock market rose about 5.5% Wednesday after the news of Prince Mohammed's promotion. In particular, investors were cheered when index compiler MSCI Inc. said it had added Saudi Arabia to its watch list for possible classification as an emerging market as early as 2018—a move prompted in part by Prince Mohammed's reform program.

The prince's ascent comes at a time of economic strain caused by faltering oil prices, with crude falling into a bear market on Tuesday and down again on Wednesday morning.

The value of the Aramco IPO will largely depend on oil prices, which were below \$46 a barrel for Brent crude on Wednesday—25% lower than the \$60 the Saudis are privately targeting.

"With the IPO at the cen-

ter stage, the kingdom needs higher [oil] prices," said Amrita Sen, chief oil analyst at Energy Aspects.

The prince's new power will give the country's energy minister, Khalid al-Falih, a freer hand, said Robin Mills, head of Dubai-based consultancy Qamar Energy. Mr. Falih brokered an output-cutting pact with Russia, the world's largest oil producer, and the Organization of the Petroleum Exporting Countries, of which Saudi Arabia is the de facto leader.

The deal knocks almost 2% off the world's oil output through to March, in a bid to bring global supply back in line with demand.

But prices haven't reacted the way the Saudis would have liked. U.S. producers increased output on the back of a price

spike after 2016's Saudi-led production deal, flooding the world with a fresh wave of oil. There are also new petroleum supplies coming from Libya, an OPEC member exempted from the cut because civil strife crippled its energy industry until recently.

Prince Mohammed's "reform agenda has been essential for Saudi Arabia to deal with the low-oil-price issue. Whether it succeeds is another question, of course," Mr. Mills said.

The promotion of Prince Mohammed, who is known as MbS, provides clarity on the line of succession, but analysts say there are still barriers to the reform drive.

"MbS is likely to struggle to break through vested interests within the royal family, the business elite, the civil service and the religious establishment," said Jason Tuvey, a Middle East economist at London-based Capital Economics.

Some members of the Allegiance Council, which has the final say over succession in the Saudi royal family, voted against MbS's appointment as crown prince. This suggests some in the family aren't fully behind MbS, according to analysts.

Underscoring the challenges ahead, the Saudi king retrospectively restored all the perks and benefits of state employees on Wednesday that were halted in 2016 as part of austerity measures to narrow the kingdom's budget deficit and then reinstated in April.

# Prince's Rise Signals A Bigger Footprint

The ascension of Prince Mohammed bin Salman, the architect of Riyadh's war in Yemen and its isolation of Qatar, as heir to the Saudi throne signals that the country feels emboldened to take a more assertive stance in the Middle East, Arab and Western diplomats say.

By Maria Abi-Habib in Beirut and Rory Jones in Tel Aviv

The 31-year-old, who is known as MbS, has moved to win over the administration of President Donald Trump, while pursuing Riyadh's regional ambitions at a time when White House Middle East policy is in flux and it hasn't filled key positions in the State Department or Pentagon.

The rise of the young prince comes at the expense of Mohammed bin Nayef, who served as crown prince and interior minister until Wednesday, and has been a point man for Washington's counterterrorism efforts in the region, valued for his role in unraveling al Qaeda's network in the kingdom.

Mohammed bin Salman's ascension suggests the country is doubling down on its recent moves to wield power to counter Iran and assert its military, which had largely been untested until its intervention in Yemen in 2015.

"For the last two years,

MbS was the one who had full control, he was the one who would fly to Moscow to meet with Putin or go to Washington and meet with Trump," said a Saudi close to a powerful strain of the royal family. "He was the man in charge, he was the man who spearheaded Yemen and Qatar, and he will keep doing this aggression."

Western and Arab diplomats say Riyadh will likely dedicate even more firepower to the Yemen war, after Mr. Trump cleared the way for increased arms sales to the kingdom last month. Riyadh this month also set out to isolate its neighbor Qatar, imposing an embargo, closing borders and canceling flights.

The young Saudi prince's ascension is likely to be a double-edged sword for the White House as he pursues a policy that is in part aligned with the U.S. but also likely to lead to greater regional friction, said Daniel Shapiro, former national security adviser to the Obama administration. Saudi Arabia's moves to limit Iranian influence are supported by the U.S. and Israel.

"He clearly wants to be an ally and leader of an alliance with the U.S. against Iran and Sunni extremists," Mr. Shapiro said. "At the same time, he's demonstrated a willingness to be bold, some might say reckless, in the region."

## SAUDI

Continued from page A1  
make up the kingdom's ruling royal family have ruled through consensus. In recent years, however, that has given way to more jockeying for power, influence and wealth as the number of royals has expanded.

Kristian Ulrichsen, a Middle East expert at Rice University's Baker Institute for Public Policy, said Mohammed bin Salman's future success depends on the support he receives from the wider Al Saud family, especially if some of the economic reforms he has sponsored prove controversial.

"Mohammed bin Salman's elevation to crown prince has been on the cards for a while, but still represents an enormous shake-up in Saudi succession dynamics," he said.

Wednesday's appointment of Mohammed bin Salman wasn't the first time that King Salman had tinkered with the traditional lines of succession.

One of his first acts as monarch was to remove a half-brother as his heir and to appoint two younger princes in the line of succession—

Prince Mohammed bin Nayef and Prince Mohammed bin Salman—a change that shocked many royals but was accepted because of the close ties he had cultivated with other members of his extended family over the years.

Still, by appointing his own son as his successor, the 81-year-old King Salman overturns decades of royal tradition.

Since following his father into power, Prince Mohammed bin Salman has been the public face of change in the kingdom.

He has introduced austerity measures—some of which were reversed later—to help reduce a budget deficit caused by the drop in oil prices. He has also backed the potential listing next year of state oil giant Saudi Aramco, in part to push the economy toward privatization and greater competitiveness needed to generate jobs for the young and attract foreign investment beyond the oil sector.

The economic pressures have precipitated broader social changes. Long an ultra-conservative society where women still can't drive, Saudi Arabia is now embracing significant cultural reforms, staging public concerts and is set to open its first movie theaters, once opposed by the religious establishment.

The royal shake-up coin-

cides with a political crisis in the Persian Gulf that pits Saudi Arabia and its allies against Qatar. Saudi Arabia is also entangled in a continuing war in neighboring Yemen and is challenging rival Iran for regional sway.

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As Mohammed bin Salman amasses more power, his youth is both an asset and a potential liability, some Saudis say.

"I admire his energy," said a Saudi close to a powerful line of the family. "But at the same time it worries me and worries many Saudis that he is overconfident."

—Maria Abi-Habib in Beirut contributed to this article.

### Saudi Arabia's Generational Shift

Prince Mohammed bin Salman's ascension risks a backlash within the House of Saud



Abdulaziz ibn Saud  
Founder

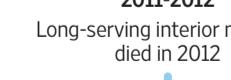
Established the Kingdom of Saudi Arabia in 1932.

Died 1953



Nayef bin Abdulaziz al Saud  
Crown Prince  
2011-2012

Long-serving interior minister, died in 2012



Mohammed bin Nayef  
Crown Prince  
2015-2017

Viewed as a trusted counterterrorism partner for the U.S.

Photos: Clockwise from top: Associated Press; Agence France-Presse/Getty Images; Reuters; Associated Press; Zuma Press  
Sources: Royal Embassy of Saudi Arabia; staff reports

Mohammed bin Salman  
Named Crown Prince  
June 21, 2017; Defense Minister

He is now the new heir apparent to the throne.

THE WALL STREET JOURNAL.

## WORLD NEWS

# Congo Crisis Sparks Flood Of Refugees

By NICHOLAS BARIYO

KYANGWALI, Uganda—The day Bungwile Mabuya discovered her husband's mangled body near her house in the Democratic Republic of Congo's Kasai region, she grabbed her children and ran.

The mother of five, who found refuge in a sprawling lakeside refugee camp here, is one of roughly 1.5 million Congolese fleeing a brutal power struggle pitting President Joseph Kabila against traditional chiefs, who still administer large swaths of the vast central African nation.

Government forces and local militias have killed more than 3,300 people in Ms. Mabuya's home region since October, according to the Catholic Church, which has had its priests count the bodies since then. On Tuesday, the United Nations' high commissioner for human rights, Zeid Ra'ad Al Hussein, accused Mr. Kabila's government of arming a new militia he said has slaughtered hundreds of villagers—including pregnant women and toddlers—in Kasai. A government spokesman has denied the allegations.

The killings reflect the unraveling of a complex network of power trading and patronage, backed by amateur fighters unchecked by the official security apparatus, that has helped secure Mr. Kabila's rule for the past 16 years.

Ms. Mabuya said her husband, Constantine Masumbe, had stepped outside their hut one December night when she saw three men wearing army uniforms drag him away, ac-

cusing him of being a member of Kamuina Nsapu, an antigovernment militia the U.N. says is recruiting child soldiers and raping underage girls in the central Kasai region.

Ms. Mabuya, who found her husband's body the next morning, denied that her husband belonged to Kamuina Nsapu and said he was a victim of a government crackdown that has intensified since Mr. Kabila's official mandate expired in December. Mr. Kabila has put off elections, citing a lack of funds and security issues.

"We could not even hold a burial ceremony. Everyone was running," Ms. Mabuya said.

Tensions in impoverished Kasai escalated last year, when Mr. Kabila refused to recognize Jean-Pierre Mpandi, a chief who founded Kamuina Nsapu and was friendly with Mr. Kabila's political opponents. In August, government forces fighting Kamuina Nsapu killed Mr. Mpandi. Aid agencies say more than a dozen other traditional chiefs across five provinces have since been killed.

Traditional chiefs are selected according to local custom and perform religious ceremonies, but receive government salaries. Under Congo's constitution they are required to be apolitical and resolve local disputes, forming a vital link between the capital Kinshasa and remote villages.

In late 2015, however, Mr. Kabila implemented a law that requires a presidential decree to formally recognize each chief—a step his critics say was an attempt to sideline opposition-friendly leaders. Mr. Kabila's spokesman denies



A nurse works at the Kyangwali health center in Uganda, which has seen a rise in patients this year as Congolese refugees pour in.

these claims, saying the state had the right to oversee chiefs receiving government funds.

At the same time, the drop in prices for oil, copper and cobalt—which account for 90% of Congo's exports—cut into government spending on social services and other payments that usually flow to local chiefdoms.

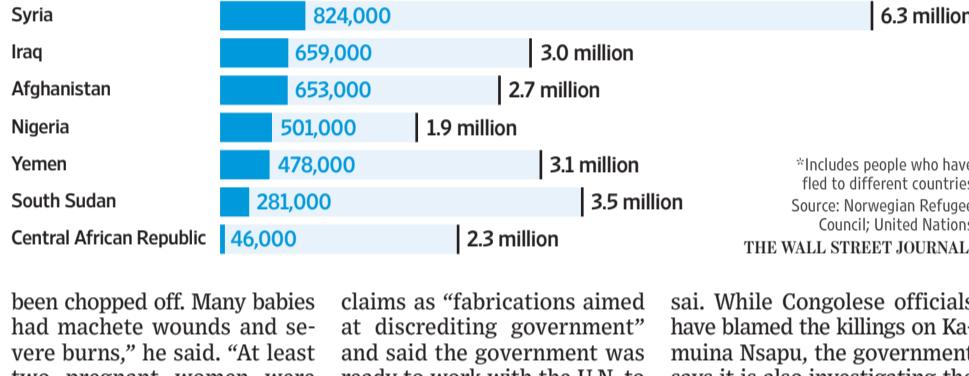
"A deteriorating economy has fueled resentment toward Mr. Kabila's regime, especially among traditional chiefs," said Adeline van Houtte, Africa analyst at the Economist Intelligence Unit.

In Kasai, a longtime opposition stronghold, Kamuina Nsapu has ambushed government troops, which the U.N. says have responded with disproportionate force. On Tuesday, the U.N.'s Mr. Hussein said investigators now believe Mr. Kabila's government has been arming its own militia, Bana Mura, to fight Kamuina Nsapu.

"My team saw children as young as 2 whose limbs had

### On the Run

More people have been forced from their homes in the Democratic Republic of Congo over the past 18 months than in other conflict zones. Displacements in selected conflict-torn nations:



\*Includes people who have fled to different countries  
Source: Norwegian Refugee Council; United Nations

THE WALL STREET JOURNAL.

been chopped off. Many babies had machete wounds and severe burns," he said. "At least two pregnant women were sliced open and their fetuses mutilated."

The U.N. has identified 42 mass graves and Mr. Hussein said there may be more. Lambert Mende, Congo's information minister, dismissed these

claims as "fabrications aimed at discrediting government" and said the government was ready to work with the U.N. to investigate the allegations.

The blurring of government and traditional powers has also been an issue in the March kidnapping and murder of two U.N. contractors investigating alleged atrocities in Ka-

sai. While Congolese officials have blamed the killings on Kamuina Nsapu, the government says it is also investigating the former development minister, Clement Kanku. He has denied any role in the killings.

Mr. Hussein said on Tuesday that the two U.N. experts were likely murdered while looking for additional mass graves.

## Australia Shuns Trump, Likes China

By ROB TAYLOR

CANBERRA, Australia—Most Australians harbor a broad dislike for U.S. President Donald Trump and see their country's relationship with China as an economic plus rather than a threat, according to a survey, despite concerns about espionage and political meddling by Beijing.

The national study by influential foreign-policy think tank Lowy Institute comes after a rocky few months in which Prime Minister Malcolm Turnbull and Mr. Trump clashed in a

phone call over an Obama-era refugee deal. It found that some of the international unease over Mr. Trump's "America First" approach was widespread in one of Washington's closest allies.

Though only 29% of respondents thought Australia should distance itself from the U.S. under the new administration, the survey found that Mr. Trump was deeply unpopular in the Pacific nation. Around 60% of respondents said he prompted an unfavorable opinion of the U.S., which has major economic and alliance ties with Australia.

The U.S. is a major investor

in the country, and Australia has fought alongside American forces in every major conflict involving the U.S. since World War I. Australia is also supporting the U.S.-led coalition carrying out airstrikes against Islamic State and said on Wednesday that it would resume bombing in Syria after suspending operations on Tuesday amid tensions between Russia and the U.S.

Since Mr. Trump's election last year, trust in Washington has declined sharply. Some 61% of Australians say they trust the U.S. to "act responsibly in

the world." That is 22 points below the record achieved in 2011, the year the Obama administration announced America's "pivot" to the Asia-Pacific region and Barack Obama addressed Australia's Parliament.

This month, Mr. Turnbull warned Beijing against "coercive" behavior and construction of artificial atolls in the South China Sea.

Chinese investment in Australia rose 12% to 15.4 billion Australian dollars (US\$11.7 billion) last year, the highest level since the global financial crisis ended in 2008.

## European Union Seeks Role in Pyongyang Talks

The European Union is in discussions with South Korea and China about taking a potential role as a broker for negotiations with North Korea

participants believe the EU could facilitate negotiations with North Korea, drawing on its members' diplomatic ties with Pyongyang and on its experience in helping to negotiate the 2015 nuclear deal with Iran, the officials said.

EU officials have discussed the matter with Chinese Premier Li Keqiang during his visit to Brussels this month, and with South Korea's special envoy, Cho Yoon-je, in May.

Any role for Brussels would need backing from Washington and EU member states, neither of which is assured. The Trump administration doesn't see Brussels as having the necessary leverage to help extract real con-

cessions from Pyongyang on its nuclear program, a senior U.S. official said. There would be a concern, the official said, that the process would be used to water down Washington's call for a full dismantling of North Korea's nuclear program.

The Wall Street Journal reported this week that the U.S. has held secret talks with North Korea for more than a year, hoping to free U.S. prisoners and establish a diplomatic channel for efforts to constrain Pyongyang's nuclear and missile programs.

EU officials said they wouldn't do anything to undermine U.S. moves to tighten economic sanctions on Pyongyang.

## Philippine Islamists Attack Second Town

By BEN OTTO

forces are spread all over."

Government troops have been battling militants linked to Islamic State in Marawi, a Mindanao city of 200,000, leading President Rodrigo Duterte to place the entire region under martial law in May.

More than 300 people have been killed and 180,000 displaced in the fighting, and the military estimates about 500 civilians remain trapped.

Militants have been seeking to establish a caliphate in the predominantly Muslim southern Philippines.

In recent days, authorities have said a small number of fighters in Marawi have escaped the city, fueling concern that the conflict could spread. Authorities also fear that with the end of the Muslim fasting month next week, reinforcements could join the fighting, including from foreign shores. The government has said militants in Marawi include citizens from Indonesia, Saudi Arabia, Malaysia and other countries.

The Bureau of Immigration on Wednesday moved to tighten borders, ordering more stringent screening of foreigners arriving at airports across the country and seaports in the south. Immigration Commissioner Jaime Morente said in a statement that visitors having "questionable documents or doubtful purposes" should be "booked on the first available flight to their port of origin."

Mr. Duterte on Tuesday raised the specter of a wider conflict in Mindanao should the island's Christians take a stand against the militants.

### WORLD WATCH

#### GERMANY

#### Rising Asia Exports Seen Countering U.S.

German exports to Asia are rising strongly this year, a trend that could mitigate the risks to Europe's largest economy should U.S. President Donald Trump make good on his protectionist promises.

Data showed Germany's exports to China rising around 12% in the first four months of the year compared with the year-earlier period. Exports to India rose by a similar rate, while shipments to Indonesia and Vietnam jumped more than 20% each, according to the Federal Statistical Office.

German exports to the U.S. rose 3.9% in the first four months of 2017. —Nina Adam

#### GLOBAL HEALTH

#### Bats Likely Hold Key To Future Pandemics

Where will the next pandemic come from? Hint: likely from bats.

Fighting emerging infectious diseases costs billions of dollars. So researchers from New York City-based nonprofit EcoHealth Alliance set out several years ago to try to pinpoint where and how future pandemics might erupt. Analyzing a database of wildlife species and viruses known to infect mammals and people, they calculated how many unknown viruses may be out there, who carries them and where they are likely to be.

Using a database of 2,805 mammal-virus connections, the



STEFANIE LOOS/REUTERS  
German leader Angela Merkel

researchers found that bats harbor nearly twice as many viruses that either threaten humans today, or could threaten them in the future than the next mammal on the list—primates. Rodents came in third.

—Betsy McKay

#### UNITED KINGDOM

#### BOE Officials Divided On Rate-Rise Need

Differences have emerged in the Bank of England's most senior ranks over the need for a rise in interest rates, as Chief Economist Andrew Haldane said he now favored an increase this year.

The pound rose on the news. Mr. Haldane's comments, in a speech in the northern English city of Bradford, came a day after BOE Gov. Mark Carney laid out the case against raising the central bank's key interest rate.

There has been relatively little dissent on the rate-setting Monetary Policy Committee during Mr. Carney's time at the helm.

—Paul Hannan



MARK NAVALEK/EUROPEAN PRESSPHOTO AGENCY  
A family prepares to flee Piggaway after rebels attacked it.

## U.S. NEWS

# Moscow Targeted 21 States, U.S. Says

BY BYRON TAU  
AND ERICA ORDEN

WASHINGTON—Federal investigators have evidence that Moscow targeted election systems in 21 states during the 2016 elections, senior U.S. cybersecurity officials said Wednesday.

The House and Senate intelligence committees held simultaneous hearings on Russia's alleged effort to meddle in last year's presidential election, offering the public new

officials said no evidence existed to suggest vote tallies were changed, and they testified that much of the data targeted was voter-registration information.

"As of right now, we have evidence of election-related systems in 21 states that were targeted," said Jeanette Manfra, the acting deputy under-secretary for cybersecurity and communications at DHS.

Ms. Manfra didn't make clear whether the hackers succeeded, nor did she identify

telligence and analysis at the agency, as well as Bill Priestap, the assistance director of the counterintelligence division of the Federal Bureau of Investigation.

"I think the primary goal was to sow discord and to try to delegitimize our free and fair election process," Mr. Priestap said. Moscow's secondary purpose was to "denigrate" Democratic presidential candidate Hillary Clinton and to boost her GOP rival, Donald Trump, he said.

In the House committee, former Department of Homeland Security Secretary Jeh Johnson said the administration of former President Barack Obama, a Democrat, was reluctant to alert the public to the alleged Russian hacking efforts last year because officials wanted to avoid the appearance of taking sides in the election.

Mr. Johnson also said the joint DHS and Office of the Director of National Intelligence statement in October 2016 that the U.S. intelligence community was "confident that the Russian Government directed the recent compromises of emails from U.S. persons and institutions, including from U.S. political organiza-



Former U.S. Homeland Security Secretary Jeh Johnson testified on Capitol Hill on Wednesday.

tions," was reduced to "below the fold" news by the emergence that day of the "Access Hollywood" tape featuring lewd remarks by Mr. Trump.

The U.S. intelligence community has concluded that Moscow ran a campaign last year designed to help Mr. Trump win last year's election. That campaign, according to U.S. intelligence officials' allegations, included cyberattacks on the email accounts of senior Democrats and a propaganda effort aimed at demonizing Mrs. Clinton. Mr. Trump has said his campaign didn't

collude with Moscow.

Mr. Johnson said the Democratic National Committee, which had a trove of emails stolen and published on WikiLeaks, and several states rejected DHS's offer of assistance last summer. DHS had sought to help the DNC "identify the intruders and patch vulnerabilities," according to Mr. Johnson's prepared remarks.

The agency wanted to designate election systems as "critical infrastructure," which would increase the resources that federal officials could devote to protecting the systems,

he said.

"In retrospect it would be easy for me to say that I should have bought a sleeping bag and camped out in front of the DNC," Mr. Johnson said.

Mr. Johnson also said that before Election Day he personally called the chief executive officer of the Associated Press news agency to review its results reporting process and systems.

Still, Mr. Johnson said, "I know of no evidence that through cyberintrusions, votes were altered or suppressed in some way."

*'The primary goal was to sow discord and try to delegitimize our free and fair election process.'*

details about the extent, scope and federal response to threats to the integrity of U.S. election systems.

A trio of current officials with Department of Homeland Security and the Federal Bureau of Investigation documented Russia's alleged intervention in the U.S. election during testimony in front of the Senate panel, revealing for the first time the number of state election systems targeted by Russian actors. The

any of the 21 states in question, citing the privacy rights of the jurisdictions that contacted DHS for help. A few states—including Arizona and Illinois—have publicly acknowledged that their systems were targeted.

Russian officials have denied a government-led effort to influence the U.S. election.

Ms. Manfra testified along with Samuel Liles, another DHS official who runs the cyber division of the office of in-

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## Health-Care Bill Is a Hard Sell for Alaska Senator

BY KRISTINA PETERSON  
AND STEPHANIE ARMOUR

WASHINGTON—Senate Republicans' quest for the 50 votes needed to pass their health-care bill has put them in hot pursuit of one duck-hunting, occasionally defiant GOP senator: Lisa Murkowski of Alaska.

Senate Majority Leader Mitch McConnell (R., Ky.) confirmed Tuesday that the bill's text would be released Thursday and a vote held likely next week, triggering an intensified effort to secure the votes of senators like Ms. Murkowski. An assessment of the bill's impact by the nonpartisan Congressional Budget Office is expected by early next week.

