

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

MONDAY, JUNE 26, 2017 ~ VOL. XXXV NO. 101

WSJ.com EUROPE EDITION

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## What's News

Business & Finance

U.S. banks face less of a risk of failing stress tests as the Fed reduces its emphasis on subjective aspects of the exam. **A1**

♦ Italy said it is prepared to spend up to \$19 billion to shut down two regional banks and transfer their best assets to Intesa. **B1**

♦ Facebook has been holding talks and making deals with an eye toward launching TV-quality video programming. **B1**

♦ Shell and Exxon are pushing back at Dutch moves to curb output at the Groningen gas field because of earthquakes. **B1**

♦ Fiat Chrysler has suspended production of its hybrid Pacifica minivan due to technical glitches. **B1**

♦ Takata was set to seek bankruptcy protection to address liabilities from its air-bag safety recall. **B2**

♦ Uber's top leaders urged employees to remain at the ride-hailing firm following the CEO's resignation. **B4**

♦ Glencore submitted a sweetened all-cash bid of \$2.68 billion for Rio Tinto's Australian coal assets. **B3**

♦ AGIC is buying drug-maker Ritedose, the Hong Kong private-equity firm's first U.S. acquisition. **B7**

♦ Harley-Davidson is in talks to buy motorcycle maker Ducati from VW. **B3**

♦ SpaceX was seeking to complete back-to-back rocket launches. **B4**

## World-Wide

♦ Several GOP senators expressed reluctance to back the Republican health-care bill, adding to uncertainty about its prospects. **A1**

♦ The health-care vote will showcase a sharp partisan divide in the most competitive states held by Democratic senators. **A5**

♦ Botched attacks in Paris and Brussels signal a new phase of Islamist terror that risks spawning a growing number of assailants. **A1**

♦ German Social Democrats attacked Merkel for what its leaders characterized as a failure to stand up to Trump over military spending. **A3**

♦ Canada is bracing for the U.S. to slap additional duties on its lumber exports, a move that could complicate efforts to renegotiate Nafta. **A2**

♦ A Senate panel is likely to raise questions about potential conflicts in the FBI director nominee's work as a defense attorney. **A5**

♦ India's leader is set to meet with Trump, with differences over immigration, trade and climate potentially straining relations. **A4**

♦ Nearly 100 people were missing after a landslide in an area of southwestern China that was struck by an earthquake in 2008. **A4**

♦ Gasoline spilling from an overturned truck in central Pakistan caught fire, killing at least 138 people. **A4**

♦ The BIS warned of the economic threat of protectionism and a retreat from global cooperation. **A3**

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€3.20; CHF5.50; £2.00;  
U.S. Military (Eur) \$2.20



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## WORLD NEWS

# Italian Bank Deal Raises Eurozone Questions



### EUROPE FILE

By Simon Nixon

The decision to create a banking union was the decisive moment in the eurozone's response to the global financial crisis.

The establishment of common banking rules and oversight institutions were intended to help restore trust in a system badly shaken by concerns that weak national supervisors in thrall to local political pressures were colluding to hide from investors the full scale of bad debts. It also formed the centerpiece of a grand political bargain: By committing to sever the link between weak banks and over-indebted sovereigns, governments prepared the way for European Central Bank president Mario Draghi's 2012 promise to do "whatever it takes" to save the eurozone, including buying government bonds.

Yet the decision over the weekend to spare two failed Italian lenders from the full force of those new rules

raises questions about the banking union.

The centerpiece of the new regime was the Bank Resolution and Recovery Directive—rules to ensure that no taxpayer money is used to bail out banks and that losses fall on private-sector creditors—and the creation of the Single Resolution Board to oversee the process. There was relief last month when this new regime was tested for the first time by the failure of the Spanish lender Banco Popular, which was sold to Santander for one euro after its shareholders and junior bondholders had been wiped out, with no adverse effect on the market.

But Veneto Banca and Banca Popolare di Vicenza will be spared the same treatment. Using a loophole in the BRRD, the Single Resolution Board has ruled that the two banks are not systemically important and therefore can be liquidated under Italian insolvency rules, which permit the use of government cash without the need for senior bondholders to take losses.

The plan: The banks' good assets will be transferred to Intesa Sanpaolo for a euro, but the bad assets and the cost of redundancies will be left with the government, which faces a potential hit of up to €17 billion, which includes a €5 billion capital in-



ALESSIA PIERDOMENICO/BLOOMBERG NEWS

Intesa Sanpaolo will take good assets of two banks in Italy; the government will cover some losses.

jection to cushion Intesa against losses.

The EU Commission insists this is not a loophole and that the possibility of using national as opposed to eurozone-level insolvency regimes was clearly envisaged under the Bank Resolution and Recovery Directive. It points out that a number of failed banks have been liquidated using national insolvency regimes since 2015.