Mr. McConnell's schedule gives him limited time to nail down support for a bill whose emerging shape has raised alarms among conservatives and centrists alike. The majority leader can lose no more than two of his 52 GOP senators, prompting an urgent outreach to senators like Ms. Murkowski who face complicated pressures at home.

It won't be easy to secure the support of Ms. Murkowski, who has been willing to break with party leaders in the past. As recently as February, she



RON SACHS/CNP/ZUMA PRESS

Sen. Lisa Murkowski leading a panel on Tuesday.

was one of two Senate Republicans to oppose confirmation of Education Secretary Betsy DeVos. And the Senate GOP health bill could pose specific problems for Alaskans, causing some of the state's other elected officials to hesitate.

Ms. Murkowski has raised concerns over the bill's expected cuts to Medicaid, as well as a provision effectively cutting off funding for Planned Parenthood Federation of America.

"What they provide for women is an important level of access to care, and I don't think we ought to be rolling

back anything that effectively limits access," Ms. Murkowski said Tuesday. She declined to say whether that could cost Mr. McConnell her support, noting that senators haven't yet seen the bill's text.

"I can't tell you where my vote is going to be," she said.

Mr. McConnell declined on Tuesday to predict the bill's passage, saying that "we're going to make every effort to pass a bill" that overhauls the health-care system.

The majority leader has signaled that whatever the outcome, he wants to act on the bill quickly. Republican leaders have said they are eager to tackle the next big item on the GOP agenda, an overhaul of the tax system.

Democrats are stepping up their criticism of Republicans for writing the bill behind closed doors and leaving little time for the public to review it before the vote. "This is much more akin to a reality TV show reveal than the legislative process," said Sen. Chris Coons (D., Del.).

Mr. McConnell faces challenges on both ends of the GOP spectrum. But he is also contending with lawmakers, including Ms. Murkowski, who are worried about the bill's impact on specific conditions in

### Insurance Startup Raises Its ACA Bet

Brother of Jared Kushner Is Company's Co-Founder

Insurance startup Oscar Insurance Corp. said it plans to expand its offerings in the Affordable Care Act marketplaces, as insurers face a federal deadline Wednesday for initial filings to participate in the health law's exchanges next year.

Oscar, which has been under a spotlight partly because of its tie to President Donald Trump's administration, said it aims to begin selling ACA plans in Tennessee for the first time in 2018, and re-enter the exchange in New Jersey, where it sat out this year. The insurer also will expand the regions where it sells ACA plans in California and Texas, and will continue selling plans in its home market of New York. Last

week, Oscar said that it will begin selling marketplace plans in Ohio next year, working with the Cleveland Clinic.

Josh Kushner, brother of Jared Kushner, Mr. Trump's son-in-law and senior adviser, is a co-founder of Oscar. According to his financial-disclosure forms, Jared Kushner has invested his interest in Thrive Capital, his brother's investment firm, which is a major Oscar shareholder.

Oscar is betting on the marketplaces at a time when their future is uncertain, as Senate Republicans aim to vote soon on a health-overhaul bill. Other insurers now making exchange-plan filings for next year said they may still change their minds about participating in coming months.

Mario Schlosser, Oscar's chief executive, said the insurer believed that ultimately the marketplaces will stabilize, and the "apocalyptic scenario...just won't come to pass, not this

year, and not in the future." Oscar is working closely with hospital systems, he said, and it is planning to bolster its presence by offering employer plans in several places.

Oscar, which has been valued at \$2.7 billion, decided last year to pull out of New Jersey's ACA exchange for 2017, as well as Dallas. An Oscar spokesman said both markets appeared unstable at the time. Oscar had an overall loss of about \$205 million in 2016 but the spokesman said its losses were narrower in the first quarter of this year. Mr. Schlosser said it was "too soon to tell" if the insurer would end 2017 in the black.

Insurers participating in the marketplaces have said they need to lock in federal payments that help reduce health-care costs for low-income ACA enrollees, which Mr. Trump's administration has threatened to halt.

—Anna Wilde Mathews

## Spicer Adopts a Lower-Key Approach

BY MICHAEL C. BENDER

WASHINGTON — Once lauded by President Donald Trump for his ability to draw more daytime television viewers than many soap operas, press secretary Sean Spicer is spending less time in the White House briefing room as questions have been raised about his role.

Mr. Spicer has made just seven appearances before the media since returning from the president's first foreign trip more than three weeks ago. When he has taken the podium at the briefings, which are held most weekdays, he has adopted a less combative approach and shown an increasing willingness to leave reporters' questions unanswered.

Amid speculation about how long he will remain the main face of the briefings, Mr. Spicer has also been more likely to say he hasn't talked to Mr. Trump about major policy issues.

On Tuesday, Mr. Spicer's first on-camera briefing in more than a week, he was asked if the president believes Russia interfered with the 2016 election.

"I have not sat down and talked to him about that specific thing," Mr. Spicer said.



White House press secretary Sean Spicer is seen less in public.

Investigation director, when Mr. Trump made several statements that contradicted those of his aides and fueled speculation about Mr. Spicer's job status.

Recently, internal discussions have centered on whether Mr. Spicer should transition to a more strategic, behind-the-scenes role if the president could find a replacement for him, either internally or externally, to handle the briefings, a senior White House official said.

Asked about his job status on Tuesday, Mr. Spicer smiled and said, "I'm right here."

"We're always looking for ways to do a better job of articulating the president's message and his agenda and we'll continue to have those discussions internally," he said.

For now, Mr. Spicer—a former communications director for the Republican National Committee—has avoided wading into hot-button issues.

Mr. Spicer said Tuesday he didn't know whether the president had been keeping conversations with Mr. Comey, a question reporters have asked him repeatedly since Mr. Trump suggested the possibility in a tweet last month.

—Rebecca Ballhaus contributed to this article.

## Study of Nations to Add To Travel Ban Restarted

BY LAURA MECKLER

WASHINGTON—President Donald Trump's travel ban remains on hold due to court rulings, but his administration is resuming a global review of nations that might lead to an attempt to install far more sweeping travel restrictions.

The travel ban aims to stop people from six Muslim-majority countries from coming to the U.S., based on what the White House has said are security concerns.

The global review will examine every other country to determine whether any should be added to the list.

The goal is to compel nations to cooperate more fully with U.S. efforts to vet their citizens, officials said.

The global review was ordered along with the travel ban, and for months both had been kept on hold by a federal judge in Hawaii. But last week, an appeals court ruled that the administration should be allowed to resume the study, and on Monday night, the court put its decision into effect.

Now the Department of Homeland Security said it is moving forward. "The ruling by the 9th Circuit Court of Appeals finally allows DHS to resume the important work of reviewing the information pro-

vided by all countries on their citizens who desire to travel to the United States, to ensure the applicant doesn't present a security or public safety threat to the U.S.," said DHS spokesman Dave Lapan. "DHS will undertake a full review of the vetting requirements worldwide in the expectation of raising the global security bar to better protect our nation."

Critics have said that trying to force cooperation could be counterproductive. They said some countries will never be able to meet all of the U.S. demands, but that doesn't mean the U.S. should ban every one of their citizens from visiting.

A provision in Mr. Trump's executive order on visas and refugees gave DHS 20 days to report back to the president on the results of the review, including a determination of what information is needed from each country and "a list of countries that do not provide adequate information."

A DHS official said the agency is consulting with attorneys on the timing, but it appears that the 20-day clock began on Monday, when the appeals court put its ruling into effect. The goal, the official said, was to move "as expeditiously as possible following the court's order."

## U.S. NEWS

# GOP Wins in Georgia in Test for Trump

Republican beats back Democrat in heavily funded special election to fill a House seat

SANDY SPRINGS, Ga.—Republicans held on to a hotly contested U.S. House seat in Georgia, beating back an aggressive challenge that showed the Democrats' inability to turn opposition to Donald Trump's presidency into electoral gains.

By Janet Hook,  
Cameron McWhirter  
and Reid J. Epstein

Republican Karen Handel, a former Georgia secretary of state, beat Democrat Jon Ossoff, a one-time congressional aide, on Tuesday in the most expensive House race in history and the most significant test of the two parties' political strength since Mr. Trump's election.

In nearly complete results, Ms. Handel had almost 53% of the vote to just over 47% for Mr. Ossoff, the Associated Press reported.

In winning the seat, Republicans overcame a Democratic advantage in campaign spending and demonstrated that Mr. Trump retained political capital in the district. The president, Vice President Mike Pence and other party luminaries visited the Atlanta sub-



Republican Karen Handel, with her husband, Steve, celebrates her victory after the House special election in Georgia. At right, Democratic candidate Jon Ossoff.

urbs to support Ms. Handel's candidacy.

The result was a big blow to Democrats, who were hungry for a victory to demonstrate that grass-roots, anti-Trump energy gives them a shot at taking control of the House in the 2018 midterm elections. Democrats earlier this year lost two other contested House special elections, in Kansas and Montana.

In a special election Tuesday in South Carolina, Republican Ralph Norman held the House seat vacated by Mick

Mulvaney, Mr. Trump's budget director, but by a far closer margin than expected. Mr.

Norman defeated Democrat Archie Parnell, a former Goldman Sachs executive, by less than 4 percentage points. Mr. Mulvaney won the district by 20 points in November and Mr. Trump carried it by 18.

The twin victories mean that Republicans are 4-for-4 in the House special elections that are being widely viewed for signals to each party's prospects next year in the battle for control of the House,

which is now held by the Republicans. Georgia had been considered Democrats' best shot at a win.

In her victory speech, Ms. Handel offered a "special thanks to the president of the United States," who had come to the district for a fundraiser and sent supportive Twitter messages in the closing days of the campaign. After her victory, Mr. Trump congratulated her in another tweet.

In conceding, Mr. Ossoff said he didn't get the outcome he wanted but that his cam-



JOHN BAEMORE/ASSOCIATED PRESS

paign had awakened a movement. "We showed the world that in places where no one thought it was even possible to fight, we could fight," he said. "The fight goes on."

Mr. Ossoff's defeat will likely prompt soul-searching among Democrats about what it will take to flip Republican-held seats in the 2018 midterm fight for control of the House, given that such a vast effort in Georgia fell short. More than \$31 million was poured into the Ossoff campaign by donors and out-

side groups, compared with more than \$23 million spent by Ms. Handel's campaign and its allies.

Still, the fact that Republicans had to work so hard to hold on to a historically conservative district sent a warning to GOP incumbents and candidates that they likely will have a tougher fight than usual next year, especially in suburbs like Georgia's Sixth District, where many residents are affluent and hold college degrees.

cluding by banning the use of smartphones while driving. It declined to comment further. Kazuki Omura, manager of one of the Tokyo branches of MariCar, said customers are given a safety briefing and their driving skills are checked before they drive.

Meanwhile, the company is battling a lawsuit by Nintendo accusing MariCar of copyright infringement. MariCar, which opened its first branch in Tokyo early last year, says it obtained an understanding from the videogame giant before launch. Nintendo declined to comment beyond its initial statement announcing the lawsuit, which called for a ban on the service and damages. The two sides made opening arguments in court in April.

MariCar offers costumes of game characters including Yoshi the dinosaur. Many drivers pick the main character, a portly plumber named Mario who has become an iconic Japanese figure even though he is nominally Italian. During the closing ceremony for the Olympics in Brazil last year, Japanese Prime Minister Shinzo Abe appeared dressed as Mario.

Executives from Universal Parks & Resorts, a unit of Comcast Corp.'s NBCUniversal, wore big red Mario hats and white gloves at a June 8 groundbreaking event for a Nintendo area at their theme park in Osaka, Japan, scheduled to open in 2020.

One of the main attractions: a Mario Kart ride.



Jason and Nicole Francis from New Jersey, in the front row, during a MariCar ride in Tokyo in May.

JASON AND NICOLE FRANCIS

ing blossoms. Ahead of the flowering season last year, when many Japanese gather for picnics under cherry trees, the Chinese Embassy in Japan published an advisory on its website asking tourists not to climb the boughs or break off branches.

In Kyoto, the kimono industry has mushroomed as new businesses have cropped up offering cheap, bright-colored versions of the garment for daily rental. Keiko Enomoto, who has worked in the industry for 30 years and runs a kimono store in Kyoto, is not impressed. She calls some of the newer rentals "awful" and "too gaudy."

Many visitors are drawn to

the tech-infused side of Japanese popular culture, says Tim Oakes, Australia branch manager for travel company InsideJapan Tours. One of the company's most popular group tours is the 11-day "HyperJapan J-Pop & Go!" trip, fully booked in several of the coming months.

The tour includes visits to a

restaurant with a futuristic

cabaret show of semi-erotic

dancing robots and a museum for animation producer Studio Ghibli.

Japan is synonymous with

videogames for many younger

visitors, including Natasha

Adamo-Parker, a 29-year-old

nurse and self-declared Mario

Kart obsessive from Australia.

She joined a recent MariCar

ride and said the experience

topped skydiving and bungee

jumping.

"What is so surreal is that

within the strict culture of Japan you get to do this wild thing," Ms. Adamo-Parker said.

Groups of MariCar drivers have become a common sight in downtown Tokyo, zipping through the shopping district of Shibuya or across Rainbow Bridge in Tokyo Bay. U.S. military personnel based in Japan are among the customers. Videos of MariCar riders spotted in Tokyo have been posted online by visiting celebrities Kim Kardashian and Hugh Jackman.

Rides are led by a guide and participants are asked not to race each other or throw banana peels or other items from the game onto the street.

The red karts and colorful outfits stand out among the mostly white, gray and black cars on the orderly streets of Tokyo, ranked by the Economist Intelligence Unit think tank as the safest city in the world in part because of a low level of deadly traffic incidents.

A spate of minor accidents,

including one in which a go-kart driver hit a police station, has led to calls for tighter regulation by taxi drivers and other critics who have questioned the go-karts' safety. Drivers aren't required to wear seat belts or helmets, and the karts are treated similarly to mopeds under Japanese traffic laws.

Customers must possess a valid local or international driving license. MariCar said in May it would cooperate with a police request to tighten safety procedures, in-

cluding by banning the use of smartphones while driving. It declined to comment further. Kazuki Omura, manager of one of the Tokyo branches of MariCar, said customers are given a safety briefing and their driving skills are checked before they drive.

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One of the main attractions: a Mario Kart ride.

## U.S. WATCH

### FBI

#### Attack on Lawmakers Didn't Appear Planned

James T. Hodgkinson was a troubled man who railed against Republicans on social media and kept more than 200 rounds of ammunition in a storage locker, but he did not appear to have planned his attack at a congressional baseball practice, a Federal Bureau of Investigation official said Wednesday.

"I think he was struggling in a lot of aspects of his life," Timothy Slater, head of the criminal division at the FBI's Washington Field Office, said at a news conference. Officials at the event provided new details of Mr. Hodgkinson's final days before his June 14 rampage, which critically injured Rep. Steve Scalise (R, La.) and wounded three others. Mr. Hodgkinson opened fire at a practice of Republicans preparing for a congressional charity game.

Mr. Slater confirmed that investigators had found a list of six members of Congress on the shooter but declined to say who was on the list. The FBI doesn't consider this a "hit list," Mr. Slater said, because Mr. Hodgkinson's internet search history didn't suggest he had formulated specific at-

tack plans or targets. At this point in the investigation, he added, the bureau believes the attack was "more spontaneous" than planned.

Separately, Mr. Scalise "continues to make good progress," according to a statement from MedStar Washington Hospital Center, which upgraded his condition to "fair" from "serious."

—Aruna Viswanatha

### ECONOMY

#### Home Sales Rise Despite Tight Supply

Sales of previously owned U.S. homes increased in May, a sign of solid demand during the housing market's spring selling season despite fast-rising prices and tight inventory.

Existing-home sales rose 1.1% in May from the prior month to a seasonally adjusted annual rate of 5.62 million, the National Association of Realtors said. Economists surveyed by The Wall Street Journal had expected a 0.5% decline to a 5.54 million annual pace; April sales were revised down slightly. Compared with a year earlier, sales were up 2.7% in May.

Lawrence Yun, the trade group's chief economist, said despite the latest sales uptick, a lack of available homes has con-

tinued to drive too-rapid price growth. The median sale price in May was \$252,800, the highest on record and up 5.8% from a year earlier.

—Ben Leubsdorf  
and Sarah Chaney

### EDUCATION

#### Yale Dean Out After Being Placed on Leave

June Chu, a Yale University dean who was put on leave last



TED JACKSON/ASSOCIATED PRESS

BRACING FOR STORM: Residents along the Gulf Coast braced for tropical storm Cindy, which was expected to unleash torrential rains that could trigger what the National Hurricane Center described as 'life-threatening flash flooding.' Above, workmen and volunteers helped shore up gaps in a levee in Lafitte, La.

month after being tied to a string of racially insensitive reviews on Yelp, has formally left the school.

Head of Pierson College Stephen Davis wrote in a letter Tuesday that Ms. Chu left her

position at the school "and wishes the best to the students."

Ms. Chu didn't respond to an email inquiry, or to a message left on a cellphone number listed under her name.

Ms. Chu, who taught psychology and Asian-American studies and was dean of the residential Pierson College, apologized in mid-May for two reviews that were deemed offensive and assured administrators and students those were the only such posts. But the Yale Daily News, the student newspaper, published more posts by her.

The posts, about area restaurants, movie theaters and gyms, have since been removed from the online review website. One review of an Asian restaurant said it would be perfect for "white trash," according to the student newspaper, while another implied that an ice cream treat would be good for a white person "who has no idea what mochi is."

Mr. Davis wrote in an email last month, at the time Ms. Chu was put on leave, that "No one, especially those in trusted positions of educating young people, should denigrate or stereotype others."

—Melissa Korn

## UBER CEO RESIGNS

# Kalanick Joins List Of Ousted Founders

By STU WOO

Travis Kalanick, **Uber Technologies** Inc.'s co-founder, joined an illustrious list of Silicon Valley leaders forced out of running the companies they built. He resigned late Tuesday after a group of investors pressured him to step down.

Here are just a few cases of what happens when a technology company pushes out a founder.

### Steve Jobs, Apple Inc.

The most famous example, of course, is the late Mr. Jobs. With the board's backing, **Apple** Chief Executive John Sculley in 1985 fired Mr. Jobs after he tried to get Mr. Sculley—whom Mr. Jobs had lured away from PepsiCo just two years earlier—fired.

Mr. Jobs went on to run software company NEXT and Pixar Animation Studios, helping create "Toy Story." In 1997, he returned to Apple after it acquired NeXT. During his second Apple tenure, Mr. Jobs released some of the company's most iconic technological innovations, including the iPod and iPhone. He remained chief executive until about a month before he died in 2011.

### Jerry Yang, Yahoo Inc.

Mr. Yang was pressured out of **Yahoo** leadership not once, but twice. He was chief executive from 2007 to 2009, when he left that position af-

ter critics savaged him for rejecting a Microsoft Corp.'s offer to buy the company for \$45 billion. He remained in management, as a "Chief Yahoo," focusing on strategy and stayed on the board.

In 2012, though, he left after investors questioned whether his many roles at Yahoo, including co-founder, director and largest shareholder, saddled him with conflicts of interest as the company explored selling itself.

Yahoo, which he co-founded in 1995, sold itself to Verizon Communications Inc. for \$4.5 billion this year.

### Jack Dorsey, Twitter Inc.

Three of Twitter's co-founders have been its chief executive. Mr. Dorsey was a nose-ring-wearing, dreadlocked one until 2008, when he was pushed out after disagreements over another co-founder.

He returned to Twitter in 2011 as a product chief while remaining chief executive of mobile-payment startup Square Inc.

In 2015, Twitter promoted Mr. Dorsey to chief executive once again—while allowing him to remain Square's boss too.

In April, Twitter reported sliding revenue for the first time. Square in May said it had slashed losses faster than expected and plans to expand to the U.K.

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sliding revenue for the first time. Square in May said it had slashed losses faster than

expected and plans to expand to the U.K.



Uber's aggressiveness has often been viewed as linked to Travis Kalanick's personality. Some analysts say a fresh start is possible.

# CEO Gone, Fights Remain

Executive change not likely to help soon with Uber's regulatory battles world-wide

By SAM SCHECHNER

The resignation of **Uber Technologies** Inc. Chief Executive Travis Kalanick may do little immediately to soften regulatory scrutiny or blunt opposition from taxi and drivers groups globally, underscoring the steep road the car-hailing company still faces in turning around the hard-driving image it has earned around the world under Mr. Kalanick.

Uber has for years faced opposition in the U.S. and abroad from taxi companies, regulators and—increasingly—its own disgruntled drivers, who argue that the company co-founded by Mr. Kalanick is a scofflaw that rolls into countries and tries to gain market share while flouting local regulations.

Uber counters that it is mainly the victim of lobbying by taxi monopolies that take advantage of riders and drivers, forcing Uber into the courtroom to push back.

That has left it embroiled in multiple legal battles, particularly in Europe, where Uber has been forced to shut down at least some services in France, Germany, Italy, Spain, the Netherlands, Sweden, and other countries—sometimes only after a court order.

Those legal fights, many initiated by Uber to challenge laws that restrict it, won't go away just because Mr. Kalanick

is no longer CEO. An official for the European Union's executive arm said that Mr. Kalanick's resignation will have no impact, for instance, on a set of appeals it has made in Europe. The complaints "concern the application of EU law and not the management of companies concerned," the EU official said.

Nor are some of those Mr. Kalanick offended ready to forgive the company he founded until it changes its ways. British independent workers union IWGB welcomed Mr. Kalanick's resignation, but said the company must start giving drivers more benefits. Driver groups in other countries echoed the sentiment.

"We saw how Travis treated his drivers," said Sayah Baaroun, head of a driver's union in France, referring to an incident where Mr. Kalanick was videotaped arguing with an Uber driver. "But for us, the larger battle continues." Mr. Kalanick later said he was "ashamed" of the behavior

captured on the video.

Still, Uber's aggressiveness around the world has often been viewed as interlinked with Mr. Kalanick's own personality, and the change of leadership could offer a fresh start with some of the authorities with which Uber has tangled. Dave Ashton, co-founder of French car-booking app SnapCar, said Mr. Kalanick's departure is "an astute move by the board" that could "repair Uber's reputation and help the company mature."

Xiaofeng Wang, an analyst with research firm Forrester in Singapore, said Mr. Kalanick's resignation "helps a little bit," she said, since it shows they "actually want to take responsibility and change."

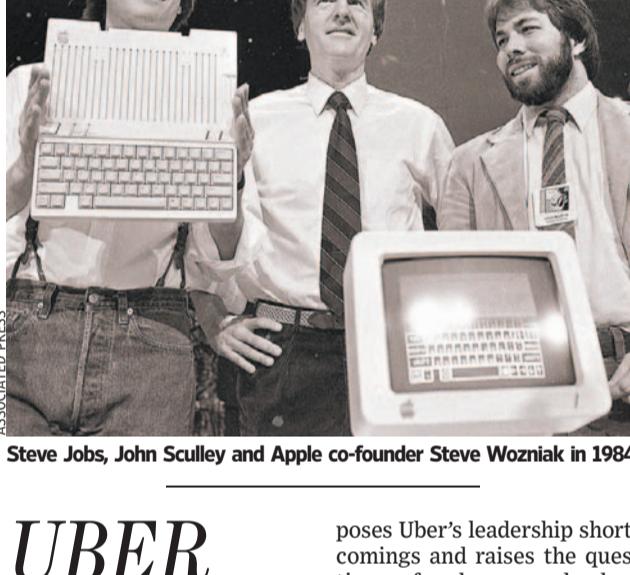
In Asia, Uber faces a clutch of fast-growing, homegrown startups that are capitalizing on factors such as local knowledge and better relationships with regulators in the battle for ride-hailing turf. Singapore-based startup **GrabTaxi Holdings** Pte. and Indonesia's **Go-Jek**, a motorcycle-hailing

app, are both providing fierce competition in Southeast Asia, where Uber has said it would focus—along with India—after abandoning the China market.

In Hong Kong, where local taxis have a tight grip on the passenger-ferrying market, police arrested several Uber drivers in May for allegedly running afoul of the city's permitting and insurance rules. A spokesman said the company is hopeful Hong Kong's new chief executive will be more open to the service.

An Uber spokeswoman said Mr. Kalanick's departure won't affect the company's efforts to join with regulators and cities globally. She added that Uber is already making changes to how it works separately from Mr. Kalanick's resignation, including an announcement this week that it will start implementing changes drivers have asked for, such as allowing riders to tip drivers.

—Natalia Drozdiak in Brussels and Dan Strumpf in Hong Kong contributed to this article.



Steve Jobs, John Sculley and Apple co-founder Steve Wozniak in 1984.

# UBER

Continued from Page One

The investors who drafted the letter include **Benchmark**, whose partner Bill Gurley is an Uber board member; **Menlo Ventures**; **Lowercase Capital**; **First Round Capital**; and **Fidelity Investments**, according to people familiar with the matter. Mr. Kalanick handed in his resignation just hours after the letter was sent and after speaking with one board member, who counseled him to step aside, according to a person familiar with the matter.

Mr. Kalanick had been on indefinite leave from the company as of last week, a move he said was necessary to mourn the death of his mother last month in a boating accident. He said he aimed to re-emerge as a newly invigorated leader.

Mr. Kalanick will likely remain a figure in the company he co-founded in 2009.

"This is a bold decision and a sign of his devotion and love for Uber," said members of Uber's board in a statement Tuesday. "By stepping away, he's taking the time to heal from his personal tragedy while giving the company room to fully embrace this new chapter in Uber's history."

Mr. Kalanick will likely remain a figure in the company that he co-founded in 2009 since he will keep his board seat and, along with co-founder Garrett Camp and early employee Ryan Graves, holds a majority of Uber's voting rights. Mr. Camp is chairman of the board.

When Uber announced Mr. Kalanick's leave last week, the company said it would be run by a committee of 14 executives.

Mr. Kalanick's departure ex-

poses Uber's leadership shortcomings and raises the question of who can lead a company whose defiantly competitive startup culture and leadership style reflected the pugnacious chief executive.

Mr. Kalanick didn't respond to a request for comment.

The next CEO will face a highly unprecedent set of challenges, including restoring rattled employees' faith in the company and improving its financial performance. The business

last year and another \$708 million in this year's first quarter, due in large part to cash incentives necessary to keep drivers driving.

Uber's management is also tasked with a shift in culture from one crafted under Mr. Kalanick that often operated in a legal gray area, for example, pushing into cities where its service was barred.

Even before Uber's string of scandals began earlier this year, Mr. Kalanick had come to embody an extreme version of the archetypal brash startup CEO who succeeds by thumbing his nose at convention and pushing the boundaries of established business practices. Uber—with a valuation of nearly \$70 billion that exceeds companies such as Ford Motor Co.—was the epitome of a new breed of startup using software to reshape long-entrenched industries from transportation to hospitality to health care.

But the mood changed after a former software engineer, Susan Fowler, alleged chauvinism at the ride-hailing firm in February. Many employees, and some investors began questioning Mr. Kalanick's acumen to remain at the helm.

In rapid succession, Uber faced a lawsuit from Google parent Alphabet Inc. over allegedly stolen technology, a federal probe looking into technology used to evade regulators, an exodus of executives, and its admission that it erroneously withheld tens of millions of dollars from New York City and Philadelphia drivers over more than two years.

Uber still believes that it has superior technology and

# MIMS

Continued from Page One

most valuable startup. There are barbarians at Uber's gate, and it's sorely in need of a moat.

Mr. Kalanick, who initially announced a leave of absence last week, wrote then that the company must evolve into "Uber 2.0," acknowledging it needs a complete overhaul of its corporate culture. But it's not clear how Uber the caterpillar becomes Uber the butterfly.

"We think the company's back is to the wall, and there is no more room for continued screwups," early Uber investor Mitch Kapor said last week. Mr. Kapor, who in February co-wrote an open letter to Uber about the company's "toxic" culture, suggested last week that Mr. Kalanick should come back only if he is "genuinely committed to Uber 2.0."

Assuming there is a magic pill to fix Uber's culture, the next step will be fixing the business.

Uber's original approach was more sprint than marathon. Believing he could preemptively wipe out the competition by amassing more money and market share early on, Mr. Kalanick employed a hyperactive management style that prized speed over integrity. But the finish line never really appeared.

Uber still believes that it has superior technology and

data science that gives it lower costs per ride than competitors, says a source close to the company. If Uber is right and it can maintain an advantage like this in the long term, it could endure a long war of attrition with its competitors. But since neither Uber nor its competitors are public companies, no one knows the actual unit cost of their rides.

In the U.S., Uber's biggest competitor, Lyft, has rapidly closed the distance with Uber by some of the most important measures, and has reached that point with far less investment. Lyft is now in the same number of markets as Uber, and in major cities can match Uber on both price and speed of service, says a company spokesperson.

Uber's service is still better

in the suburbs and commuter towns, but Lyft is starting to reach more of them, having added 150 markets in the past four months. Most important, both companies generate the bulk of their revenue in the biggest U.S. markets—not coincidentally, the markets in which Uber claims to have become profitable.

In China, another key battlefield, Uber bowed out entirely. Uber continues to aggressively pursue international markets, but this growth is costing it dearly. Uber lost \$708 million in the first quarter of 2017, despite logging \$3.8 billion in revenue.

In some respects, Uber still has the wind at its back: Overall demand for rides is surging. Uber has said the number of rides it completed in the

first quarter tripled from a year earlier. Even if Uber continues to be the most notorious company in Silicon Valley, momentum—and its \$7.2 billion cash hoard—should guarantee its survival. The danger is the company fails to meet the inflated expectations of its lofty valuation.

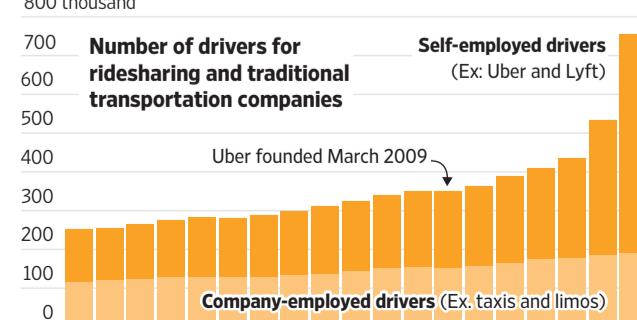
Google, Apple, Facebook and Amazon weren't first movers in their industries, but they had superior technology and infrastructure. Apple's brand and proprietary software and services gave it the pricing power to generate huge profits. Google's search and ad technology outclassed its competitors. Facebook capitalized on the network effect that increased its utility as more people joined. Amazon got so good at building cloud services for itself that it started selling them to others—reaping huge profits.

And Uber? Aside from the cash, it has a (tarnished) brand and an app that has been widely copied. Uber once could plausibly claim that the company with the most customers could support the most drivers, creating a virtuous circle where mass plus engineering might yield an unbeatable customer experience.

Now, the preponderance of its competitors, ably luring away customers and drivers, suggests that the ride-sharing market will come to resemble something far less sexy—and less profitable. Uber may just be a gigantic taxi company after all.

## Ridesharing Hits the Fast Lane

Car services with self-employed drivers are rapidly outpacing traditional employee-based local transportation providers.



Source: Brookings Analysis of Census Bureau and Moody's data

THE WALL STREET JOURNAL.

# LIFE & ARTS

## TV & MUSIC

### Music Supervisors Get Their Own Emmy Award

For the first time, the people who choose the cool songs that play in TV shows will be competing for an award this September

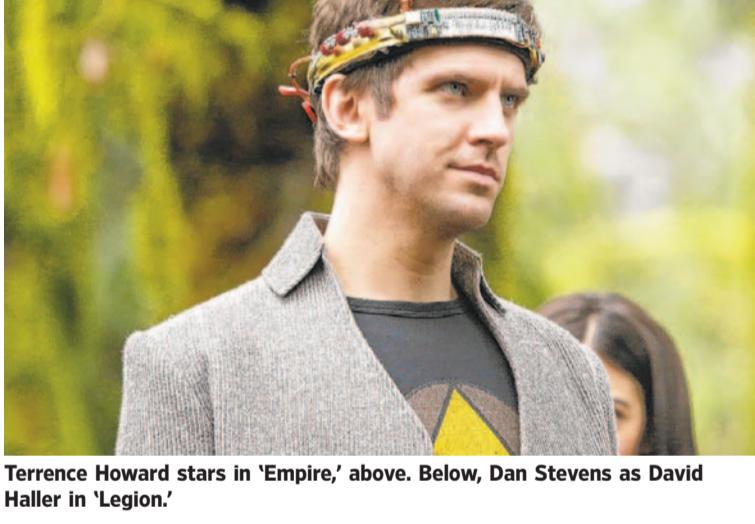
BY JOHN JURGENSEN

**WHEN EMMY** nominations are announced next month, music supervisors will be competing for the first time ever, after being granted an award category of their own. But long before the Sept. 17 awards ceremony, supervisors are wondering how Emmy voters will evaluate excellence for a job that is more subtle and complicated than it sounds: selecting the soundtrack for scenes in TV shows.

One of the episodes that music supervisor Maggie Phillips submitted for Emmy contention is from "Fargo." It includes a montage scene in which two characters strut their way into a bridge tournament. The contestants' slow-motion entrance is accompanied by a tune with a propulsive beat, tight horn riffs and lyrics that are total gibberish. "Prisencolinensinainciusol" was recorded in 1972 by an Italian singer, Adriano Celentano, replicating the sound of American English.

The song is catchy, cool and obscure, but Ms. Phillips says it was chosen more for the way it underscores the relationship between the two characters, an ex-con and her parole officer, in a romance that soon involves murder. The tune's swagger symbolizes the confidence they give one another, but its nonsense lyrics telegraph that the bravado is hollow.

When music clicks in a scene on



Terrence Howard stars in 'Empire,' above. Below, Dan Stevens as David Haller in 'Legion.'

multiple levels, it is hard to imagine substituting any other song, Ms. Phillips says. "Tempo, instruments, vocals. It all sums up to something that transforms the picture you're seeing in front of you. That's when I feel like I created something, by putting two separate things together to make something new."

TV has been on a tear in the last decade, opening the door for unconventional creativity in everything from cinematography to soundtracks. At the same time, the in-depth online analysis of certain shows helped raise the profile of behind-the-scenes pros, such as music supervisors. As links between the worlds of TV and music, they have also emerged as influential allies of musicians looking for exposure. To help viewers connect with TV music, some supervisors verify the songs they use with websites and apps that identify them, such as Tunefind and Shazam.

An official embrace by the television industry was slower to come. After forming the Guild of Music Supervisors in 2010 (which includes members working in film, advertising, games and other mediums) ambassadors for the craft made inroads with the organization that runs the Emmys, the Academy of Television Arts and Sciences. Starting in 2015, music supervisors were allowed to join the Academy as members of the music branch, which oversees awards for music direction (typically performance shows) and composition.



Unlike composers, however, supervisors more often come from the DJ world than the conservatory. Initially, there was some reluctance "as to why they'd allow us into their group," says Thomas Golubić, a co-founder of the music supervisors guild. "A lot of composers really don't know what supervisors do. Or maybe they had bad experiences. That created a little bit of confusion."

This year, the Academy voted to add the music-supervision category (along with a new Emmy for reality-series casting). Music supervisors have submitted about 90 entries, the Academy says. Voting on nominees ends Monday. All Emmy nominees will be announced July 13, ahead of the September awards show.

Neither the Academy Awards nor the Golden Globes honor music supervisors.

Supervisors had to supplement their Emmy submissions with written answers to 10 questions, such as: "What was your creative contribution to advancing the story line in the episode submitted?" and "How did your work support character development?"

Jen Ross, music supervisor for the hip-hop drama "Empire," submitted a song-packed episode that bounces among Eminem, Thelonious Monk and an original tune that addressed gun violence. In one scene record-label bosses meet with mogul Lucious Lyon, played by Terrence Howard. A decadent song by French Montana and Drake ("No Shopping") transitions to a triumphant one from Frank Sinatra and Count Basie's orchestra ("The Best Is Yet to Come").

The contrast could seem abrupt "but is absolutely believable in the world of Lucious Lyon," Ms. Ross says. "Just like real human beings, the characters are shaped by the music that surrounds them."

"Atlanta" music supervisor Jen



Left, Little Richard, whose music has been featured in the TV show, 'Better Call Saul,' starring Bob Odenkirk as Jimmy McGill, above. Below, the show's music supervisor, Thomas Golubić at the Guild of Supervisors' music awards.



Malone found herself dealing with court-appointed lawyers to negotiate with the estate of a rapper who was shot to death in 2013. Only 10 seconds of "Let Me Find Out" by Montgomery, Ala., native Doe B can be heard in the first episode of the FX series as it plays on the car stereo of an underground rapper and his sidekick.

Despite the hassle, the song was a more authentic choice for those characters than "something you would hear on the radio in L.A.," says Ms. Malone, who often tracks down emerging southern rappers and producers with direct messages on Instagram and Twitter. With "Atlanta" creator Donald Glover she co-submitted an episode for Emmy contention that peaks with the Funkadelic song "Hit It and Quit It."

For the AMC series "Better Call Saul," Mr. Golubić and his team consider hundreds of pre-existing

songs for each musical moment. After winnowing them down to about 20, they play them against the scene and debate how the songs interact with the scene through their mood, lyrics and tempo.

Before selecting a handful of the songs to edit into the scene and present to the show's creators for a final decision, Mr. Golubić gets preapproval to license the songs from their rights holders; he learned not to suggest songs without knowing that he can deliver them.

"Sometimes the amount of research is epic, going to the far corners of the world [to track down licensing approvals] under the hopes that maybe we'll pitch the song" to "Better Call Saul" producers, says Mr. Golubić, who submitted an episode of the series that showcased acts from Little Richard to Norwegian producer Todd Terje.

## FILM AND TELEVISION

### NOW STARRING WITH WILL FERRELL: THIS GUY?

BY ELLEN GAMERMAN

**JASON MANTZOUKAS**, the bearded character actor who often plays a friend or a dirtball for a few memorable scenes before disappearing from the screen, is finally sticking around.

In "The House," Mr. Mantzoukas steps into his largest film role yet as Frank, a heartbroken former gambling addict who opens an illicit casino in his house with his best friends, played by Will Ferrell and Amy Poehler. The comedy opens nationwide June 30.

"I know this is absurd because we're talking about a movie where we're organized crime bosses of the suburbs, but Frank has a really nice, very sweet emotional arc," says Mr. Mantzoukas, best known as the exuberantly uncouth Rafi on the FX series "The League." "I've never had a part this big, to have a performance that starts in one place and ends in a very different kind of place."

Mr. Mantzoukas is one of a string of unconventional supporting actors stepping into larger screen roles in recent years. Thanks to the explosion of entertainment options, actors who used to stay on the fringes are finding

Jason Mantzoukas is one of many unconventional supporting actors finding new routes to center stage.



new routes to center stage. Audiences are getting used to seeing outside-the-box actors in comedies that defy TV sitcom and movie formulas. Quirkiness, not a square jaw, is often at a premium.

Several actors are writing their way into leading roles, creating characters informed by their own experiences. Aziz Ansari was an ensemble player in "Parks and Recreation" but broke out as the

star of "Master of None," the Netflix comedy he co-created. Rob Delaney was largely known for his profane stand-up before co-writing his layered character for the Amazon series "Catastrophe." Kumail Nanjiani, the socially stunted computer programmer Dinesh in "Silicon Valley," becomes a romantic leading man in his new semi-autobiographical movie, "The Big Sick."

Actresses Amy Schumer

("Trainwreck") and Lena Dunham (HBO's "Girls") have similarly avoided the supporting-actress pigeonhole by writing their own material. The movement of ensemble actors into leading roles has created opportunities for racially and ethnically diverse actors as well.

Mr. Mantzoukas, a New England native of Greek descent whose voice carries a slight Cookie Monster rumble, is a veteran of improvisational comedy's Upright Citizens Brigade Theatre. He has played drug dealers (Amazon's "Transparent" and the 2016 movie "Dirty Grandpa"), a sleazy perfumer (fragrances include "Sideboob" on the NBC series "Parks and Recreation"), a gigolo (Comedy Central's "Kroll Show") and, currently, an unihinged detective ("Brooklyn Nine-Nine").

As a self-styled casino kingpin in "The House," Mr. Mantzoukas moves with a ludicrous suburban posse. They blow wads of cash around with leaf blowers and force-feed a man frozen yogurt straight from the spigot to collect on a gambling debt.

Mr. Mantzoukas drew on his own romantic breakups to play the other side of Frank, a wounded sad-sack who walks around in a big smelly poncho after his wife

leaves him. "I think we've all been there—I've had that breakup where I was so devastated all I did was eat yogurt for two months and wear the same clothes every day," he says.

The 44-year-old Los Angeles transplant can thank a failed romance for one of his longstanding career assets: his untamed beard. He stopped shaving after a particularly bad split and suddenly started getting parts with his wilder look.

Mr. Mantzoukas, whose father worked in health care while his mother raised him and his younger sister in the coastal town of Nahant, Mass., got into acting as a student when he joined an improv group at Middlebury College in Middlebury, Vt. At the Upright Citizens Brigade, he met future collaborators like Ms. Poehler and in 2010 made the jump to "The League," a series with largely improvised dialogue that ran until 2015.

Thanks to some of his over-the-top roles, fans often assume Mr. Mantzoukas is just like his unsavory characters. "The frequency with which people say insane stuff to me in bathrooms is crazy," he says. "I have to tell people, 'I'm an actor.'"

## OPINION

### REVIEW & OUTLOOK

## The Next Step on North Korea

The death of Otto Warmbier, a 22-year-old student held in a North Korean prison for 17 months, saddened and angered Americans. We don't know what mistreatment led to his brain damage, but the fact that Pyongyang concealed his condition for more than a year is damning enough. The incident is a reminder of the regime's brutality and is one more reason for the Trump Administration to increase sanctions to prevent Kim Jong Un from developing a missile capable of hitting the mainland U.S. with a nuclear warhead.

U.S. and Chinese officials were due to meet in Washington Wednesday to discuss the problem. But Donald Trump on Tuesday suggested that he no longer holds out hope that Beijing will change Pyongyang's behavior. He tweeted, "While I greatly appreciate the efforts of President Xi & China to help with North Korea, it has not worked out. At least I know China tried!"

Mr. Trump built up expectations of Chinese help after his April summit with President Xi Jinping. That was a long shot given China's failure to rein in its ally in the past. But it made sense diplomatically, putting Mr. Xi on notice that tougher U.S. action would follow if he failed to deliver while avoiding the appearance of a threat.

As the Journal reported last week, the Administration asked Beijing to crack down on some 10 Chinese companies and individuals that trade with North Korea. If China did not do so, the U.S. said it is prepared to act unilaterally against them by the end of the summer. In light of Warmbier's death and the North's preparations for a sixth nuclear test, the U.S. can now move with dispatch to use tougher sanctions to deprive those on that list from access to the international financial system.

Skeptics are right that United Nations sanctions have done little to stop North Korea's weapons programs. But those sanctions are far less stringent than those that forced Iran to the negotiating table. And a new report from the Washington research group C4ADS suggests that the North's trading network is highly vulnerable to the new sanctions.

### New sanctions against China's traders and financiers might work.

The report dispels the misconception that North Korea obtains the materials and technology for its weapons programs through an invisible network that can't be stopped by sanctions. It finds that the same small number of Chinese individuals and companies that dominate legal trade with the North also supply it with "dual use"

goods to build nukes and missiles. These individuals and their shell companies are also dependent on access to the international financial system.

As sanctions have tightened, this network has grown smaller and more consolidated. That's because there are only a few individuals who have the skills and connections within China and North Korea to continue trade under these circumstances. Pyongyang will find it hard to replace them.

The U.S. stumbled across this North Korean vulnerability in September 2005 when the U.S. Treasury named Macau's Banco Delta Asia a "primary concern" for North Korean money laundering. The bank was forced to freeze \$25 million in North Korean assets, but the knock-on effects were huge. Trade that depended on the bank ground to a halt, and other banks cut their business with North Korea.

In a tragic miscalculation, the Bush Administration released the frozen funds two years later in return for North Korea returning to the six-party disarmament talks, which went nowhere. North Korea moved most of its trading network to China, and the Obama Administration let the North Korea problem grow as it focused on other priorities.

North Korea is now a few years away from fielding an intercontinental missile, and U.S. options are dwindling. A pre-emptive military strike is the last resort because the Kim regime could kill millions in South Korea with conventional and nuclear weapons. But now that Beijing has been given the chance to help and either refused or failed, the U.S. and its allies have to use every sanctions and other tool available to prevent the Kim regime from doing to millions what it did to Otto Warmbier.

## Germany's Tax Debate

Germany's election campaign has been sleepy, but suddenly a debate is heating up over taxes. Opposition challenger Martin Schulz on Monday offered a tax plan that may force Chancellor Angela Merkel to respond.

Mr. Schulz's proposals are mostly in character for his center-left Social Democratic Party (SPD). He'd increase the top personal income-tax rate to 48% from 45% on incomes above €250,000 (about \$280,000), and the second-highest rate to 45% from 42%. Capital-gains and dividend taxes would rise by applying the regular personal-income rates to capital income, rather than the current 25% rate. He'd use most of the money to pay for roads and schools.

These plans never work as advertised because the higher rates don't produce the promised increase in revenue. Taxpayers respond to higher rates by changing their behavior, especially as capital and labor become more mobile. But Mrs. Merkel can't ignore Mr. Schulz's plan because he tackles a problem she should have fixed years ago.

The best part of the SPD plan would increase the income threshold at which the second-highest rate kicks in, to €76,000 from €54,000. Mr. Schulz also wants to flatten what's known as the "middle class belly." Germany's income tax is calculated via an equation that applies a different marginal rate to each additional euro of income up to that threshold.

Now that rate increases rapidly at the lower end of the income scale before leveling off toward the top—it's supposed to look like a protruding stomach when you graph it. Mr. Schulz is right to want to flatten it so that the marginal

### Schulz pitches a rate increase while Merkel sits on the sidelines.

disincentive to work for another euro of income isn't so bad.

This throws down a challenge to Mrs. Merkel and her center-right Christian Democratic Union (CDU). Mrs. Merkel has grudgingly heeded demands from her party for tax cuts. Her finance minister, Wolfgang Schäuble, promises a package worth €15 billion a year in the next Parliament, though it isn't clear which taxes Mrs. Merkel would cut.