Even so, most observers are surprised. The two Italian banks, though smaller than Banco Popular, were large enough to be supervised by the ECB. So, it was widely assumed that their resolution would also be handled at the European level. Instead, it appears the SRB has discretion whether to apply the BRRD rules.

Meanwhile the eurozone finds itself in the odd situation where systemically unimportant banks are eligible for state aid, while systemically important banks must be subject to full bail-in.

Italian authorities have been fighting a rear-guard action to save the two banks from insolvency for two years, not least because they are major employers and because many of the bondholders are retail customers of the banks who may not have

known the risks they were taking when they bought what were marketed as high-interest savings products.

No one wants to reignite a new political crisis in the eurozone just as the economy, including that of Italy, seems to have turned a corner.

Importantly, the decision to put the liquidation into the hands of the Italian authorities is not being questioned by Germany. From Berlin's perspective, it is enough that it has headed off a long-standing attempt by Rome to try to keep the banks alive by injecting government capital using another controversial BRRD loophole known as precautionary recapitalization. The decision to spare senior bondholders represents a pragmatic compromise. Nonetheless, Berlin wants reassurance that this deal doesn't set a precedent, according to German officials.

In recent weeks, there has been much speculation about a fresh political push to strengthen the eurozone, including the creation of new mechanisms to pool banking risks a common deposit-insurance scheme.

But the Italian episode highlights that before any steps can be taken to complete the banking union, new measures may be needed to strengthen the rules already in place.

## ECONOMIC CALENDAR

**MONDAY:** The U.S. Commerce Department releases the **durable-goods** report for May. Demand for long-lasting factory goods fell in April, hinting at potential speed bumps for the manufacturing sector. Economists will be watching for an indication of whether last month's report was a blip in the data. Economists surveyed by The Wall Street Journal forecast durable-goods orders fell 0.4% in May.

**TUESDAY:** Federal Reserve Chairwoman Janet Yellen will speak in London on global economic issues, in a moderated question-and-answer session with the audience. As the Fed considers the timing of another interest-rate increase and the start of its plan to wind down its asset holdings, economists expect Ms. Yellen to stress the Fed will base its decisions on incoming economic data.

**WEDNESDAY:** Brazil's Senate is likely to hold on Wednesday or Thursday a final vote on a bill that would loosen the country's mazelike labor law, which has been a deterrent for investment. The bill has been under debate for months, and markets rallied as it advanced through the lower house earlier this year. But corruption allegations against the proposal's main supporter, President Michel Temer, who de-

nies wrongdoing, have fanned opposition, making its approval more complicated.

**FRIDAY: Inflation** figures from around the eurozone will be in focus throughout the week, culminating Friday in the release of numbers for the currency area as a whole. Economists estimate the annual pace of price rises during June eased in Italy, Spain, France and Germany. For the eurozone, the annual rate of inflation is expected to drop to 1.2%, from 1.4% in May. That would be the smallest rise in 2017, and likely reinforce the European Central Bank's reluctance to dial down its stimulus measures, despite signs of a continuing pickup in economic growth.

The U.S. Commerce Department releases data on personal income and outlays for May. The Fed will watch this report to see whether its preferred inflation gauge, the **price index for personal-consumption expenditures**, shows signs of firming after several inflation measures have signaled softness recently. Economists surveyed by WSJ expect **personal income** grew 0.3% last month. Spending growth is seen coming in lighter than income, with a 0.1% increase projected, likely due to a soft retail sales report for May.

## Where's Waldo? At an Amusement Park in Japan



Some 2,000 people dressed as the children's-book character gathered for a Waldo Run event at Toshimaen theme park in Tokyo.

SHIZUO KAMBAYASHI/ASSOCIATED PRESS

# Canada Sees Bruising Battle With U.S. Over Lumber

BY PAUL VIEIRA

OTTAWA—Canada is bracing for Washington to slap additional duties on its U.S.-bound lumber exports, a move that could complicate efforts to quickly renegotiate the North American Free Trade Agreement, say lawyers and officials.

The Commerce Department is expected to release a decision as early as Monday. The department has been looking at whether Canada is selling softwood lumber, used mostly in the construction of houses, into the U.S. at below-market prices.

The anti-dumping duty, a type of tariff on imports designed to protect U.S. producers from unfair competition, would come just two months after the Commerce Department found Canadian lumber producers benefited unfairly from government subsidies. After that finding, the Trump administration slapped an initial 20% tariff on imported Canadian wood.

A new ruling against Canada could push the average tariff on Canadian softwood lumber above 30%, according to trade lawyers at law firm **Dickinson Wright**. A Canadian government spokesman said he wouldn't speculate on what the Commerce Department will decide.

In 2016, the U.S. imported more than \$5 billion worth of softwood lumber from Canada.