She'd be smart to rise to Mr. Schulz's challenge by offering her own tax plan soon, flattening that middle-class belly without raising rates on capital and Germany's most productive—and mobile—workers. With a record fiscal surplus of €54 billion a year and counting, she doesn't need to follow Mr. Schulz down the fiscal rabbit hole of trying to replace the revenue that is supposedly lost by allowing citizens to keep more of their own money.

The wild card is corporate-tax reform, which Mr. Schulz left out of his plan. Some CDU members believe this should be a cornerstone of their proposal. There's plenty of scope to cut rates that rise to 33%. Germany might have no choice if President Trump pushes through a major corporate-tax reform in America, or if Britain lowers its rate to 15% or less post-Brexit.

One irony of Mrs. Merkel's long Chancellorship is that on economics she has largely lived off the pro-growth reforms made by her center-left predecessor, Gerhard Schröder. Mrs. Merkel has done little for reform while adding enormous economic costs with her green-energy schemes. A supply-side tax reform would offer a contrast to Mr. Schulz and a reason beyond inertia to elect her for another term.

## Free Speech for Sex Offenders

Unsympathetic plaintiffs serve a salutary purpose in the law, reminding politicians and the public that principles must govern even in unsavory circumstances. The U.S. Supreme Court rose to the occasion on Monday, ruling 8-0 that the First Amendment protects the right of even sex offenders to use social media.

Lester Packingham was 21 years old when he was convicted of statutory rape for having sex with a 13-year-old. In 2010 he posted a remark about a traffic ticket on Facebook and ran afoul of a North Carolina law that made it illegal for a sex offender "to access a commercial social networking Web site where the sex offender knows that the site permits minor children to become members or to create or maintain personal Web pages."

Packingham challenged the law as an infringement on his First Amendment right to use social media. The Justices agreed. Even if well intentioned, "the Government 'may not suppress lawful speech as the means to suppress unlawful speech,'" Justice Anthony Kennedy wrote for the majority. Barring sex offenders from all social media would block them from a source of current events, potential employment and

"speaking and listening in the modern public square" (*Packingham v. North Carolina*).

### A hard case that makes good First Amendment law in the internet age.

In a concurrence, joined by Chief Justice John Roberts and Justice Clarence Thomas, Justice Samuel Alito agreed that the law was overbroad but cautioned that the majority's opinion may go too far and discourage states from enacting more narrowly tai-

lored laws protecting minors. Justice Alito mentioned teenage dating sites or sites "where minors communicate with each other about personal problems" as possible examples. But states must not "burden substantially more speech than is necessary to further the government's legitimate interests," he added.

Justice Kennedy's opinion also notes that the decision "should not be interpreted as barring a State from enacting more specific laws than the one at issue. Specific criminal acts are not protected speech even if speech is the means for their commission." The broad ban on using social media seems to have been North Carolina's fatal mistake.

The internet poses new challenges for the law, but the High Court's unanimous and robust defense of the First Amendment shows that traditional American rights still apply, as they should no matter the media platform.

## Anatomy of a Witch Hunt



### BUSINESS WORLD

By Holman W. Jenkins, Jr.

Americans won't be really good citizens until they read Timur Kurhan and Cass Sunstein's 1999 law review article about "availability cascades."

Their launching point is the process by which we (i.e., human beings) decide to believe what others believe, and judge the truth of a proposition by how familiar it is.

Such "availability cascades" drive government policy in good ways and bad, but usually bad. An example the authors analyze in detail is 1989's fake "Alar" cancer scare that devastated U.S. apple growers.

Which brings us to today's question: How did it become widely believed in the first half of 2017 that a U.S. president committed treason with Russia?

Consider what has passed for proof in the media. Tens of thousands of Americans have done business with Russia since the collapse of the Soviet Union, not to mention before.

In 2009 President Obama made the first of his two trips to Russia with a gaggle of U.S. business leaders in tow.

Of these many thousands, four were associated with the Trump campaign, and now became evidence of Trump collusion with Russia.

Every president for 75 years has sought improved relations with Russia. That's what those endless summits were about. Mr. Trump, in his typically bombastic way, also promoted improved relations with Russia. Now this was evidence of collusion.

Russian diplomats live in the U.S. and rub shoulders with countless Americans. Such shoulder rubbing, if Trump associates were involved, now is proof of crime.

The Alar pesticide scare only took off when activists whom Messrs. Kurhan and Sunstein label "availability entrepreneurs" peddled deceptive claims to a credulous "60 Minutes." We would probably not be having this Russia discussion today if not for the so-called Trump dossier alleging improbable, lurid connections between Mr. Trump and the Kremlin.

It had no provenance that anyone was bound to respect or rely upon. Its alleged author, a retired British agent named Christopher Steele, supposedly had Russian intelligence sources, but why would Russian intelligence blow the cover of their blackmail agent Mr. Trump, whom they presumably so carefully and expensively cultivated? They wouldn't.

Yet recall the litany of Rep. Adam Schiff, who declared in a House Intelligence Committee hearing: "Is it possible that all of these events and reports are completely unrelated and nothing more than an entirely unhappy coincidence?"

His litany actually consisted of innocuous, incidental and routine Trump-as-

sociations interspersed with claims from the Trump dossier to make the innocuous, incidental and routine seem nefarious.

Maybe Mr. Schiff is a cynic, or maybe Harvard Law sent him back into the world with the same skull full of mush with which he arrived. But ever since, every faulty or incomplete recollection of a meeting with a Russian has been promoted in the media as proof of treason by Trump associates.

The president's obvious irritation with being called a traitor is proof that he is a traitor.

Whether the Russia incubus did more harm to Mr. Trump's vote or Hillary's vote during the election is impossible to know. But Mr. Trump won, so under the hindsight fallacy his victory is now proof that he conspired with Russia.

The term "availability bias" originated in the work of Amos Tversky and Daniel Kahneman, whose Nobel Prize-winning research gave birth to the field of behavioral economics.

### The Trump-Russia scare is from the same playbook as the fake-cancer scare.

Mr. Kahneman went on to write 2011's indispensable "Thinking, Fast and Slow," and I'm here to tell you that journalists especially pride themselves on their fast thinking—the kind that mistakes randomness for pattern, confuses correlation with causation and gives excessive rein to emotional and cognitive biases.

Notice I don't say reporters and editors are so dumb they can't free themselves from such errors. I say that such errors are their stock in trade.

The original allegory of fast thinking, of course, is the old folklore tale, "the emperor's new clothes." In his 1922 book "Public Opinion," Walter Lippmann explained how journalists reduce complex, novel realities to off-the-shelf stereotypes."

Or as a colleague once said of Stalin, "[He] tries to force life into a ready-made framework. The more life resists... the more forcefully he mangles and breaks it."

Come to think of it, that's not a bad way of describing how the D.C. anthill has reacted to the unexpected, exotic, high-risk, possibly providential experiment of the Trump presidency.

We mean every descriptor. His very unsuitability, the mood of the American public that elected him, the obscure impasse of American politics that brought him to power—all these signs deserve more respect than they're getting.

His Torquemadas don't and can't know whether America's democracy, in the improbable Mr. Trump, found a lever to move it forward, but there's something repugnant in their desire not to find out.

## LETTERS TO THE EDITOR

### Qatar Responds to U.A.E., Saudi Charges

In his June 14 op-ed "Qatar Cannot Have It Both Ways," United Arab Emirates (U.A.E.) Ambassador Yousef Al Otaiba demands that Qatar be "all in" in the fight against terrorism. I can assure him that we are. The better question might be, where do the U.A.E. and the other nations currently boycotting Qatar stand on this existential threat?

Ambassador Otaiba must certainly be aware that the United Nations and the U.S. Treasury Department list 10 times as many suspected terrorists and terrorist financiers from the boycotting countries as from Qatar. Surely his excellency also remembers that the U.A.E. was singled out in the 9/11 Commission's report for its role in laundering money to terrorists, and that Emiratis, not Qataris, were among the hijackers who flew planes into the Twin Towers.

Ambassador Otaiba calls upon Qatar "to return to the community of responsible nations," and criticizes television news channel Al Jazeera for inciting violence, though he fails to mention that the U.A.E. financed the military coup that overthrew Egypt's first democratically elected government, and that the U.A.E. allegedly bankrolled the coup plotters who attempted to overthrow the elected government in Turkey.

### Theresa, Come What May,

### Didn't Blame Anyone Else

Regarding British Prime Minister Theresa May's recent electoral wipeout ("Britain's Lesson for Conservatives," Review & Outlook, June 12): Perhaps, to borrow from Churchill, this is her finest hour. I haven't heard her suggest that her loss was due to voter misogyny. Nor foreign influence. Nor her postnasal drip. Nor any of the 10,000 excuses that last year's losing American presidential candidate gave for her campaign mismanagement.

I'm happy to report to the British people and the world that Theresa May is no Hillary Clinton.

The ambassador writes that the U.A.E. did not act "in haste" against Qatar, yet the U.A.E. never brought any of its complaints to the responsible entities at the Gulf Cooperation Council (GCC) before launching aggressive diplomatic and economic measures against us. Instead, as leaked emails show, the ambassador and the U.A.E. government privately conspired against Qatar in the shadows.

It has become clear that the current campaign against Qatar is not about terrorism, Al Jazeera or any of the other issues highlighted by the boycotting nations. It is about Qatar's independence, which some apparently view as a threat. We would like our brothers in the GCC to know that we are a threat to no one. But they should also understand that Qatar is a sovereign nation, and that we will not be bullied.

H.E. SHEIKH MESHAL BIN HAMAD AL-THANI

Ambassador of Qatar to the U.S.  
Washington

Instead of encouraging Saudi Arabia and the emirates to boycott Qatar, we should encourage tolerance and compromise. Look at Israel. As much as Israel is opposed to Iran and Hamas, it maintains a cordial relationship with Qatar. Maybe Qatar could become the bridge for peaceful coexistence of the two important factions in Islam, Sunnism and Shiism.

Instead of allowing ourselves to be drawn into sectarianism, we should endeavor to work efficiently with the two factions, especially if we want to bring peace in the Middle East and eradicate terrorism.

PROF. HESKEL M. HADDAD

President

The World Organization of Jews  
From Arab countries

New York

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# Congress and Obama Depleted the U.S. Military

By Dick Cheney  
And Liz Cheney

**N**orth Korea is making alarming progress in its ballistic-missile and nuclear-weapons programs. China and Russia are developing and fielding advanced weapons against which the U.S. may not be able to defend. Al Qaeda operates in more countries than ever. Islamic State is targeting the West and launching attacks throughout Europe and the Middle East. Iran is supporting terrorist organizations across the globe, modernizing its ballistic-missile and other capabilities and likely continuing to pursue nuclear weapons.

**The Trump budget would increase spending only 3%. With today's threats, that's not nearly enough.**

U.S. Defense Secretary Jim Mattis told the House Armed Services Committee last week that the U.S. is losing the military edge on which our security has long relied: "Today, every operating domain—including outer space, air, sea, undersea, land and cyberspace—is contested."

Gen. Joseph Dunford, chairman of the Joint Chiefs of Staff, seconded that worry in written testimony for the same hearing: "Without sustained, sufficient and predictable funding," he wrote, "I assess that within five years we will lose our

ability to project power; the basis of how we defend the homeland, advance U.S. interests, and meet our alliance commitments."

The situation President Trump inherited is dire. America today faces an array of threats more serious and complex than at any time in the past 75 years.

President Obama and his policies are largely to blame. The 2011 Budget Control Act, which mandated across-the-board cuts, known as sequestration, at a time when threats were growing, has also done serious damage. "No enemy in the field," Mr. Mattis told lawmakers, "has done more to harm the combat readiness of our military than sequestration."

What have eight years of Mr. Obama's policies, and six years of the Budget Control Act, wrought? The military superiority America relied on after the end of the Cold War has been seriously eroded, our capabilities diminished. In the past three months alone, military leaders have testified that:

- The Army is "outranged, outgunned, outdated," with only three of 58 brigade combat teams ready to "fight tonight."

- The Navy is the smallest and least ready it has been in modern times. Fewer than half the Navy's aircraft can fly because so many are grounded for maintenance or because they lack spare parts.

- The Air Force is the oldest and smallest it has ever been, and less than half of its combat forces are sufficiently ready to fight tonight.

- The Marine Corps is insufficiently manned, trained and equipped across the depth of the force.



AGENCE FRANCE PRESSE/GETTY IMAGES

**U.S. and Australian soldiers at a military exercise in the Philippines on May 8.**

Rebuilding America's defenses will require a massive, concerted and long-term effort that must begin today. Mr. Trump rightly promised to do this during last year's presidential election. Unfortunately, the White House budget submitted to Congress earlier this month fails to provide the necessary resources.

The White House has requested only 3% more funding for defense than Mr. Obama's proposed 2018 budget, meaning the Pentagon would essentially tread water for at least a year—time the U.S. cannot spare in this threat environment. Instead of leading the effort to repeal the Budget Control Act, the White House budget envisions extending it by six years, to 2027. The president's budget also cuts funding

in absolutely essential areas, including \$300 million from missile defense and \$1 billion from Navy shipbuilding.

In sum, the 2018 White House defense budget differs little from what Mr. Obama would have requested were he still president.

If Congress is serious about providing the resources necessary to defend America, lawmakers must do two things: pass a base defense budget for fiscal 2018 of at least \$640 billion, instead of the \$603 billion the White House requested; and repeal the Budget Control Act to eliminate the arbitrary spending caps and devastating sequestration.

The figure of \$640 billion comes from the House and Senate Armed Services committees, which over

the past year have conducted in-depth analyses and concluded this is the amount necessary in 2018 to begin rebuilding the military. This figure is a floor, not a ceiling.

For context, compare it with the projections from the Pentagon's fiscal 2012 budget. Because this was the last budget prepared prior to the Budget Control Act, it was also the last one based on assessing the threats America faces and what would be needed to meet them.

It projected a base defense budget of \$661 billion for 2018. That assessment was made before Islamic State arose in the Middle East, before North Korea's recent progress on nuclear weapons and ballistic missiles, before Russia invaded Ukraine, before China's aggression in the South China Sea, and before Mr. Obama's indefensible nuclear agreement with Iran.

Rebuilding the military isn't a one-year project. To undo the damage of the Obama era and provide for America's security in a world of increasingly threatening adversaries, Congress must dedicate itself to providing significant resources for many years to come.

Providing for the defense of America is the most sacred constitutional obligation of the U.S. Congress. If it fails in this, no balanced budget, no health-care reform, no tax reform, no entitlement reform will matter. If lawmakers fail to provide the resources necessary for the defense of the nation, nothing else they do will matter.

*Mr. Cheney was vice president from 2001 to 2009. Ms. Cheney is Wyoming's U.S. representative.*

## Britain Begins Brexit Talks on the Back Foot

By Andrew Hammond

**O**ne of the many ironies of the Theresa May leadership is that the Tories selected her for the top job because of her perceived experience and skill to see the nation through its most complicated ever peacetime negotiation. Yet her decision to call the June 8 "Brexit election" was one of the U.K.'s biggest political blunders in years.

The election has transformed the context for the Brexit battles to come. Mrs. May had previously hoped a big election victory would allow her to deliver her vision of a complete exit from the European Union while securing a comprehensive new trade agreement with Brussels. Now her reputation is in shreds.

Her weakness could see the nation crashing out of the EU with the hardest and potentially most disorderly of all exits, and without any deal on a future U.K.-EU relationship. Her minority government may not survive the course of negotiations. Or it may be unable to take the tough decisions needed to get an agreement.

The stakes at play are huge and historic. The EU could likewise be damaged by a disorderly, hard Brexit. Delivering a smoother departure now needs clear, coherent and careful strategy and thinking.

One indicator of the U.K.'s weakened hand is the capitulation by Brexit Secretary David Davis to the EU's negotiation timetable. Mrs. May had previously insisted that exit-deal negotiations, including over the so-called financial-divorce bill, must parallel discussions over the future relationship between the U.K. and the EU. On Tuesday Mr. Davis agreed with the EU's chief Brexit negotiator, Michel Barnier, that talks on how much money the U.K. will have to pay to leave must happen first, thus increasing Brussels' leverage.

Such is the potential weakness of Mrs. May's government that there is now concern that proper negotiations may no longer be possible. Since extending the two-year talks would only reduce the EU's negotiating power, Brussels is ratcheting up pressure on Mrs. May

to proceed, whether her team is ready or not.

The problem is that Mrs. May's domestic position has also weakened. She may not survive as prime minister for the full two years it

**The irony of Theresa May's weakened position is that it has made more unlikely the soft Brexit her opponents clamor for.**

may take to conclude negotiations. She also faces what may now be a majority in the House of Commons that supports a softer Brexit, including the overwhelming majority of members of Parliament from the opposition parties plus between 20 and 30 Tories. One could sense the new post-election assertiveness of the former Remainers within the Tory Party when Scottish leader Ruth Davidson said the electorate "did not vote for a Brexit which makes us

poorer or less secure...so let's commit to an 'Open Brexit.'"

This could threaten, among other things, Mrs. May's past commitment to casting aside the U.K.'s membership in the European Customs Union. Such a stance could be a red line for the Democratic Unionist Party, whose contingent of 10 members of Parliament from Northern Ireland are being wooed to reach a parliamentary cooperation pact by Mrs. May's government. Casting aside customs-union membership would create a harder border between the Republic of Ireland and Northern Ireland, the only land crossing between the EU and U.K. after Brexit.

With cross-border trade between the two countries worth more than €3 billion (\$3.34 billion) a year, few want to see this disrupted. Yet if the U.K. fails to stay in the customs union or strike a trade deal with the EU, U.K. exports will be hit by the common EU external tariff, which would necessitate border checks.

There is also the question of whether the U.K. might be able to

retain membership in the European Single Market, especially if the EU was willing to accept new U.K. immigration restrictions. While that remains uncertain, a sign of the shifting mood in U.K. politics is that even arch-Brexiteer Nigel Farage has highlighted the possibility now of the U.K. moving toward a Norway-style European Free Trade Association relationship, which would still see the U.K. leave the EU while retaining full access to the single market.

Political support in the U.K. for a softer Brexit is growing. The big question is whether Mrs. May's government can be resilient enough to survive the course of negotiations or have sufficient political capital to make the tough decisions needed to reach such an agreement. Without strong, constructive leadership from all sides, the odds are growing that the U.K. could crash out of the EU with the hardest of hard Brexits.

*Mr. Hammond is an associate at LSE Ideas at the London School of Economics.*

## The Experts Want Kids to Have a Fun-Free Summer

By Lenore Skenazy

**I**t's summer! Time to dig in the sand, gulp from the hose, play at the park, and leap with joy.

Unless you're a kid—in which case, find yourself a comfy sofa in a dark, quiet room and settle in. This is the season your parents are bombarded with the kind of warnings previously associated with incoming torpedoes. The basic message: Don't have fun, it's too dangerous.

Yes, that would be the same kind of summer fun your parents endlessly reminisce about. "Remember when digging in the sand at the beach was a fun activity for young children," says the website KidsTravelDoc. "Sorry. No more. Based on recent findings, only with lots of do's and don'ts is frolicking in the sand a healthy activity, says the U.S. Environmental Protective [sic] Agency."

I was unable to find the EPA's granular list of caveats. But the

blog's author, Karl Neumann of the American Academy of Pediatrics, lays out his own don'ts: "Studies show that children playing in the sand are more likely to become ill than children merely walking on it. And the risk of illness increases with digging in the sand, being 'buried' in it, and digging in wet sand."

Got it. Keep your kids on dry sand. No, wait: "Dry sand presents problems, too." So, Mr. Neumann warns: "Discourage children from lying directly on the sand."

While you're at it: "Walking barefooted is another 'don't.' Have children wear lightweight, ventilated, hard-soled footwear that covers the toes. This helps prevent stubbed toes, lacerations, puncture wounds, and burns from hot sand. Ideally, footwear should be worn for wading in the water."

Why take them to the beach at all? Keep them at home on a hard, nonporous surface, free of dirt and

obstacles, checking frequently for venomous spiders, disease-bearing insects and sewage. Children should be in steel-toed work boots at all times, as well as oven mitts and chain mail.

But even that isn't enough. Simply keeping the kids at home doesn't ensure they're safe, especially if they make it into the backyard. Parents magazine warns that "bees are attracted to flowers, so don't put fragrances or floral-patterned clothing on kids." Surely you've seen swarms of bees chasing children in floral prints, convinced they are flowering shrubs in work boots?

The American Academy of Pediatrics, meanwhile, suggests that if your moppets still insist on playing outside, the little daredevils at least "limit sun exposure during the peak intensity hours—between 10 a.m. and 4 p.m." That shouldn't put a crimp in anyone's day, should it?

The academy is afraid that kids will get too much sun. It's also afraid they'll get too little sun and end up with rickets. A related fear is that kids won't get enough water because...well, everyone is obsessed with "hydration" these days.

May I again remind you of the example of [Egypt's] Gamal Abdel Nasser? A revisionist school of historiography claims that he never wanted war in 1967. His best military units were bogged down in Yemen, his economy was a shambles, and his relations with Jordan and Syria, his putative allies, were

It's always seemed to me that drinking when thirsty does the trick. No. Now there's a new product on the market called Gululu, which is a water bottle with a Wi-Fi connection. The Gululu app allows parents to monitor how much water

**Digging in wet sand is dangerous. 'Dry sand presents problems, too.'**

**And don't ask about water.**

their child is drinking. The cagey gadget even knows if the kids are secretly not drinking—pouring out water to stop their parents from texting them to drink more.

To make the sipping less onerous—it really does get tiring if you're not thirsty—an animated character on the bottle's built-in screen grows happier and healthier the more the child drinks. Let's hear it for more screen time!

Gululu's other advantage is it keeps the little ones from drinking the wrong sort of water. Google "hose water" and you will be del-

uged with stories linking the stuff to just about every illness except gout. Some study, endlessly reported, found that hose water contained "PVC plastic additives, which can cause birth defects, liver toxicity, and cancer." Naturally, in these stories there is no mention of how many cisterns of water a child would have to guzzle for any of these issues to ever develop.

Being a kid these days is no walk in the park. But that's just as well. Yet another Parents magazine masterpiece warns that to keep children safe at the playground, you should "walk away if you see cement, asphalt, dirt, or grass: These surfaces are linked to head injuries."

So are walls, if you bang your head against them. My summer advice to parents is therefore short and sweet. Tell your kids they can't swim alone, get into a stranger's car, or let their parents buy them a high-tech water bottle.

And then stop reading other safety tips.

*Ms. Skenazy is founder of Free-Range Kids and a contributor to Reason.com.*

## Notable & Quotable: A Lesson of the 1967 War

*The Hudson Institute's Michael Doran, testifying before the United Nations Security Council about the 50th anniversary of the Six Day War, June 20:*

May I again remind you of the example of [Egypt's] Gamal Abdel Nasser? A revisionist school of historiography claims that he never wanted war in 1967. His best military units were bogged down in Yemen, his economy was a shambles, and his relations with Jordan and Syria, his putative allies, were

abysmal. Why would a leader in such a precarious position behave so recklessly?