U.S. and Canadian officials continue to talk about a negotiated settlement, although Canadian Foreign Minister Chrystia Freeland said recently the two sides remain far apart.

Trade watchers worry that letting the current row drag on any longer threatens to cast a pall over trilateral talks among the U.S., Canada and Mexico for a revamped Nafta, which formally begins in mid-August.

This arrangement has fueled decades of complaints. The U.S. argues the fees charged by the province tend to be significantly lower than they would be in an open-market environment, and hence gives Canadian producers an unfair edge.

"It would certainly be an advantage to both countries to settle the softwood issue outside of the Nafta negotiations. Having them injected into the Nafta negotiations would be a mistake because it would add an enormously complex issue to those talks," said Lawrence Herman, a Toronto-based trade lawyer and former Canadian diplomat.

The U.S. has also complained about rules that limit the export of raw logs in the west-coast province of British Columbia, where most Canadian softwood lumber is lo-

cated. The regulations artificially suppress the price of Canadian lumber, U.S. producers say.

Commerce Secretary Wilbur Ross has said the decadeslong disagreements over softwood lumber illustrate the shortcomings of Nafta, which President Donald Trump has called a "disaster" and now seeks its renegotiation. U.S. Trade Representative Robert Lighthizer told Congress last week the administration intends "to move very quickly" on Nafta talks.

Mr. Ross is said to be en-

gaged in the softwood-lumber issue, and in frequent touch with senior Canadian officials, including Ms. Freeland and Canada's chief envoy in Washington, David MacNaughton.

Mr. Ross told The Wall Street Journal this month the administration is "trying to solve some of the little disputes with Canada," much like the U.S. did with Mexico over sugar. With that country, a tentative pact caps the amount of refined sugar that Mexico can send to the U.S.

"Disputes are resolvable if people are of reasonable will and are willing to make reasonable compromises," Mr. Ross said.

Canada will only agree to a deal that works for its domestic lumber industry, which ships roughly two-thirds of its exports to the U.S., Ms. Freeland has said. The U.S. Lumber Coalition, an industry group, said it wants the amount of "subsidized" Canadian lumber entering the U.S. limited.

"The Americans are willing to cut a deal. They would sign



SEAN KILPATRICK/THE CANADIAN PRESS/ASSOCIATED PRESS  
Softwood lumber in Ontario, above. The dispute dates back decades.

## The Roots of the Lumber Dispute

The bulk of wood used to produce Canadian softwood lumber comes from forests on publicly owned land. Canada's provincial governments, which have responsibility for forest management, charge private companies a fee for the right to harvest the trees.

This arrangement has fueled decades of complaints. The U.S. argues the fees charged by the province tend to be significantly lower than they would be in an open-market environment, and hence gives Canadian producers an unfair edge.

—Paul Vieira

a deal tomorrow but they want a quota. It's Canada that's unwilling," said Brenda Swick, a Toronto-based trade lawyer at Dickinson Wright.

The softwood dispute dates back decades, she added, "and it is its own beast, and I can't see how it would be resolved in any Nafta renegotiation."

**THE WALL STREET JOURNAL**  
Europe Edition ISSN 0921-99  
The News Building, 1 London Bridge Street,  
London, SE1 9GF

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**Advertising** through Dow Jones Advertising  
Sales: Hong Kong: 852-2831 2504; Singapore: 65-6415 4300; Tokyo: 81-3 6269-2701;  
Frankfurt: 49 69 29725390; London: 44 207  
842 9600; Paris: 33 1 40 17 17 01;  
New York: 1-212-659-2176

**Printers:** France: POP La Courneuve; Germany: Dogan Media Group/Hörrijet A.S.; Branch: Qualiprinters s.r.l.; United Kingdom: Newsprinters (Broxbourne) Limited, Great Cambridge Road, Waltham Cross, EN8 8DY

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# WORLD NEWS

## Trump a Hot Issue in German Vote

The left hits Merkel's vow to raise military spending, which the U.S. president demands

By ANTON TROIANOVSKI

DORTMUND, Germany—Germany's main center-left political party on Sunday attacked Chancellor Angela Merkel for what its leaders characterized as a failure to stand up to President Donald Trump, signaling that the U.S. relationship will be a prominent campaign issue ahead of the national election here in September.

The Social Democrats pounced on Ms. Merkel's promise that Germany will move toward spending 2% of its economic output on defense—a target agreed to in 2014 by American allies in Europe and emphasized by Mr. Trump in recent months.

Mr. Trump's demand would mean "a Germany—surrounded by friends—that has armed itself to the teeth in the middle of Europe," Social Democratic chancellor candidate Martin Schulz told an arena in Germany's industrial heartland, at the party's convention. "I ask you: Do we

want this? We know from our history: More security does not come with more weapons."