The revisionists have much of the story right but they miss a crucial factor. Nasser was applying lessons that he learned a decade earlier, during the Suez Crisis. Then, as in 1967, he had precipitated a war that he could not possibly win militarily, but which he believed he could win politically, because, he gambled, the superpowers and the United Nations would intercede on his behalf. In 1956, that proved a very smart bet.

In 1967, however, it utterly failed—with disastrous consequences for Egypt—to say nothing of the Palestinians. How much better would it have been for all parties if, back in 1956, the United Nations had insisted that, in return for an Israeli withdrawal from Egyptian territory, Nasser must grant Israel meaningful security guarantees?

The key lesson of 1967 war is that peace is best achieved not by United Nations intercession but by facilitating direct negotiations between the parties.

## LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

# The Case for Privatizing Air-Traffic Control

The argument for splitting the FAA is based on how Canada, the U.K., and others have made flying better for travelers

**POLITICS ASIDE**, travelers really should want—demand—a privatized air-traffic control services provider. Many other countries have shown that it just plain works better than having a government bureaucracy directing airplanes.

Air-traffic control, known as ATC, depends on technology. Better tools can improve safety, shorten flights, get planes out of turbulence faster and reduce delays. And privatized ATC providers in Canada, the U.K., Australia and elsewhere have shown they can modernize and continuously upgrade faster than the Federal Aviation Administration.

On some key functions, the FAA is more than a decade behind.

The Transportation Department's inspector general, Calvin Scovel, told Congress in May that while the FAA is doing better with modernization, two decades of reform efforts have still fallen short.

FAA Administrator Michael Huerta, an Obama appointee, and other senior officials in the trenches on air-traffic control say the FAA just isn't structured to be a high-tech developer and operator. They argue splitting the agency would let it focus on safety regulation of airlines and air-traffic controllers instead of the potentially conflicting role of being the watchdog over its own controllers. The controllers' union also supports the idea after seeing the technology other countries are using and facing the threat of furlough in past budget showdowns.

Privatized ATC organizations say their big advantage, in addition to steady funding and borrowing, is that they can continuously take on small projects that make incremental improvements. When you're a government agency begging for appropriations, you pitch big, attention-getting programs. But big projects are exponentially more complex and prone to delay.

Take London's Heathrow Airport, one of the busiest in the



Strong headwinds can lead to landing delays at congested airports like Los Angeles International. New technology in use at London's Heathrow Airport had dramatically reduced those delays. It will take years to reach the U.S.

world. Strong headwinds cause big delays: If planes are spaced 5 miles apart and it takes longer to fly the 5 miles, fewer land each hour and some end up circling in holding patterns. So NATS Holdings Ltd., the United Kingdom's privatized air services provider, developed a tool to let controllers easily optimize spacing by time, not distance. When the tool went into use in 2015 after two years of development, headwind delays were reduced by 50%.

Time-based separation could have a big impact at large U.S. airports. But it won't be operational for arrivals and approach until fiscal year 2022 at the earliest.

Canada privatized its ATC operations more than 20 years ago and has since leapfrogged the U.S. in

technology and cut costs—13% over the past 11 years.

Flying in remote areas of Canada, pilots send text messages to controllers and get electronic responses. Requests for altitude changes are automatically checked for conflicts before they even pop up on controllers' screens. One mouse click can approve a request, update the plane's flight plan and alert other controllers. It's faster, more efficient and more accurate than U.S. procedures, and results in better flights for passengers.

The FAA has implemented digital communications at 55 major airports to deliver flight plans on the ground. That saves time, especially in stormy situations where lots of flights are getting new routes, and can reduce errors. But

communicating with airborne planes by text won't come until 2019 at the earliest.

Privatization was first proposed in Congress in 1974, but then and every time since it has failed to gain support. Sometimes Republicans like the idea; sometimes Democrats. Rep. Bill Shuster, Republican chair of the House transportation and infrastructure committee, proposed legislation in 2016. It never got out of committee.

Legislation is being drafted again, with White House backing. Proponents say they are making progress addressing many of the criticisms of past proposals. But the headwinds will again be stiff.

Opponents warn of higher ticket prices. But passengers are already

paying the full load for big bureaucracy through hefty taxes on their tickets. On a \$400 domestic round-trip ticket with a connection, you pay \$46.40 in FAA taxes and fees. In addition, airlines pay a fuel tax of 4.3 cents a gallon and a tax of 6.25% on cargo and mail.

Privatized ATC organizations charge user fees instead of taxes. (There likely would still be some ticket tax to cover safety regulation and airport improvements.) There are required international guidelines on charges so fees don't get out of hand and limit travel. In many cases, charges end up getting reduced as organizations get more efficient and traffic increases.

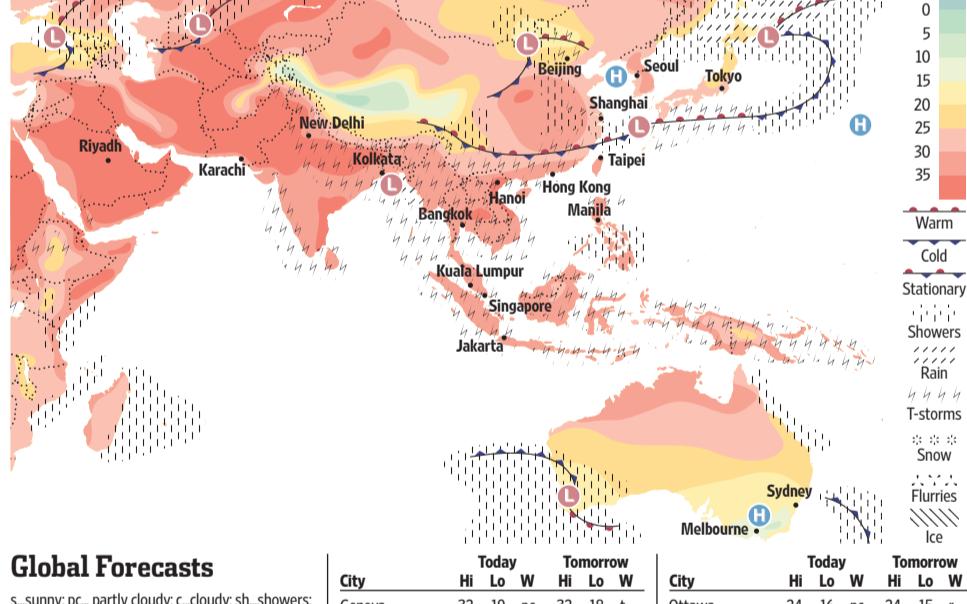
Rural representatives are worried that airport improvement funding from the FAA might dry up, and that fees for private aviation would make it harder to get medical flights and business-jet trips important to their communities. Small private-plane owners worry they'll be hit with user fees every time they practice landings in a Cessna 172.

Providers have concluded that making small planes pay small fees is a billing nightmare and would reduce safety. You don't want private pilots avoiding air-traffic controllers to save money. So service providers charge a one-time, required annual fee. In Canada, the annual fee for small propeller aircraft is aviation's best bargain: C\$65, or about \$49.

Others argue airlines would have too much control. That depends on how you set up the board of directors. In Canada, airlines get four seats on a 15-member board.

Some complain that sending government assets to a company would be a huge giveaway. Yet the current FAA infrastructure was paid for by travelers and shippers. If the new ATC organization had to buy the assets from the government, travelers and shippers would be paying for it again.

## Weather



## Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 27 16 t 22 16 pc

Anchorage 16 10 c 15 9 pc

Athens 31 22 s 32 22 s

Atlanta 26 23 t 31 23 c

Bahrain 38 24 s 40 26 s

Baltimore 33 22 pc 29 22 t

Bangkok 34 26 t 34 26 t

Beijing 24 19 t 25 19 sh

Berlin 30 17 t 23 16 pc

Bogota 18 10 r 19 10 r

Boise 28 12 s 29 14 s

Boston 27 19 pc 29 21 t

Brussels 33 15 t 26 14 pc

Buenos Aires 22 16 c 22 14 c

Cairo 33 22 s 34 22 s

Calgary 16 7 c 16 7 pc

Caracas 31 26 pc 31 26 pc

Charlotte 27 22 c 31 23 c

Chicago 32 20 pc 28 15 t

Dallas 32 25 t 35 24 pc

Denver 32 13 t 25 11 pc

Detroit 31 22 t 28 16 t

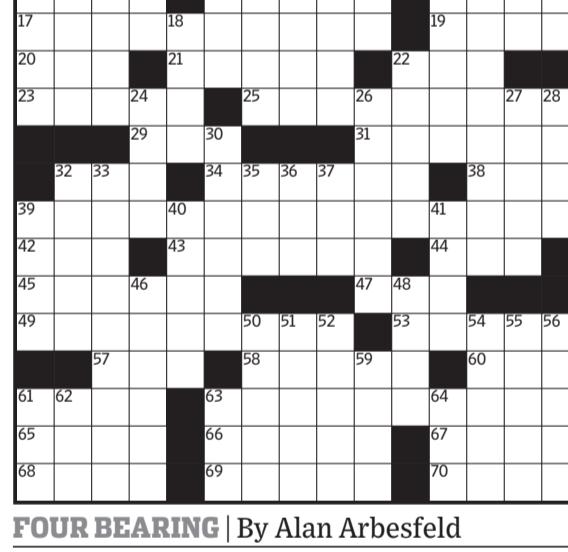
Dubai 40 32 s 42 32 s

Dublin 19 13 pc 20 11 c

Edinburgh 20 13 c 18 10 c

Frankfurt 34 20 t 30 16 pc

## The WSJ Daily Crossword | Edited by Mike Shenk



## FOUR BEARING | By Alan Arbesfeld

### Across

1 Leaves time? 22 "The Fountainhead" cover name 43 Myriad

5 Big name in Internet telephony tech 44 Enterprise inits.

23 Eschew ignorance 45 Geometry measure

10 Honshu city popular with steak fans 47 On the side of

25 Reason to cancel a Peruvian pack train? 49 Why some people visit an aquarium?

14 Lee who managed the Cubs and Phillies 53 Cockamamie

29 Targets of browser blockers 57 2013 film nominated for Best Picture

31 Current event? 58 Article of faith

32 Apt. count 60 Important time

34 Tater Tots trademark 61 Expert

15 Dealt with budgetary bloat 63 One telling you how to go?

16 Maleficent 65 Prime

17 Totally fleece bluesman King? 66 Like venture capital investing

19 Make out 20 Whichever 21 Key

- 67 Lumox 28 1998 home run race participant  
68 Does in forests 30 Mollify  
69 Bolts 32 Killer of Paris  
70 Mouths off 33 Backwoods brew  
**Down**  
1 Menacing 35 Pooh's pal  
2 Free of friends 36 Interminable wait  
3 Nation on the Mediterranean 37 Agcy. that won the 1969 Nobel Peace Prize  
4 R&D locale 39 Suffer from the heat  
5 Alerts akin to BOLOs 40 "Bonanza" or "Rawhide"  
6 "Sherry" singer 41 Expert  
7 "Tricky spirit" of drama 42 Get off my lawn! shouter  
8 1983 title role for Barbra 43 Airing  
9 Recipe direction 44 Amazon field  
10 Many a marathon champion 51 Dealership document  
11 Panhandlers? 52 Scoundrel  
12 Brite Liner brand 54 Musk product  
13 Bugler in the wild 55 Walk steadily  
14 Difficult situation 56 Sites of some sales  
15 Literary middle name 59 Breyers competitor  
16 Precipitate 61 Cabbage roll?  
24 Opened 62 Groundbreaking implement  
26 Lake Titicaca's locale 63 Pound sound  
27 Four bearing 64 Slick

### Previous Puzzle's Solution

N	O	C	H	A	S	E	R	F	A	M	I	L	Y
O	C	R	O	S	T	I	C	T	R	V	I	V	A
A	C	E	A	S	A	N	D	C	R	E	A	M	Y
B	E	A	C	E	S	A	N	D	C	R	E	M	Y
C	E	A	C	E	S	A	N	D	C	R	E	M	Y

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



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THE WALL STREET JOURNAL.

Thursday, June 22, 2017 | B1

## Tokyo Takes Lead in Toshiba Chip-Unit Sale

BY TAKASHI MOCHIZUKI

TOKYO—The Japanese government seized the lead role in buying Toshiba Corp.'s chip unit after expressing concerns about technology leaking to China, but a legal fight could hold up a deal.

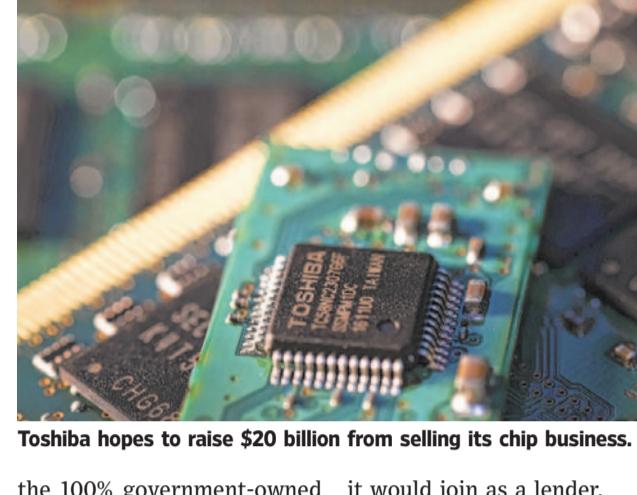
Toshiba, seeking to hasten a sale that it hopes can raise about \$20 billion, said Wednesday it had chosen as its preferred bidder a consortium that includes a state-backed investment fund and a state-owned bank. The company is trying to stay afloat after the bankruptcy of its U.S. nuclear subsidiary, Westinghouse Electric Co., left it with an estimated loss of nearly \$9 billion for the year ended March 31.

The state-backed invest-

ment fund, **Innovation Network Corp. of Japan**, said it is pursuing the deal because "there is significant social value for this technology and business to remain in Japan." The Toshiba memory chips are used in **Apple Inc.**'s iPhones as well as computers that are the backbone of internet services.

Fast-growing demand and security concerns are turning the semiconductor business into a battlefield among governments of the leading economic powers. China has said it would funnel tens of billions of dollars into buying semiconductor technology overseas and developing it domestically. That has unsettled other producers, and the governments of the U.S. and Taiwan have blocked some Chinese bids.

Also in the consortium are



Toshiba hopes to raise \$20 billion from selling its chip business.

the 100% government-owned Development Bank of Japan and U.S. private-equity firm Bain Capital. SK Hynix Inc., a South Korean chip maker, said

Gold 1242.00 ▲ 0.08%

WTI crude 43.33 ▼ 0.41%

10-Year JGB yield 0.061%

10-Year Treasury yield 2.165%

conditions he had set for preventing technology leakage and keeping jobs at home.

Toshiba said it wants to conclude an agreement with the group by next Wednesday, the day of the company's annual shareholder meeting.

Details of the bid weren't disclosed. One person briefed on the offer said it totaled slightly more than ¥2 trillion (\$18 billion), and the Japanese government-backed investors would own more than half of the unit.

Closing the deal won't be easy. Toshiba's chip business partner, Western Digital Corp., which says it has the right to veto any transaction, has filed a request for binding arbitration and separately asked a state court in California to block any deal. In a statement

Wednesday after Toshiba's announcement, Western Digital reiterated its claims and said it looks forward to a court hearing July 14.

"Toshiba is throwing away its own future with today's decision because it should have settled with Western Digital first before selecting a preferred bidder," said Satoru Oyama, an analyst at research firm IHS Markit. He predicted that the court fight would stymie Toshiba's goal of getting cash from the sale quickly.

Toshiba rejects Western Digital's claims, saying it is permitted to make a deal on its own.

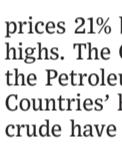
Other countries' antitrust authorities, notably China's, could also step in to delay the deal, on the theory that the in-

Please see CHIPS page B4

### HEARD ON THE STREET

By Nathaniel Taplin

## Oil Story Is Different This Time



It's official—oil is in a bear market following Tuesday's 2% fall, taking

prices 21% below late-winter highs. The Organization of the Petroleum Exporting Countries' high hopes for crude have been shredded by the sharp claws of resurgent U.S. shale.

It has been a nasty few weeks for oil investors. The International Energy Agency last week cast doubt on OPEC's ability to do "whatever it takes" to drain massive global crude stocks, citing American shale production. Given the world's huge supply of crude, prices will likely struggle to head much above \$60 a barrel regardless of what Saudi Arabia and its allies do.

The question then becomes: How low can they go? A collapse back toward 2016 lows below \$30 a barrel remains unlikely, for two key reasons.

First, unlike before the big steps down in oil in 2014 and 2015, Chinese demand still looks firm. A little-noted fact about the 2014 crash is that besides a surge in supply, Chinese oil-consumption growth had also turned sharply negative in late 2013 as the economy slowed. U.S. demand growth had also weakened to nearly zero by mid-2014. It was weak oil-buying from the world's two largest consumers—not just surging supply from U.S. wildcatters—that caused the epic crash later that year.

This time around, Chinese consumption growth is hovering around the 3% mark—uninspiring but still better than 2016, when it was flirting with zero for much of the year. In the U.S., preliminary data indicate petroleum consumption may have bounced back in May after months of weakness. Lower prices may finally be tempting thrifty consumers back into their cars.

Meanwhile, U.S. supply growth, while still strong, is showing signs of peaking as lower prices start to bite: Year-over-year growth in the number of active U.S. oil rigs slowed for the first time in 20 weeks in early June.

The headwinds to oil remain strong and prices could still fall further in the weeks ahead.

But unless China's growth slowdown proves much uglier than expected—or U.S. consumers sit out the peak driving season in July and August—oil's slippery slope probably won't carry it back down to the soggy depths of January 2016.



Traders say the online auction isn't providing the promised reality check for prices in the cattle-futures market. An auction in Vienna, Mo.

## Vanke's Founder To Step Aside

BY DOMINIQUE FONG

Property tycoon Wang Shi's decision to step down from the helm of **China Vanke** marks the end of an era for one of the crown jewels of China's private business world.

Mr. Wang said Wednesday that he wouldn't seek a board position this year. His decision came soon after he wrested back control of the company from an unwanted takeover attempt that ended up giving a state-owned firm a dominant position in the company.

"I have decided not to be nominated as a candidate," the 66-year-old Mr. Wang said on mobile-messaging app WeChat. "Today, I passed the baton to the leadership team led by Yu Liang," Vanke's president. "I believe this is the best timing," Mr. Wang wrote.

"They are much younger, but fully mature."

Over the past three decades as Vanke chairman, Mr. Wang built a reputation as an independent businessman, adept at navigating a tricky relationship with the Communist Party.

Yet, Mr. Wang recognized the advantage of having the state on his side. He used his political ties to a subway operator backed by the government of the southern tech hub of Shenzhen as the key to rescuing Vanke from a hostile bid by financial conglomerate Baoneng Group. His departure from Vanke's board comes after he had put Vanke safely in the hands of handpicked ally **Shenzhen Metro Group**.

Please see VANKE page B2

## Online Cattle Auction Needs a Prod

Exchange meant to bolster opaque futures market battles breakdowns, low participation

BY BENJAMIN PARKIN

An online auction meant to help set prices in the volatile cattle market is in trouble.

**Superior Livestock Auction** LLC launched the Fed Cattle Exchange last year to help guide the often opaque cattle market, where sparse trading can leave participants scrapping for timely price data. But breakdowns and dwindling participation have dogged the weekly online auction. The exchange has crashed multiple times this month; last week's auction was called off altogether.

As a result, traders say the auction isn't providing the

promised reality check for pricing in the \$19 billion cattle-futures market. Without real-time data on the price meatpackers are paying for the cattle they purchase from feedlots, traders say futures have become too speculative. Some believe a market that is meant to provide a hedge against what cattle might cost in the future has become dislocated from the real world, leaving feedlots unsure what their herds are worth.

"It's become increasingly difficult to use [futures] as a hedging tool because of the huge swings that we've seen," said Justin Tupper, a cattle rancher in St. Onge, S.D. "It

looks a lot more like a gambling fund."

Take feeder cattle, animals that need to be fattened before slaughter. This month, feeder-cattle futures hit a 14-month high at the Chicago Mercantile Exchange before falling to the bottom of their allowed daily trading band, all in about an hour. A circuit breaker kicked in to prevent further losses. Analysts and traders said they saw little in the real world to justify the move.

"There are days where I look at the futures, knowing what I know about the fundamentals, and say, 'Are we on two different pages?'" said

John Nalivka, president of advisory firm Sterling Marketing Inc. in Vale, Ore.

Public cattle prices became scarce over the past decade as the share of cattle sold on the open market fell sharply. That shift reflected consolidation among both ranchers and meat companies into a few large players that favor contracts over auctions as the most efficient way to sell the 30 million or more cattle slaughtered in the U.S. each year.

The CME stopped listing new live cattle contracts last year as concerns over their volatility intensified. This

Please see CATTLE page B2

Please see VANKE page B2

## China's HNA Borrows a Page From Private Equity

BY JULIE STEINBERG  
AND ANJANI TRIVEDI

Chinese conglomerate **HNA Group** Co. is copying the financing strategies of hedge funds and private-equity firms as it pursues its quest to become one of the world's largest companies.

HNA, a group that operates in everything from airlines to hotels, has been on an overseas acquisition spree. Increasingly, it is financing those deals with loans backed by company stakes it has purchased. The conglomerate has also entered into complex derivatives with U.S. and European banks that are helping fund investments outside China.

Some of the arrangements are similar to those used by investment firms, which often acquire shares in companies with borrowed money. Such leverage, allows buyers to stretch their capital by putting up relatively little money and borrowing the remainder.



HNA used margin loans for part of its \$6.5 billion purchase of a 25% stake in Hilton Worldwide.

The strategy has risks. If the stocks or other assets fall in value, banks can force buyers to cough up additional funds on short notice, or sell

the investments if the owners cannot meet margin calls.

Still, the financing tactics are useful for HNA, which is trying to aggressively grow its

revenue globally and already has a heavy debt burden. Most companies that are actively acquiring other businesses have simpler or cheaper ways to raise money.

HNA doesn't have a credit rating, which limits its ability to access low-cost financing. Foreign banks have charged it as much as 6% on loans that typically cost 1% or 2% for companies with investment-grade ratings, according to data from Dealogic.

One benefit the strategies give HNA is that they don't involve transferring money out of mainland China, because banks provide funding offshore. That effectively enables HNA to sidestep tightened capital controls implemented by the Chinese government.

HNA says it isn't trying to avoid capital controls and that it has used cash from offshore entities for its purchases. It says it instead trying to use

Please see HNA page B2

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## CATTLE

*Continued from the prior page*  
month, the CME said it would  
relist contracts that better mirror  
real-world cattle trades and  
improve efficiency by redefining  
the quality of the beef in  
question and protocol for the  
cattle's physical delivery. The  
CME also increased by about  
15% the collateral needed to  
place bets on its exchanges.

"We want to make sure we  
have an efficient tool," said  
Fred Seamon, CME Group  
Inc.'s director of commodity  
product development.

Mr. Seamon welcomed the  
Fed Cattle Exchange's efforts to  
generate more price data that  
might calm trading on the CME  
as well. He said the two compa-  
nies aren't working together.

The new auctions lost some  
momentum last year during a  
nearly three-month outage to  
address technical issues. Sales on  
the Fed Cattle Exchange have  
dwindled to as little as a  
few hundred in recent weeks  
from a few thousand earlier  
this year. Analysts say the  
lower volume partly reflects a  
cattle-supply pinch that has  
led feedyards to strike deals

with slaughterhouses in  
advance.

To compensate participants  
for the recent crashes, Super-  
ior Livestock waived fees of a  
dollar a head to sell cattle on  
the exchange for the remain-  
der of June.

Sam Hughes, the Fed Cattle  
Exchange's Oklahoma City-  
based manager, said the com-  
pany wants to attract more  
buyers and sellers. The com-  
pany has reverted to an older  
website while building a more  
stable auction platform.

"It is concerning at times,  
whenever the volume is low,"  
Mr. Hughes said. "People were  
kind of scratching their heads  
last week because this is the  
first time since September  
that people haven't had a  
readily available price," refer-  
ring to the suspended auction.

Still, some traders say they  
are willing to stick with it in  
hopes that the auction would  
eventually provide more reli-  
able ballast for futures prices.

"If it doesn't make it, then  
we're back to the same mess  
that we were in," said Dan Nor-  
cini, an independent trader in  
Coeur d'Alene, Idaho.

"That makes these cattle fu-  
tures markets almost impossible  
to trade."

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### BANKRUPTCIES

#### UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re OCEAN RIG UDW INC., et al., Chapter 15 Case No. 17-10736 (MG) (Jointly Administered)

RULE 2002 NOTICE BY PUBLICATION OF  
VERIFIED PETITION FOR RECOGNITION OF  
FOREIGN PROCEEDINGS

PLEASE TAKE NOTICE that Simon Appell and Eleanor Fisher (the "Petitioners"), as joint provisional petitioners for Ocean Rig UDW Inc. ("UDW"), Drill Rigs Holdings Inc. ("DRH"), Drillships Financing Holding Inc. ("DFH") and Drillships Ocean Ventures Inc. ("DOV"), and together with UDW, DRH and DFH, ("the Debtors") have petitioned the Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court" or "Court") for recognition of the provisional liquidation and scheme of arrangement proceedings of the Debtors pending in the Cayman Islands under chapter 15 of the U.S. Bankruptcy Code (the "Petition"). The Debtors' cases are being jointly administered as case number 17-10736.

A hearing on the Petition will be held before the Honorable Martin Glenn, United States Bankruptcy Judge, and (ii) delivered to the Chambers of the Honorable Martin Glenn, United States Bankruptcy Judge, and (iii) served upon the Petitioners' counsel at Orrick, Herrington & Sutcliffe LLP, 51 West 52nd Street, New York, New York 10019 (Attention: Evan C. Hollander, Esq., William Haft, Esq. and Ramon D'Aversa, Jr., Esq., all other parties that request notice prior to the date of service and all other parties that the Court directs, so as to be received by the Objection Deadline).

Copies of the Petition and other papers, including affidavits and exhibits setting forth factual support for the Petition, are available through the Bankruptcy Court's website at ECF.

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THE WALL STREET JOURNAL.

## BUSINESS & FINANCE

# GE Is Big Player at Air Show

Acquisition spree gives  
U.S. firm aerospace  
expertise and a strong  
presence in Europe

BY DANIEL MICHAELS  
AND ROBERT WALL

LE BOURGET, France—One  
of the biggest European play-  
ers at this year's Paris Air  
Show isn't a European com-  
pany at all. It is **General Elec-**  
**tric Co.**

Over the past decade, the  
U.S. industrial icon has bought  
a number of aerospace compa-  
nies and suppliers from Brit-  
ain and Sweden to Italy and  
the Czech Republic. The deals  
have made GE parts ubiqui-  
tous on modern jetliners. It  
has grown into one of Europe's  
largest aerospace employers,  
with roughly 11,600 workers  
across the Continent, setting it  
apart from many of its peers.

European deals are familiar  
turf for John Flannery, who last  
week was named GE's new chief  
executive officer starting in Aug-  
ust. He made his mark at the  
company leading GE's biggest  
industrial acquisition ever, the  
\$17 billion purchase of France's  
Alstom SA power business.

GE is now trying to turn its  
collection of disparate European  
aerospace assets into a whole  
that is greater than the sum of  
its parts. It wants to knit the  
businesses into a pan-European  
group that can develop new  
equipment and tap European  
Union development funding.

"We pick the best companies  
at the time wherever they are  
globally," David Joyce, GE vice  
chairman and boss of the aviation  
business said. "As long as it  
makes sense we buy them."

Rivals are watching with inter-  
est. Eric Schulz, president  
for civil aerospace at Britain's  
**Rolls-Royce Holdings PLC**,  
said, "GE's size has always



David Joyce, head of GE's aviation division, with a jet engine at the Paris Air Show on Monday

been and I believe will always  
be a threat for Rolls-Royce  
and for the others, including  
their own customers." The  
British aircraft-engine maker  
is GE's biggest rival in power-  
ing the largest jetliners.

But Mr. Schulz said size has  
drawbacks, making companies  
less flexible as they try to pro-  
tect broader corporate interest  
and, as a result, fail to offer the  
most competitive product. Being  
leaner "I hope gives us more cre-  
ativity and innovation," Mr.  
Schulz said. Rolls also is invest-  
ing, including in the U.S., he said.

GE executives in Europe say  
that getting employees from a  
variety of companies and coun-  
tries to learn the conglomerate's  
ways and to cooperate is can be  
difficult, but their engineering  
talent benefits the group.

GE's recent European spree is  
built on deep links. In 1941, GE  
built the U.S.'s first jet engine  
based on a British design. In  
1974, it teamed up with a  
French rival, which was building  
engines for the supersonic Con-

corde, and today their CFM Inter-  
national joint venture is the  
world's biggest producer of jet  
engines. In 2007, GE bought U.K.  
airplane-electronics maker  
Smiths Aerospace, expanding its  
aviation business beyond en-  
gines and landing gear.

The company's massive  
plane-leasing business, GE  
Capital Aviation Services, known  
as Gecas, largely operates  
from Dublin and London. It  
has a fleet of about 1,700  
planes with more than 200  
customers. Gecas placed deals  
to buy 100 Airbus aircraft and  
another 20 from Boeing on the  
first day of the Paris Air Show  
unfolded outside the French  
capital this week.

When GE decided to expand  
into the civilian turboprop mar-  
ket, long dominated by U.S. rival  
Pratt & Whitney, a unit of  
**United Technologies Corp.**, it  
bought Prague-based Walter  
Aircraft Engines in 2008.

In 2013, GE snapped up Avio  
Aero, an important supplier  
near Milan whose private-equity

owner was looking to exit. The  
company makes vital engines  
components for jets, turboprops  
and helicopters.

Last year, GE acquired 3-D  
printing companies in Ger-  
many and Sweden that are im-  
portant suppliers to Avio, Walter  
and GE's engine division in  
the U.S. Mr. Joyce said that  
when GE wanted to boost its  
3-D activities, it had to strike  
deals in Europe because that  
is where the expertise resided.

Last week, on the day GE  
named Mr. Flannery its new  
boss, it also said it had bought  
OC Robotics of Bristol, England,  
for an undisclosed sum. The  
company's snake-arm robots  
should make repairs in difficult-to-reach places on wings easier.

GE's European empire "is  
something that came together  
almost accidentally," said Ric-  
cardo Proacci, a GE veteran  
who moved to Avio from its Ital-  
ian oil-and-gas business. "Step-  
ping back now, we can see we  
are one of the biggest aviation  
companies in Europe."

**VANKE**

*Continued from the prior page*

Even before that, Mr. Wang  
had dialed back his involve-  
ment in the company, pursuing  
a busy agenda of hobbies. An  
avid mountaineer, he has  
climbed Mount Everest twice.  
In recent years, he took classes  
at Harvard and Cambridge.

It is unclear whether Mr.  
Wang will continue to have a  
role at Vanke. "He basically to-  
tally retired, or quit, from  
China Vanke," said Raymond  
Cheng, an analyst at CIMB Re-  
search about Mr. Wang's  
Wednesday announcement.

A Vanke spokeswoman re-  
ferred to a Hong Kong stock ex-  
change filing that didn't include  
Mr. Wang on a list of board can-  
didates. She declined to com-  
ment further. Mr. Wang didn't  
respond to calls to his cellphone  
or emails requesting comment.

Under Mr. Wang's leader-  
ship, Vanke rose to the top of  
China's property boom in the  
late 1990s selling high-end  
apartments and became one of  
the country's biggest home

builders by sales in the  
process. Mr. Wang took almost no  
shares in his company, an un-  
usual move among Chinese ty-  
coons who tend to retain close  
ownership of their firms. City  
officials sought out Mr. Wang  
to do business on his terms,  
noted a 2014 Harvard Business  
Review article on Chinese  
management thinking.

But the protracted takeover  
battle for Vanke showed how  
quickly the company shifted  
from a vibrant private firm to  
one under significant state

control. A government entity  
in Shenzhen that oversees  
state-owned companies said in  
March that Vanke was now un-  
der its purview, according to a  
Reuters report, which quoted  
Vanke as saying it remained a  
"mixed-ownership enterprise."

Already in 2000, Mr. Wang  
brought in state-owned China  
Resources Group. Mr. Wang  
later depicted the move as an  
attempt to assuage any Chinese  
leadership worries about letting  
a private developer get too big  
without any state involvement.

## BUSINESS NEWS

### Tesla Loses Self-Driving Executive

By TIM HIGGINS

Tesla Inc. has parted ways with another senior leader on its self-driving technology team, adding more turmoil to a program that is under pressure to meet the grand ambitions of Chief Executive Elon Musk.

The Silicon Valley electric-car maker on Tuesday said Chris Lattner, the vice president of Autopilot software, has left the company about six months after Tesla hired him away from Apple Inc.

"Chris just wasn't the right fit for Tesla, and we've decided to make a change," Tesla said.

Mr. Lattner followed Tesla's statement with a posting on Twitter: "Turns out that Tesla isn't a good fit for me after all. I'm interested to hear about interesting roles for a seasoned engineering leader!"

Mr. Lattner didn't respond to a request for comment.

The program, under pressure from Mr. Musk to demonstrate a Tesla vehicle can drive itself by year's end, has grappled with an exodus of talent and questions about safety. Tesla's Autopilot system, which can assist drivers with steering, breaking and changing lanes, sparked a safety debate after a Tesla driver in Florida died in a crash a year ago while using the semi-autonomous system.

U.S. regulators closed their investigation of the crash in January by concluding Autopilot didn't contain a safety defect.

Mr. Lattner's hiring in January coincided with the departure of Autopilot director Sterling Anderson, a leader in developing the system. Tesla sued Mr. Anderson over his efforts to create a competing startup; the lawsuit was settled in April.

In March, David Nistér left his job as the vice president of Autopilot vision for chip maker Nvidia Corp.

On Tuesday, Tesla said it elevated Jim Keller, vice president of Autopilot hardware, to also oversee Autopilot software.

### Theranos, Walgreens Reach Deal on Suit

By CHRISTOPHER WEAVER

A seven-year relationship between Theranos Inc. and Walgreens that soured into a costly feud for the drugstore giant will soon come to a close.

Theranos has told its investors it has reached an agreement in principle to settle a lawsuit by Walgreens Boots Alliance Inc. that had alleged the embattled laboratory startup breached the companies' contract, people familiar with the matter said. Walgreens' stores once hosted about 40 Theranos blood-testing centers, providing a main conduit to consumers.

The pact would mean Walgreens' alliance with Theranos cost the drug retailer well over \$100 million. In its suit, Walgreens had sought to recover the full \$140 million it put into the partnership, including a \$40 million convertible-debt note and a separate payment as part of an effort to expand the partnership.

The tentative agreement calls for Theranos to pay Walgreens less than \$30 million, according to some of the people familiar with the matter. The pact hadn't been completed as of late Tuesday and terms could change, the people said.

Representatives for Walgreens and Theranos declined to comment.



investigation by the Securities and Exchange Commission and a criminal investigation by the Justice Department, according to court filings.

In a series of meetings with investors in recent days, Theranos said it planned to ask some existing shareholders to loan it an additional \$50 million, people familiar with the discussions said. As of Monday, that planned deal hadn't been completed, one of the people said.

It isn't clear which investors may have been approached about the offer or whether any had agreed to do so. Theranos also plans to seek to raise \$150 million to \$200 million in a funding round next year, some of the people said.

Theranos has retracted nearly one million medical-test results since regulators found problems early last year with its lab practices that they said put patients in danger, a court filing shows. After lab regulators barred Theranos from running medical labs for two years last summer, the company said it developed new blood-testing devices to sell to third-party lab operators. It hasn't yet sought regulatory approval for these devices.

Walgreens had once viewed the partnership as a key pillar of its strategy to use its brick-and-mortar footprint to diversify into more areas of health-care services.

A Theranos center in a Walgreens store in Arizona in 2015. The companies are ending their alliance.

In its November 2016 suit, Walgreens alleged Theranos misled it about the state of the lab firm's technology as they formed their partnership, and about the firm's growing legal and regulatory challenges throughout 2016. Theranos has called the allegations "unfounded."

Separately, Theranos told investors in a series of recent meetings that it had about \$54 million in cash left as it sought to resolve claims, people familiar with the matter say. The Walgreens pact would further bite into that remaining supply of money. Theranos also car-

ries insurance policies that could cover certain claims, court records show.

Theranos has been burning through its cash. In January, it had about \$187 million, according to an investor document made public last month in a court filing. The firm has been spending about \$10 million a month since, much of it on legal costs, as it cut staff to about 170 from around 900 late last year, according to people familiar with the matter and the court filing.

The company also spent about \$5 million to settle allegations by the Arizona attorney general with that confidential agreement said the amount was between \$40 million and \$50 million.

Theranos has said the lawsuits against it were without merit and it has denied the Arizona attorney general's allegations.

Theranos still faces a civil

### China's Cosco Nears Purchase of Orient Overseas

By COSTAS PARIS

Chinese conglomerate Cosco Group is in advanced discussions to acquire smaller shipping rival Orient Overseas Container Line Co. for at least \$4 billion in a deal that could be reached as early as July, people familiar with the matter said.

"OOCL's owning family is warming up to the idea of a sale," one of those people said. "It is down to the price and we

may get an announcement as early as next month."

State-owned Cosco Group's Cosco Shipping unit is the world's fourth-largest container operator with an 8.5% market share.

Orient Overseas, which is based in Hong Kong, is in seventh place with a 3.3% share. The Journal reported that Cosco was preparing a bid earlier this year.

Container shipping, which moves the majority of the

world's manufactured goods, is a \$1-trillion-a-year industry, but individual players are struggling to stay profitable in one of the most severe down cycles in 30 years.

The industry was shaken last August when Korea major Hanjin Shipping Co. went bust, prompting a wave of consolidation that has left about a dozen major carriers grouped into three global alliances. Cosco and Orient Overseas are members of the same alliance.

"OOCL is one of the few midsize carriers that managed to stay firm during the downturn, but it's too small to survive on its own in the long term," said Lars Jensen, chief executive of Copenhagen-based SeaIntelligence Consulting.

"Its ties with Cosco go back decades and they are part of the same alliance with Cosco. A marriage makes good sense."

Cosco, based in Beijing, stands to benefit from Orient

Overseas' sales team and young fleet, which data provider VesselsValue estimates is valued at about \$1.5 billion. Cosco merged its container-shipping assets with China Shipping (Group) in December 2015.

Earlier this year it secured a \$26 billion multiyear financing deal with China Development Bank.

OOCL is 69% owned by Hong Kong's Tung family, which has deep ties to Beijing.

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## TECHNOLOGY

WSJ.com/Tech

# Wal-Mart Takes Fight to Amazon

By JAY GREENE  
AND LAURA STEVENS

The battle between the King Kong and Godzilla of U.S. retail has moved into the cloud.

Wal-Mart Stores Inc. is telling some technology companies that if they want its business, they can't run applications for the retailer on Amazon.com Inc.'s leading cloud-computing service, Amazon Web Services, several tech companies say.

Amazon's rise as the dominant player in renting on-demand, web-based computing power and storage has put some competitors, such as Netflix Inc., in the unlikely position of relying on a corporate rival as they move to the cloud.

Wal-Mart, loath to give any business to Amazon, said it keeps most of its data on its own servers and uses services from emerging AWS competitors, such as Microsoft Corp.'s Azure.

Wal-Mart uses some tech vendors' cloud apps that run on AWS, said Wal-Mart spokesman Dan Toporek. He declined to say which apps or how many, but acknowledged instances when Wal-Mart pushed for AWS alternatives.

"It shouldn't be a big surprise that there are cases in which we'd prefer our most sensitive data isn't sitting on a competitor's platform," he



Wal-Mart is telling some of its vendors to steer clear of using Amazon's cloud-computing service.

SEAN GALLUP/GETTY IMAGES

said, adding that it's a "small number."

An Amazon spokeswoman referred to Wal-Mart's moves as attempts to "bully" tech suppliers. "Tactics like this are bad for business and customers," the spokeswoman said.

Snowflake Computing Inc., a data-warehousing service, was approached by a Wal-Mart client about handling its business from the retailer, Chief Executive Bob Muglia said. The catch: Snowflake had to run those services on Azure.

"They influence their vendors, which has influence on

us," Mr. Muglia said of Wal-Mart.

The San Mateo, Calif., company had been developing an Azure offering, and "Wal-Mart has expedited our work," said Mr. Muglia, a former senior Microsoft executive. Snowflake won the business from Wal-Mart's client.

Other large retailers also have requested, as Wal-Mart did, that service providers move away from AWS, according to technology vendors that work with retailers.

Retailers "are all very particular, and some are more particular than others," said

Kevin Howard, CEO of Adroit Worldwide Media Inc., a retail-technology provider that works with sensitive data including automated inventory tracking and provides pricing-content management. "There are retailers that have specifically requested that we sit on Azure," he said, declining to name them.

Amazon said a number of retailers it competes with use AWS, such as GameStop Corp.

Wal-Mart and Amazon have sparred for years. Last week, Amazon sent shock waves through the grocery industry—one of Wal-Mart's biggest

businesses—by announcing a \$13.7 billion deal to buy Whole Foods Market Inc. That came after Wal-Mart in recent years slashed grocery prices in part to stanch an Amazon's online incursion into the business. More recently, Amazon lowered its Prime membership fee by nearly half for people who obtain government assistance, targeting a Wal-Mart stronghold.

Their cloud battle takes aim at the financial advantage AWS gives Amazon. The company's global retail business operates on thin margins, but they are offset by the enormous profits AWS generates. In the first quarter, AWS posted \$890 million in operating income, accounting for 89% of overall operating income, even as AWS's \$3.66 billion in net sales accounted for just 10% of the company's total.

The notion AWS supports Amazon's retail business is incorrect, the spokeswoman said, citing the company's operating profit in its North American retail business.

While Wal-Mart's efforts aren't likely to staunch AWS's growth, it could boost rivals.

"People jump through hoops to do business with Wal-Mart all the time," said Robert Hetu, an analyst with the research firm Gartner Inc. "That should absolutely accelerate the competition from Azure."

# SoftBank Invests in Security Startup

By TIMOTHY W. MARTIN  
AND ROBERT McMILLAN

Japan's SoftBank Corp. is investing \$100 million in a Boston-based cybersecurity firm run by former Israeli counterintelligence members, the latest high-profile cash injection into a bustling industry offering newfound defenses against global hackers.

The deal, announced early Wednesday, values Cybereason at about \$1 billion, according to people familiar with the matter. The firm, founded in 2012, has raised a total of \$189 million so far with investors. The latest investment isn't part of the roughly \$100 billion SoftBank Vision Fund the Japanese firm launched in May with Saudi Arabia's sovereign-wealth fund.

Cybersecurity firms have been attracting interest from deep-pocketed investors.

A string of high-profile cyberattacks, including last month's WannaCry ransomware assault that was linked to North Korea and a series of breaches at internet giant Yahoo Inc., have exposed how hackers are quickly discovering new ways to unearth network vulnerabilities. A spate of startups including Cybereason are pitching a new generation of computer security products that use machine learning and computer algorithms to sniff out problems before they spread.

The WannaCry attack was spotted instantaneously by Cybereason's algorithms—requiring no human intervention—and no clients were affected, said Lior Div, Cybereason's chief executive, and a former decorated Israeli cyberintelligence officer, in an interview. The firm's clients, including SoftBank and Lockheed Martin Corp., use Cybereason often in tandem with legacy services offered by Symantec Corp. or McAfee LLC.

"Today we're the last line of defense, but I would argue we're the only line of defense—because the first line of defense is not working," said Mr. Div, 39 years old.

Cybereason is one of several new cybersecurity startups attracting interest from deep-pocketed investors. Tanium, the world's most valuable cybersecurity startup, valued at \$3.75 billion, and CrowdStrike, which helped the Democratic National Committee respond last year to a network breach linked to Russia, both raised \$100 million last month. Another cyber firm, Illumio, raised \$125 million earlier this month.

SoftBank, which spans a Japanese telecom arm, U.S. mobile carrier Sprint Corp., and U.K. chip designer ARM Holdings Inc., is increasing its investment staff around the world, betting on technology that it says will be key when everyday items like shoes and microwaves are connected to the internet.

The company recently led a funding round for London-based startup Improbable, which designs virtual worlds for videogames and simulations that can be applied to the real world, as well as Alphabet Inc.'s robot units.

Global security spending is forecast to hit \$81.7 billion in 2017, according to market researcher International Data Corp., with forecasts of growth to about \$105 billion in 2020. Meanwhile, information-technology startup investments rose to \$3.05 billion during the first three months of this year, up 13% from the same period in 2016, according to data from Dow Jones VentureSource.

Cybereason was founded by Mr. Div and two other ex-members of Israel's Unit 8200, the equivalent to the U.S. National Security Agency.

Mayumi Negishi contributed to this article.

# NBC Sports Jumps on Esports Bandwagon

By SARAH E. NEEDLEMAN

Comcast Corp.'s NBC Sports on Wednesday said it would televise an esports tournament later this summer, the latest broadcaster turning to competitive videogaming to grow viewership at a time when many consumers are cutting the cord.

The cable network hopes a tournament built around a popular game called "Rocket League" will attract hard-to-reach viewers—particularly younger males—who increasingly are ditching cable subscriptions for live-streaming services such as Netflix Inc.

NBC Sports is investing in the low millions of dollars on the initiative, said Rob Simmeljaer, senior vice president of NBC Sports Ventures. "We look at emerging areas of sports," he said. "Esports has been something tough to ignore."

This year, about 191 million people worldwide are expected to watch an esports contest at least once a month, more than double the number in 2012, according to Newzoo BV. By 2020, the research firm



NBC Sports wants to build an esports tournament around the game 'Rocket League.'

said. "I don't know that we've had tier 1 esports events on TV yet," he said.

NBC Sports Network is in about 85 million homes, while its regional networks span about half as many households. The network hopes to differentiate its esports broadcast from the usual shooter or war-battle games with "Rocket League," a mashup of soccer and auto racing from Psyonix Inc. that was a top seller on Sony Corp.'s PlayStation store last year.

After a round of qualifiers in July, TV coverage will kick off on weekends in August on the regional networks. The tournament will conclude with a championship aired on the national network and in several countries abroad.

The network also plans to open its tournament to people of all skill levels in the U.S. and Europe, rather than just professional teams. The total prize pool is \$100,000, NBC Sports said.

"We want to find new esports stars," Mr. Simmeljaer said. "There's an opportunity for new people to come out of the woodwork."

## BUSINESS WATCH

NBCUNIVERSAL

### Olympics Security Is Concern for NBC

Longtime Olympics broadcaster NBCUniversal says it may shift venues because clients have security concerns about the Winter Games next year in Pyeongchang, South Korea.

NBCUniversal's head of ad sales, Linda Yaccarino, said the network is exploring sending ad buyers and clients to Jackson Hole, Wyo., or another location instead of South Korea, because of clients' potential security concerns.

The company will still have about 1,000 people, including production staff, on the ground in Pyeongchang, which is about 50 miles south of the demilitarized zone separating North and South Korea. NBC is paying more than \$1 billion per Games

for media distribution in the U.S. through 2032, making it among the International Olympic Committee's most significant financial contributors.

The IOC didn't immediately respond to a request for comment. The 2018 Winter Olympics are scheduled to begin on Feb. 9.

Tensions between North Korea and the U.S. have risen in recent weeks, punctuated by the return and subsequent death of U.S. student Otto Warmbier, who had been detained by North Korea while on a tourist trip last year.

—Sara Germano and Alexandra Bruell

VOLVO

### Polestar to Focus On Electric Cars

Sweden's Volvo Car Corp.

joined a growing list of manufacturers looking to take on Tesla Inc., announcing Wednesday that its Polestar performance brand will become a stand-alone business focusing purely on electric high-performance cars.

The new electric cars will drop the Volvo badge and be branded as Polestar, but they will maintain ties with each other to enjoy technological and engineering synergies and economies of scale.

As part of the new setup, Thomas Ingenlath, senior vice president of Design at Volvo, becomes CEO of Polestar.

Volvo, owned by China's Zhejiang Geely Holding Group Co., bought Polestar in 2015.

—Dominic Chopping

ADVANCED MICRO DEVICES

### Company Takes On Intel's Server Chips

Advanced Micro Devices Inc. began selling a new generation of chips for the servers that drive computing in data centers, challenging Intel Corp. in that high-margin market for the first time in years.

AMD Tuesday introduced the first four of nine chips dubbed Epyc that it claims offer higher performance at lower prices than comparable Intel chips currently on the market. Intel has said it would refresh its server processors over the summer.

The Epyc line reintroduces competition to an arena that Intel lately has had to itself.

—Ted Greenwald

## CHIPS

Continued from page B1  
Involvement of rival chip maker SK Hynix could lessen competition.

Although Toshiba hasn't released audited financial results since last year, it estimates that as of March 31 it had negative shareholder equity of ¥540 billion (\$4.9 billion). If it is still negative next March, Toshiba shares would be delisted from the Tokyo Stock Exchange.

The Japanese government-led group wasn't the highest bidder, according to people briefed on the bids. Taiwan-based iPhone assembler Foxconn Technology Group, formally known as Hon Hai Precision Industry Co., was ready to offer more, but Japanese government officials said its large China operations raised the risk that technology would leak.

Toshiba said the Japanese government-led plan is the "best proposal, not only in terms of valuation, but also in respect to certainty of closing, retention of employees, and maintenance of sensitive technology within Japan."

The Toshiba chip unit is enjoying a demand boom for NAND flash memory, in which it trails only Samsung Electronics Co. in market share, according to IHS Markit.

But Toshiba has fallen behind rivals in securing critical supplies for next year's production, people familiar with the matter said last week. If

Japanese government-backed entities take control, one challenge would be finding the billions of dollars needed every year for investments to remain competitive.

China's government-backed Tsinghua Unigroup, which last year acquired state-owned chip maker XMC, is catching up technologically with a financial boost from Beijing. The group has made unsuccessful efforts to buy or tie up with chip makers including SK Hynix, Western Digital and Micron Technology Inc.

Toshiba said the Japanese government-led plan is the 'best proposal.'

Japan Display Inc., which supplies screens to smartphone makers including Apple, is also controlled by Innovation Network Corp. of Japan, and struggles to stay ahead in technology because of a constant shortage of cash.

Toshiba shares have risen more than 60% from their recent low in mid-April on expectations that the chip-unit sale will allow the company to regain its footing. The shares closed down 2.2% in Wednesday trading after the announcement.

—Kosaku Narioka in Tokyo, Eva Dou in Beijing and Timothy W. Martin in Seoul contributed to this article.



A Polestar vehicle. The brand will make shift to electric cars.

# PwC to Add Outside Directors To Board

BY MICHAEL RAPORT

**PricewaterhouseCoopers**  
LPI is adding independent directors to its governing board, a first for the private partnership and an unusual move for any Big Four accounting firm in the U.S.

PwC will name two new members to its board of partners and principals from outside the firm: Carol Pottenger, a retired U.S. Navy vice admiral who was one of the first women selected for sea duty, and Carlos Gutierrez, a former **Kellogg** Co. chief executive who served as commerce secretary under President George W. Bush. The firm plans an announcement as soon as Wednesday.

The company and other big accounting firms are partnerships that generally have governing boards made up of their own personnel, unlike public companies that trade on major exchanges, which are required to have a majority of directors who have no connection to the company.

PwC said the move to enhance its governance isn't related to its snafu at the Academy Awards in February. At the event, the wrong film was announced as the best-picture winner because a PwC partner gave a presenter the wrong envelope.

The board move was in the works long before that, said Tim Ryan, the firm's U.S. chairman. He said Brian Cullinan, the partner behind the Oscar mistake, was and remains on PwC's board.

PwC decided to add outside board members to get more diverse perspectives on its business and avoid group-think, Mr. Ryan said in an interview. The move also aligns PwC more with the requirements its audit clients face, he said.

*'It's a big message that we are open to hearing different points of view.'*

"It's absolutely the logical thing to do," Mr. Ryan said. "It's a big message that we are open to hearing different points of view."

Some have recommended in the past that accounting firms have independent directors. In 2008, a Treasury Department advisory committee on auditing said such a move "could improve investor protection through enhanced audit quality and firm transparency."

More recently, Steve Harris, a member of the Public Company Accounting Oversight Board, the U.S. government's auditing regulator, advocated the idea in a speech last month, saying independent directors represent "basic sound governance practice."

Ms. Pottenger was with the Navy for 36 years, serving in command positions at every level; she was the first female admiral to command a strike group. She "will help us immensely" with the risk and government security aspects, Mr. Ryan said.

Mr. Gutierrez was CEO of Kellogg from 1999 to 2005 and commerce secretary from 2005 to 2009. He is co-chairman of **Albright Stonebridge Group**, a global strategy and commercial diplomacy firm. He "understands the risks associated with global business and government," Mr. Ryan said.

  
Carol Pottenger is a retired U.S. Navy vice admiral.

# A Clash Over VIX Bragging Rights

By BEN EISEN

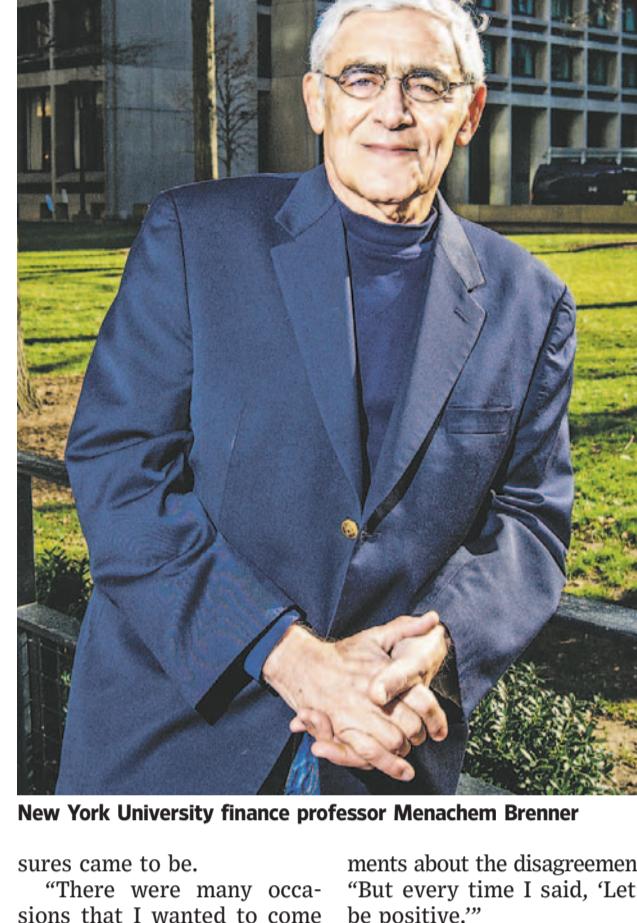
Two academics who did early work on a gauge of stock-market volatility fear they are being written out of its history.

Menachem Brenner, a finance professor at New York University, and Dan Galai of the **Hebrew University of Jerusalem** called their version "Sigma" and say they pitched it to various exchanges years before the **Chicago Board Options Exchange** rolled out its volatility index in 1993.

The CBOE's VIX is based on the work of Vanderbilt University's Robert Whaley, who is typically credited with developing the index, widely known as Wall Street's "fear gauge" for its options-based read on expected stock-price swings. It tends to soar as stocks fall and investors turn anxious.

In academic circles, the duo has for years quietly fumed that Mr. Whaley's work is based on theirs. The popularity of the gauge has grown as it declined to record lows this year, pushing some investors to fret over market complacency.

The resulting interest in the VIX's history has prompted Messrs. Brenner and Galai to openly dispute the common knowledge of how one of the most popular market mea-



New York University finance professor Menachem Brenner

sures came to be.

"There were many occasions that I wanted to come out with it, even though it's a 20-year-old story," Mr. Brenner told The Wall Street Journal in his first public com-

ments about the disagreement.

"But every time I said, 'Let's be positive.'"

Mr. Whaley stands behind his work and the credit it has earned him as the VIX's developer. He said that while the

idea of a volatility index long was discussed in general terms, including by Messrs. Brenner and Galai, he was the first to create a formula calculated in real time.

A spokeswoman for the exchange said, "CBOE engaged Professor Robert Whaley to develop the original methodology for the CBOE Volatility Index." The spokeswoman added, "The staff involved with the development of the original index are no longer at CBOE and we have no one who can comment on what transpired."

Messrs. Brenner and Galai say that at the center of their work was the idea to create what they called synthetic options prices that consistently showed implied volatility over the next 30 days. Because S&P 500 options had monthly expirations, they needed to find a way to create something that didn't exist: a series of options prices whose time until expiration never changed.

Once they had that, they say, they had the pieces in place for a consistently updating index. They pitched the idea of the index to the American Stock Exchange and the CBOE in the mid-1980s, but nothing came of it, according to the two academics and correspondence written at the time. In 1989, they jointly pub-

lished research on the idea of the index, as well as on a derivatives market built around the index.

Mr. Galai said he first explained the details of the work he was doing to Mr. Whaley when the two were expert witnesses on a legal case in 1988 and 1989. "We had long days and nights working on the case," Mr. Galai said.

Mr. Whaley remembers working on that case and said a conversation about volatility indexes could have taken place although he didn't recall anything specific. He said in a written response to questions that he had such discussions with many people during that period, given that the general idea had been circulating in certain corners of academia.

Mr. Whaley had also been doing work on volatility before CBOE hired him to create the VIX. He said that he had been aware of some of the work done by Messrs. Brenner and Galai, and cited it in research published in 1993, but that they didn't have a formula or specific computations for index levels. He considers his creation of the formula to be the heart of his work, he said.

"The CBOE asked me to build an implied market volatility index and show them how it performed, and that's what I did," he said.

# Altice IPO Set to Be One of Biggest in 2017

By NICK KOSTOV  
AND CORRIE DRIEBUSCH

would be valued at more than \$21 billion.

Altice USA hopes to woo investors back into telecom in its initial public offering.

The U.S. subsidiary of European telecommunications company **Altice** NV, formed through the merger of New York-based Cablevision Systems Corp. and Suddenlink Communications, is expected to start trading on the New York Stock Exchange on Thursday, according to people familiar with the offering.

It is poised to be one of the biggest U.S.-listed IPOs of the year.

Altice, private-equity firm **BC Partners** LLP and stakeholder **Canada Pension Plan Investment Board** aim to sell roughly 46.6 million shares in the offering, raising \$1.35 billion if it prices at the midpoint of its target range of \$27 to \$31 a share, according to a regulatory filing.

That would make it the biggest U.S.-listed telecom IPO since the early part of the last decade, according to data provider Dealogic, when the tech boom ushered in a wave of cable and wireless operators.

At \$29 a share, Altice USA

is poised to be one of the biggest U.S.-listed IPOs of the year.

Altice's growth strategy in the U.S. has followed a play-

book it rolled out in Europe and Israel, where Mr. Drahi tapped into investor demand for higher-yield corporate bonds to finance a shopping spree.

Mr. Drahi, who has cited U.S. cable magnate John Malone as an influence, then cut costs to improve profit.

Altice executives say the strategy helped boost the performance of its U.S. arm last year. Altice USA posted a net loss of \$721.3 million last year compared with a \$1.1 billion loss a year earlier. Its adjusted earnings rose to \$3.35 billion from \$2.77 billion in the same period, according to a regulatory filing.

But Altice's approach has drawbacks. According to the filing, Altice USA's net debt stands at more than \$20 billion.

At the group level, Altice NV's debt stood at more than €50 billion (\$55.74 billion) on March 31, and the company spent about €3 billion on interest payments last year, according to filings.

Altice executives were pressed about some of these things during the company's pitch to investors, according to the person familiar with the roadshow.

Investors questioned executives about the company's plan to convert its systems into an ultrafast fiber-to-the-home network and the cost savings that it still expects to wring from merging Cablevision with Suddenlink, accord-

ing to the person.

Altice USA shares are set to begin trading Thursday under the symbol ATUS. The deal is being led by J.P. Morgan Chase & Co., Morgan Stanley, Citigroup Inc. and Goldman Sachs Group Inc.

# Intesa Sanpaolo Prepares to Buy Parts of Two Rivals

By GIOVANNI LEGORANO

be affected.

A rescue of Veneto and Vicenza would be an important step in fixing the problems of Italian banks, a sector that has been struggling with insufficient capital and low profitability for years.

Veneto and Vicenza have a combined estimated capital shortfall of €6.4 billion (\$7.1 billion).

Talks about a new business plan for the banks after their potential bailouts and about the terms of the government's rescue have been prolonged, and managers have been calling for a rapid solution to the crisis at the two embattled lenders.

Earlier in June, the European Union cleared the way for a multibillion-dollar rescue of **Banca Monte dei Paschi di Siena** SpA, another major trouble spot in the system, by approving a restructuring plan for the lender.

MPS faces a capital shortfall of €8.8 billion, set to be partially covered by converting around €2 billion in junior bonds into equity. The remainder of the capital shortfall will be covered by the Italian government, which will end up owning a 70% stake in the bank.

In particular, Intesa said it won't buy the two banks' problematic loans, junior bonds and some other assets and liabilities. It also said the transaction needs to be backed by a "legal framework" to ensure its capital ratio and dividend policy won't

be affected.

Intesa Sanpaolo

SpA said Wednesday that it is willing to buy, at a symbolic price and on certain conditions, parts of two troubled Italian lenders, raising the prospect that Italy's second-largest bank could help save their businesses.

Intesa said its board has given the green light for it to acquire some assets and liabilities of **Banca Popolare di Vicenza** SpA and **Veneto Banca** SpA, two midsize Italian banks that asked in March to tap government money to stay afloat.

However, Intesa said the potential purchase would need to happen under terms and conditions that wouldn't dent the lender's capital buffer and affect its dividend-payout policy. The bank wouldn't raise fresh capital to complete the transaction, Intesa added.

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## MARKETS DIGEST

### Nikkei 225 Index

**20138.79** ▼ 91.62, or 0.45%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

### STOXX 600 Index

**388.50** ▼ 0.71, or 0.18%

High, low, open and close for each trading day of the past three months.



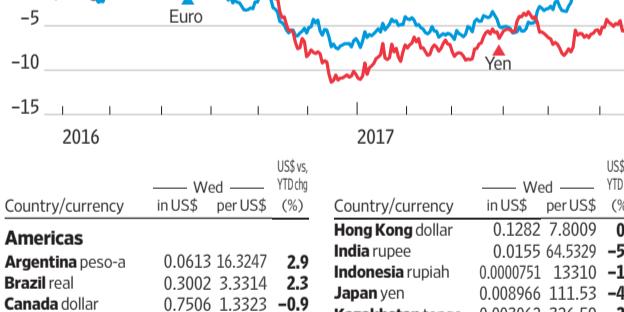
### International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2764.04	-2.77	<b>-0.10</b>	2193.75	2791.48	9.3	
	<b>MSCI EAFE</b>	1882.64	-5.12	<b>-0.27</b>	1471.88	1956.39	9.7	
	<b>MSCI EM USD</b>	1005.72	-2.95	<b>-0.29</b>	691.21	1044.05	26.6	
<b>Americas</b>	<b>DJ Americas</b>	583.76	-0.16	<b>-0.03</b>	480.90	588.61	8.0	
Brazil	Sao Paulo Bovespa	61027.02	260.86	<b>0.43</b>	48954.41	69487.58	1.3	
Canada	<b>S&amp;P/TSX Comp</b>	15173.08	23.48	<b>0.15</b>	13609.58	15943.09	-0.7	
Mexico	<b>IPC All-Share</b>	49070.05	37.00	<b>0.08</b>	43902.25	50154.33	7.5	
Chile	<b>Santiago IPSA</b>	3629.21	-14.32	<b>-0.39</b>	3061.18	3786.05	12.6	
<b>U.S.</b>	<b>DJIA</b>	21440.59	-26.55	<b>-0.12</b>	17063.08	21535.03	8.5	
	<b>Nasdaq Composite</b>	6222.99	34.95	<b>0.56</b>	4574.25	6341.70	15.6	
	<b>S&amp;P 500</b>	2437.05	0.02	<b>0.001</b>	1991.68	2453.82	8.9	
	<b>CBOE Volatility</b>	10.69	-0.17	<b>-1.57</b>	9.37	26.72	-23.9	
<b>EMEA</b>	<b>Stoxx Europe 600</b>	388.50	-0.71	<b>-0.18</b>	308.75	396.45	7.5	
	<b>Stoxx Europe 50</b>	3191.51	-8.68	<b>-0.27</b>	2626.52	3279.71	6.0	
France	<b>CAC 40</b>	5274.26	-19.39	<b>-0.37</b>	3955.98	5442.10	8.5	
Germany	<b>DAX</b>	12774.26	-40.53	<b>-0.32</b>	9214.10	12951.54	11.3	
Israel	<b>Tel Aviv</b>	1439.32	3.13	<b>0.22</b>	1372.23	1490.23	-2.1	
Italy	<b>FTSE MIB</b>	21071.91	261.89	<b>1.26</b>	15017.42	21828.77	9.6	
Netherlands	<b>AEX</b>	520.48	-0.40	<b>-0.08</b>	409.23	537.84	7.7	
Russia	<b>RTS Index</b>	973.33	-7.70	<b>-0.78</b>	885.22	1196.99	-15.5	
Spain	<b>IBEX 35</b>	10740.70	-5.40	<b>-0.05</b>	7579.80	11184.40	14.8	
Switzerland	<b>Swiss Market</b>	8985.61	-37.94	<b>-0.42</b>	7475.54	9136.95	9.3	
South Africa	<b>Johannesburg All Share</b>	51402.69	242.12	<b>0.47</b>	48935.90	54716.53	1.5	
Turkey	<b>BIST 100</b>	99390.12	120.85	<b>0.12</b>	70426.16	100000.7	27.2	
<b>U.K.</b>	<b>FTSE 100</b>	7447.79	-24.92	<b>-0.33</b>	5788.74	7598.99	4.3	
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1623.93	-7.68	<b>-0.47</b>	1308.52	1643.59	14.1	
Australia	<b>S&amp;P/ASX 200</b>	5665.70	-91.60	<b>-1.59</b>	5103.30	5956.50	-0.00	
China	<b>Shanghai Composite</b>	3156.21	16.20	<b>0.52</b>	2854.29	3288.97	1.7	
Hong Kong	<b>Hang Seng</b>	25694.58	-148.46	<b>-0.57</b>	20172.46	26063.06	16.8	
India	<b>S&amp;P BSE Sensex</b>	31283.64	-13.89	<b>-0.04</b>	25765.14	31311.57	17.5	
Indonesia	<b>Jakarta Composite</b>	5818.55	26.65	<b>0.46</b>	4834.57	5818.55	9.9	
Japan	<b>Nikkei Stock Avg</b>	20138.79	-91.62	<b>-0.45</b>	14952.02	20230.41	5.4	
Malaysia	<b>Kuala Lumpur Composite</b>	1775.57	-5.14	<b>-0.29</b>	1616.64	1792.35	8.2	
New Zealand	<b>S&amp;P/NZX 50</b>	7527.11	-59.42	<b>-0.78</b>	6664.21	7592.03	9.4	
Pakistan	<b>KSE100</b>	45474.46	560.02	<b>1.25</b>	37039.57	52876.46	-4.9	
Philippines	<b>PSEI</b>	7886.37	-31.49	<b>-0.40</b>	6563.67	8102.30	15.3	
Singapore	<b>Straits Times</b>	3201.77	-28.65	<b>-0.89</b>	2729.85	3271.11	11.1	
South Korea	<b>Kospi</b>	2357.53	-11.70	<b>-0.49</b>	1925.24	2381.69	16.3	
Taiwan	<b>Weighted</b>	10349.72	25.26	<b>0.24</b>	8458.87	10349.72	11.8	
Thailand	<b>SET</b>	1577.01	-1.61	<b>-0.10</b>	1406.18	1591.00	2.2	

Currencies Information: WSJ Market Data Group

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on June 21

US\$ vs. Yen, Euro

Country/currency

— Wed — YTD chg

Country/currency

— Wed — YTD chg

Country/currency	in US\$	per US\$	(%)	Country/currency	in US\$	per US\$	(%)
<b>Americas</b>				<b>Europe</b>			
Argentina peso-a	0.0613	16,3247	<b>2.9</b>	Bulgaria lev	0.5697	1,7554	<b>-5.5</b>
Brazil real	0.3002	3,3314	<b>2.3</b>	Croatia kuna	0.1502	6,657	<b>-7.2</b>
Canada dollar	0.7506	1,3323	<b>-0.9</b>	Euro zone euro	1.1144	0,8974	<b>-5.6</b>
Chile peso	0.001504	664.70	<b>-0.8</b>	Czech Rep. koruna-b	0.0424	23,587	<b>-8.2</b>
Peru so	0.3058	2,3702	<b>-2.5</b>	Denmark krone	0.1498	6,6750	<b>-5.6</b>
Uruguay peso-e	0.0353	28,300	<b>-3.6</b>	Hungary forint	0.003601	277.69	<b>-5.6</b>
Venezuela bolivar	0.09850	10.12	<b>1.2</b>	Iceland krona	0.009492	105.35	<b>-6.7</b>
<b>Asia-Pacific</b>				Norway krona	0.1171	8,5379	<b>-12</b>
Australia dollar	0.7546	1,3252	<b>-4.6</b>	Poland zloty	0.2620	3,8167	<b>-8.8</b>
China yuan	0.1464	6,8297	<b>-1.7</b>	Russia ruble-d	0.01669	59,926	<b>-2.2</b>
				Sweden krona	0.1141	8,7618	<b>-3.8</b>
				Switzerland franc	1.0261	0,9746	<b>-4.3</b>
				Ukraine hryvnia	0.0384	26,0137	<b>-3.9</b>
				U.K. pound	1.2661	0.7898	<b>-2.5</b>

Sources: Tullett Prebon, WSJ Market Data Group

### Key Rates

Latest 52 wks ago

Liber

One month 121556% 0.45205%

Three month 128944 0.64010

Six month 144500 0.92965

One year 173539 1.51000

Euro Libor

One month -0.40500% -0.35857%

Three month -0.37286 -0.28500

Six month -0.29729 -0.16671

One year -0.18686 -0.03643

Euribor

One month -0.37300% -0.35800%

Three month -0.32900 -0.26800

Six month -0.27100 -0.16100

One year -0.16100 -0.02900

## FINANCE & MARKETS

# Oil Returns to Bear Market

Oil prices are back in bear-market territory, frustrating OPEC members that cut production in an attempt to boost prices and renewing fears that falling prices could spill into stocks and other markets.

By **Stephanie Yang,**  
**Alison Sider**  
**and Timothy Puko**

A persistent glut has weighed on prices for most of the past three years, a blow to investors who believed that the Organization of the Petroleum Exporting Countries' move this year to limit production would provide relief.

Instead, U.S. producers ramped up production when the world was already swimming in oil as OPEC members, Russia and other producing nations curtailed output.

U.S. oil production is up 7.3% to 9.3 million barrels a day since OPEC announced plans in November to cut output, and the number of active rigs in the U.S. is at a two-year high.

The cartel's output cut "has been deemed an OPEC failure and a U.S. production win," said Tony Headrick, energy analyst at CHS Hedging.

While oil prices have enjoyed gains in spurts over the past year, U.S. prices closed down 2.2% to \$43.23 a barrel Tuesday, and deepened their losses on Wednesday despite U.S. data showing that stockpiles continued to shrink.

Prices briefly popped higher after the U.S. Energy Information Administration reported that stockpiles of crude oil and gasoline fell more than expected.

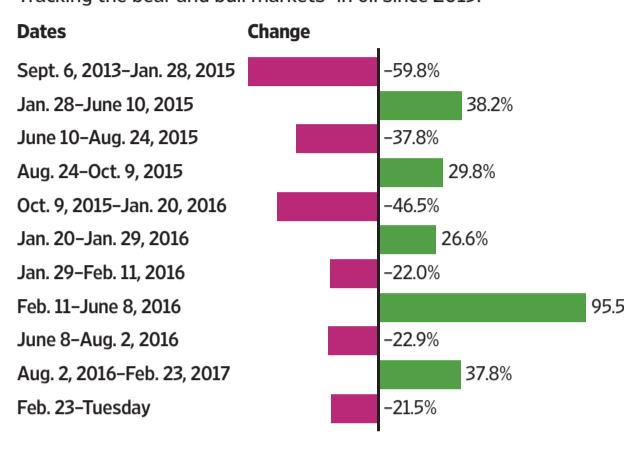
But the data wasn't enough for a sustained rally.

Near midday in New York, U.S. crude futures were down 35 cents, or 0.8%, at \$43.16 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, was down 44 cents, or 0.96%, at \$45.58 on ICE Futures Europe.

As of Tuesday's close, U.S. oil prices had lost 62% since

### Big Swings

Tracking the bear and bull markets\* in oil since 2015.



\*A bear market represents a 20% decline from a recent peak, a bull market a 20% gain from a recent trough.

Source: WSJ Market Data Group

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### Five Reasons Crude Is Under Pressure

#### 1. The Libyan and Nigerian wild cards

Oil production in conflict-torn Libya, which is exempted from the OPEC output deal, has surprised on the upside. Production in Nigeria, also exempted, rose to its highest in a year, according to OPEC data.

#### 2. OPEC's deal

The price falls come despite a pact last month by OPEC

and 10 other producers to extend their deal through March 2018. But OPEC last week said its efforts weren't working as quickly as it expected.

#### 3. Brimming crude tanks

OPEC had hoped to drain bloated global stockpiles of

crude. However, oil stockpiles in the Organization for Economic Cooperation and Development member countries rose by 18.6 million barrels in April.

#### 4. Rising U.S. production

U.S. production remains robust. The IEA estimates U.S. crude supply will grow almost 5% on average this year, and nearly 8% in 2018, potentially vaulting U.S. producers ahead of Saudi Arabia in daily output.

#### 5. Speculator frenzy

Ahead of the May OPEC meeting, speculators such as hedge funds and other big investors had placed a record number of bets that oil would rise. After OPEC disappointed traders by not cutting deeper or extending the deal's length further, investors started unwinding their positions.

—Georgi Kantchev

settling at \$115.06 a barrel three years ago.

Traders have crowded into bullish positions, only to reverse suddenly when the market failed to respond to positive data or news that OPEC was extending its cuts. Tuesday's move marked oil's eighth loss of more than 2% in the past two months.

The oil market also has been more volatile this spring.

Investors are starting to worry that oil's steady declines may start to drag down

other markets. When the oil-price plunge gathered steam at the end of 2015, analysts blamed crude in part for sparking sell-offs in other commodities, emerging markets and other risky assets.

The S&P GSCI index, which broadly tracks commodity prices, fell 1.2% Tuesday. The S&P 500's energy sector, already the worst-performing group of stocks in the index, dropped an additional 1.2%. Seven out of the 10 worst-performing stocks in the S&P 500 this year are energy stocks, according to FactSet.

"You've got a buyer's strike out there on the equities side," said Dan Pickering, head of the asset-management arm of Tudor, Pickering, Holt & Co. "I love the values I see, but I'm scared to death to put money to work."

There are also signs that anxiety is spreading to the debt market. Bonds of oil-and-gas companies with below-investment-grade credit ratings have held up for most of this year, but anxiety is starting to creep in, analysts and investors say. The Bloomberg Barclays high-yield energy index has returned negative 1.6% since the beginning of June through Monday.

The deepening oil rout brought strong demand for long-term U.S. government bonds, sending the yield on the 30-year Treasury debt to the lowest level this year Tuesday. Lower energy prices tend to deflate inflation expectations, making long-term Treasury debt more appealing.

Falling oil prices are typically helpful to U.S. consumers and the companies that serve them. Airlines made record profits last year in part from lower oil prices and were girding for profits to fall this year if oil rose.

Morgan Stanley said Monday the oil glut wouldn't go away and would grow again next year unless OPEC cuts deeper or extends its cuts through 2018.

# Shanghai Shares Gain Amid Losses Elsewhere in Asia

By RIVA GOLD AND AKANE OTANI

Mainland China markets inched higher after MSCI Inc. said it would include China A-shares in its emerging-markets index, meaning funds that track it will automatically allocate money into China.

**WEDNESDAY'S MARKETS** “For global investors, while the inclusion will not trigger an immediate and wholesale change in their asset allocation, it will put Chinese equities on the map,” Aidan Yao, economist at AXA Investment Managers, said in a note.

The Shanghai Composite Index added 0.5%, but elsewhere in Asia, stocks mostly fell amid losses in energy companies and banks. The Nikkei Stock Average declined by 0.45% and Hong Kong's Hang Seng Index fell 0.6%.

“Oil is the main driver” for the losses in Asia, said Tareck Horchani, head of Asia Pacific sales trading at Saxo Capital Markets.

“OPEC cuts are not having the expected effect as the shale production in the U.S. is actually growing.”

Stocks performed better in U.S. and European trading. U.S. stock indexes steadied as a rise in the shares of health-care companies helped offset losses in the energy sector.

Near midday in New York, the Dow Jones Industrial Average was down 18 points, or 0.1%, to 21449. The S&P 500 rose less than 0.1% and the Nasdaq Composite added 0.6%.

Major indexes wobbled Tuesday after oil prices slid to their lowest level since September, dragging down shares of energy companies and renewing concerns among some analysts about a more severe pullback in commodity prices.

Still, many investors and analysts say they remain cautiously optimistic on the outlook for the U.S. stock market. Strong earnings should keep supporting stock indexes, even if oil prices continue to wobble, said Patrick Spencer, vice chairman of equities at Robert W. Baird & Co.

“Positive earnings revisions and a weaker dollar are quite a powerful springboard for the U.S.,” Mr. Spencer said.

U.S. crude oil fluctuated between gains and losses in choppy trading after returning to bear-market territory Tuesday. Energy shares in the S&P 500, the worst-performing sector in the broad index in 2017, fell 0.8%, deepening their declines for the year.

**The Nikkei Stock Average fell 0.45% and the Hong Kong market fell 0.6%**

Shares of health-care companies in the S&P 500 rose 0.8%, with Regeneron Pharmaceuticals—the second-biggest gainer in the S&P 500 on Tuesday—posting among the biggest advances Wednesday.

Elsewhere, the Stoxx Europe 600 slipped 0.2%, but moved off its worst levels of the day, when falling oil prices stoked doubts about inflation and sent government-bond yields lower.

“Oil, which can be a big inflation contributor, is down around 20% year to date,” said Nancy Curtin, chief investment officer at Close Brothers Asset Management. “Despite improvements in the growth picture, there seems to be very little inflation,” she said.

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# MARKETS

## In Bonds, Bigger Is Better

BY JON SINDREU

Imagine a retail sector in which wholesalers were scaling back their businesses. Small retailers would struggle to stock up, but big-box stores with their mega warehouses and access to international producers would get by fine.

That is what is happening in bond markets.

Big banks, the wholesalers, now trade fewer bonds because of postcrisis regulation. Meanwhile, the biggest bond funds, those that manage more than \$100 billion, are increasingly acting as wholesalers themselves—setting prices in the market.

What trading banks still do is also directed at bigger funds, say bankers and fund managers. Smaller funds have less service and higher costs in trading, say many money managers who work for them.

While bigger bond investors have long had advantages, the differences have become more pronounced.

"There's no question that bank balance sheets are much more constrained than they used to be," said Scott Clemmons, chief strategist at **Brown Brothers Harriman & Co.**, which oversees \$54 billion, and this "has shifted the relative importance of players in the market."

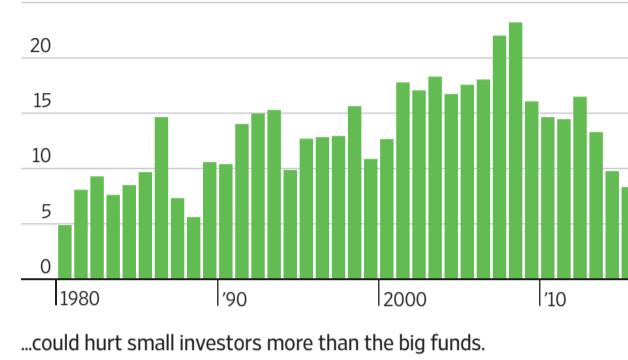
Before the financial crisis, Jay Sommariva, portfolio manager at Fort Pitt Capital Group, a Pittsburgh firm that manages \$1.5 billion, would call a few banks to sell a bond and it would be snatched up within hours, he says. Now, he says, it takes at least a couple of days, and the cut that the bank takes is much greater.

For every billion dollars of bonds outstanding in U.S. markets, dealer banks held only \$8 million in stock in 2016, one-third the amount in 2008, according to the Federal Reserve and the Securities Industry and Financial Markets Association. This change has made trading

### New Day

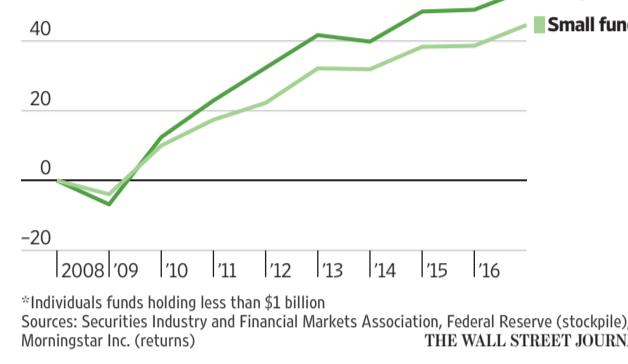
Banks stepping out of bond markets...

**Amount of debt securities U.S. banks stockpile for each \$1 billion outstanding in the market**



...could hurt small investors more than the big funds.

**CUMULATIVE RETURNS SINCE 2007 FOR U.S. DOLLAR CORPORATE-BOND FUNDS**



\*Individuals funds holding less than \$1 billion

Sources: Securities Industry and Financial Markets Association, Federal Reserve (stockpile); Morningstar Inc. (returns)

THE WALL STREET JOURNAL.

choppier, research published by the Fed last month suggested.

It is also shifting the balance of power into the hands of the largest asset managers.

In recent years, whenever Mr. Sommariva wanted to sell a bond, banks would normally only buy it if they had someone lined up to sell it to, he said. Big funds say that this someone is them.

"They'll call us, Pimco, Blackrock, and ask 'Can you take that on?'" said Gregory Peters, a senior fund manager at PGIM Fixed Income, part of PGIM Inc., an asset manager that oversees \$1 trillion. "It's really Darwinian when it comes to size."

This approach wasn't as

common pre-2008, when banks could buy the bond on the spot and wait to sell it when a buyer was willing to meet their price.

Taking the bond off the banks' hands, however, is a service done only for a good price, Mr. Peters added, giving firms like his an edge.

Who is getting the short end of the deal? Banks are being hit because they have less flexibility in trading, and because asset managers now have more analysts, more data and electronic tools that allow them to trade directly with one another, analysts say.

But ultimately, if banks trade less, it is the small investor who suffers, analysts say. Smaller asset managers are reliant on banks; they don't have

the capacity to stockpile bonds themselves.

To be sure, banks have long given better prices to bigger funds sending larger orders, because they bring in more fees—trading small blocks can be five times as pricey as doing it in bulk, managers said. Smaller funds are also trying to adapt and play to their strengths, they say, for example by holding less-traded bonds for longer.

Large asset managers, meanwhile, are adapting to their new role, and behaving more like banks used to do.

Now, instead of just calling banks for quotes on bonds, big funds often amass large stockpiles of their own and then call banks to tell them at what price they are willing to sell, said David Lloyd, head of institutional public debt at M&G Investments, a £265 billion (\$345 billion) asset manager.

It is hard to pin down the cost of trading because it varies depending on the risk and maturity of the asset, as well as daily moves. Large funds say that roughly 1% of the money they can make on a bond may be spent on buying or selling it to a bank, with some reporting only slight increases since the crisis.

Some smaller funds say that for them, this cost could go up to 15%, an increase of roughly a fifth after 2008.

Larger funds tend to outperform smaller ones, although there are many other possible reasons. Individual U.S. dollar corporate-debt funds larger than \$1 billion returned a cumulative 61% between 2008 and 2016, while those managing less than that yielded only 48%, according to data by the fund tracker Morningstar Inc.

And small funds face new problems. Swaths of postcrisis regulation are costlier to handle for smaller investors. Customers are migrating to low-cost index funds, and large firms hold 88% of those assets, Morningstar says.

## Yields Go Higher In London, U.S.

BY SAM GOLDFARB

Government bonds on both sides of the Atlantic pulled back after a top **Bank of England** official said the central bank should start withdrawing monetary stimulus later this year.

**CREDIT MARKETS** Chief economist Andrew

Haldane said in a speech that the risk of tightening monetary policy too early had declined and that the risk of tightening too late had increased as economic growth and inflation in the U.K. had "shown greater resilience than expected."

The comments sent the yield on the 10-year U.K. bond as high as 1.048% from 0.980% just before they were reported, according to Tradeweb. Bond yields rise as prices fall.

The U.K. move helped pull other government-bond yields modestly higher as well. In morning trading in New York, the yield on the benchmark 10-year U.S. government note was 2.170%, according to Tradeweb, compared with 2.153% Wednesday.

Bond-buying programs from central banks in Europe and

Japan have played a large role in dragging down government-bond yields in recent years. Investors are on the watch for any pullbacks in the buying, which could leave more debt available for trading, and lead to lower prices and higher yields.

Mr. Haldane was among five members of the Bank of England's policy-setting committee who voted to keep policy unchanged at the central bank's June meeting, while three members voted to raise interest rates. His apparent change of position put him at odds with Gov. Mark Carney, who made the case against raising rates Tuesday.

Given that "he's been pretty dovish in the past," Mr. Haldane's remarks were "quite unexpected," said Shahid Ladha, head of strategy for G10 Rates Americas at BNP Paribas.

U.S. crude-oil prices fell Tuesday to their lowest level since September, extending this year's losses to nearly 20%.

Lower energy prices tend to deflate inflation expectations, making long-term Treasury debt more appealing, as inflation chips away the purchasing power from bond investments.



A Bank of England official appeared to change his stance.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

## China Market Has Long Way to Go

China has won a longed-for trophy with admission of its domestically listed stocks to MSCI's global benchmarks. Don't hold your breath that it will lead to a more open market.

MSCI said Tuesday it would add shares listed in Shanghai and Shenzhen, known as A-shares, to its major indexes, after rejecting inclusion in the previous three years. For now, the move is mostly symbolic because MSCI is only allowing 222 companies in initially: A-shares will only make up 0.7% of the MSCI Emerging Markets Index, with inclusion happening in two phases beginning next year. Goldman Sachs estimates a total inflow of \$12 billion from international funds initially—a drop in China's roughly \$7.5 trillion equity markets.

Now that MSCI has made its long-awaited admission, the worry is that China may have lost a big incentive to further reform its financial markets.

China is pretty good at showing sincerity regarding

### Join the Club

Weightings in MSCI Emerging Markets Index after A-shares inclusion



\*Firms listed in Hong Kong and overseas  
Source: MSCI  
THE WALL STREET JOURNAL.

reform before big decisions like the MSCI inclusion. Take the addition of the yuan into the International Monetary Fund's elite basket of reserve currencies in late 2015. To persuade the IMF to give its currency this coveted status, China showed it was willing to let the yuan depreciate and move within a wider trading range the summer before.

But when capital outflows from China subsequently became a big issue for Beijing,

it backtracked on efforts to liberalize its capital account. Capital controls have tightened further in recent months, while the Chinese currency seems unable to break through a floor of seven yuan to the dollar.

In the same way, China has introduced several stock-market reforms as it has pushed for MSCI inclusion, scrapping quotas on the number of stocks foreign investors can buy via trading

links between the mainland and Hong Kong, and cracking down on companies arbitrarily suspending trading in their shares. It has also loosened the requirement that it needs to preapprove any financial products that are tracking A-shares.

Some global investors on Wednesday said MSCI's inclusion for Chinese shares would enable them to press for more such changes at both the market and corporate level in China. Still, the inclusion only brings a relative handful of Chinese companies into the MSCI orbit, compared with more than 3,000 stocks listed in China. The roughly 1.5% of Chinese stock markets that foreigners currently own will barely rise.

It is vital, then, that any further increase in the weighting of A-shares in MSCI indexes is matched by further strides in market reforms in China. As they hail MSCI inclusion of Chinese shares, global investors should keep their eyes on the pace of further development.

—Jacky Wong

### OVERHEARD

Someone at **Coca-Cola** read Dale Carnegie's classic "How to Win Friends and Influence People." One of his tips is that "a person's name is to that person the sweetest and most important sound in any language."

That, along with a healthy dollop of high-fructose corn syrup, has been a winning strategy as the company revived its "Share a Coke" marketing blitz last month. The idea is that people can find a bottle with up to 1,000 first and last names.

So far, so good, but the company's targeting backfired with the tweet "Today's forecast in Pittsburgh: Record heat, followed by an ice-cold wave of ahhhhh. #ShareACoke."

Unfortunately, the ad included a picture of Philadelphia, Pennsylvania's other major city and a bitter rival in sports.

There would have to be a lot of high-fructose corn syrup in the can to make Philadelphia sound sweet to residents of Pittsburgh.

## Tobacco Stocks Look Easy to Quit

Another big investor is giving up cigarettes. Regret has stalked similar decisions in the past, but the timing looks better this time.

The U.K. insurer Aviva is in the process of selling the roughly \$1.4 billion of tobacco stocks and bonds it holds. It joins a growing throng of money managers. Fifty-three investors, health systems, pension funds and insurers, representing in total \$3.8 trillion in assets under management, last month signed a statement flagging the economic costs of smoking and supporting stronger regulation.

The longest-standing tobacco critic may be the California Public Employees' Retirement System, which sold out in 2000. A 2015 analysis for the CalPERS investment committee suggested that it had forgone \$3 billion in investment returns.

Now looks a better time to sell out. In 2000, tobacco stocks, particularly in the U.S., were wheezing after a decade of litigation. But over the past decade and a half they have staged a spectacular recovery as investors have got used to ever tighter regulation and focused instead on the industry's big cash flows and emerging-markets exposure.

British American Tobacco's dividend yield is now 3.1%—lower than that of the FTSE 100, in a rare reversal. If there is a substantial gain for an amoral investor picking up Aviva's tobacco shares, it is hard to see at these prices.

Investment returns shouldn't play a part in an ethically motivated decision. But it helps if ethics and strategy point in the same direction. The decision may prove easier for Aviva than it was for the early quitters.

—Stephen Wilmot

## Trump Plan Offers a Potential Bonanza for Trust Banks

Among the biggest winners from President Donald Trump's deregulatory agenda could be a handful of banks that don't often garner much attention.

Custody or trust banks, including **Bank of New York Mellon** and **State Street**, specialize in safekeeping the securities and other assets of institutional investors such as mutual funds and insurers. They stand to benefit more than other banks from shifts in how regulators calculate lenders' total leverage.

Custody banks take some cash deposits from their investor clients, but their business models aren't focused on making loans. Instead,

they tend to invest in safe, highly liquid assets like Treasury bonds or else just hold cash on deposit with the Federal Reserve.

These are among the assets that the Treasury Department now wants to exclude from calculating total leverage, according to the department's report on banking regulation last week. If the change goes through, it would be a windfall to the custody banks. If these assets were excluded from leverage calculations, BNY Mellon, State Street and smaller competitor Northern Trust could have between 33% and 38% of their total assets freed up,

according to analysts at **Goldman Sachs Group**.

J.P. Morgan, which also has a sizable custody business, would see around 21% of assets exempted. At other large banks the ratio ranges from 12% to 17%, according to Goldman's analysis.

Since around 2014, BNY Mellon and State Street have shrunk their balance sheets and issued billions of dollars of preferred shares to bring down their leverage ratios. Preferred shares are interest-bearing securities that stand between equity and debt in a company's capital structure. If leverage calculations are loosened, it would allow them to call back the preferred shares,

BNY Mellon and 26% at State Street. This assumes the banks make large, instantaneous adjustments to their balance sheets, which isn't realistic. But it still illustrates the potential power of changes in leverage calculations.

Since the Treasury report was released, shares of BNY Mellon and State Street have risen 2.4% and 2.8% through Tuesday, respectively, compared with a 0.8% rise in the KBW Nasdaq Bank Index. These moves seem minor compared with the potential earnings upside. As bank deregulation slowly moves forward, look for the trust banks to keep rising.

—Aaron Back