Mr. Schulz amplified his months of criticism of the 2% spending goal even though the Social Democrats have served as the junior partner in Ms. Merkel's governing coalition since 2013. But the allusions to Mr. Trump at Sunday's convention showed how the new U.S. president—whose approval rating among Germans is 5%, according to a recent poll—is coloring European politics.

"We must be self-confident in countering President Trump," former Chancellor Gerhard Schröder said, recalling his own opposition to President George W. Bush and the Iraq war. "This seems to be somewhat lacking now."

Ms. Merkel, who is running for a fourth four-year term, represents the center-right Christian Democrats and holds a roughly 15-point lead in the polls over Mr. Schulz.

She has also sought to distance herself from Mr. Trump, but has used softer language. She told a beer-tent audience in Bavaria last month that the times in which Europe could completely rely on others were "partly past."

"One could also have said:



KAY NIETZFELD/DPA/ZUMA PRESS

Social Democrat chancellor candidate Martin Schulz on Sunday.

We don't know whether or not we can still rely on the United States," Mr. Schulz said after needling Ms. Merkel for being too vague. "But we know very well that we can't rely on an aimlessly wandering President Donald Trump."

Ms. Merkel last year pushed through parliament an 8% increase in German military spending to €37 billion (\$41 billion), a sum representing 1.2% of gross domestic product. Mr. Schulz said Germany, Europe's biggest economy, did need billions of euros more in military spending—but not a

level that would give it "the biggest army of our continent."

Ralf Stegner, a deputy chairman of the party, said opposition to Mr. Trump and the 2% spending goal would become "a central issue in the campaign."

"Trump, in a negative sense, will play a big role in how the SPD positions itself," Mr. Stegner said in an interview, using his party's acronym. "This is a question that moves the German public."

Beyond the crowd-pleasing Trump criticism, however, delegates acknowledged that Ms.

Merkel would be hard to unseat. Her actions on the world stage, some said, appear to have been enough to persuade voters she would defend German and European interests against challenges from Mr. Trump. Several expressed particular frustration with her frequent appearances alongside the popular new French President Emmanuel Macron, who was praised by Mr. Schulz and other convention speakers.

The Social Democrats' poll numbers shot up to a near-tie earlier this year with the Christian Democrats when party elders tapped Mr. Schulz, a former president of the European Parliament, to lead the campaign to unseat Ms. Merkel. But that period of euphoria—which delegates here referred to as the "Schulz hype"—ended with a string of regional election losses this spring and the emergence of a seemingly re-energized Ms. Merkel.

Polls show that Ms. Merkel has nearly regained the popularity she enjoyed before the influx of refugees and migrants in Germany in 2015 cost her support. An Infratest Dimap poll earlier this month found she was Germany's most popular politician, with an approval rating of 64%.

## Central Banks Say Free Trade Imperiled

By BRIAN BLACKSTONE

ZURICH—The Bank for International Settlements warned Sunday that rising protectionist sentiment and a retreat from global cooperation on economic matters would threaten the world economy.

"Rolling back globalization would strike a major blow against the prospects for a sustained and robust expansion," said the BIS, a consortium of central banks based in Basel, Switzerland, in its annual report.

BIS chief economist Claudio Borio put it bluntly: "Rolling back globalization would be as foolhardy as rolling back technological change."

The stark warning comes amid signs that the decades-long trend toward greater trade and global cooperation on economic policy has stalled and reversed in some cases.

The U.S. has in recent months pulled out of a proposed Pacific trade agreement and said it would withdraw from the Paris climate accord, and President Donald Trump wants to renegotiate the North American Free Trade Agreement between the U.S., Canada and Mexico. Last year, the U.K. voted in a referendum to exit from the European Union.

*'Rolling back globalization would strike a major blow,' said the BIS.*

This comes amid concerns that workers in major economies aren't seeing the benefits of globalization at a time when wages are weak and economic anxiety high.

Rising protectionist sentiments "have been part of a broader social and political backlash against globalization," the BIS said. "Investment would be the first casualty, given its tight link with trade."

Since the last BIS report one year ago, some central banks have slowly begun to scale back the massive stimulus they injected into their economies in the aftermath of the global financial crisis. On June 14, the Federal Reserve raised short-term interest rates to a range of 1% to 1.25%, continuing a tightening cycle that started in December 2015.

Earlier this year, the European Central Bank began scaling back the size of its quantitative-easing program to €60 billion (\$67 billion) a month from €80 billion, though it continues to set negative rates on bank deposits stored at the central bank.

The Bank of Japan has maintained its aggressive monetary easing, including negative interest rates and asset purchases, and the Bank of England last summer cut its benchmark interest rate to 0.25% from 0.5%.

## A Week After Portugal, Fire Rages in Spain

A forest fire in southern Spain forced the evacuation of hundreds of people and is threatening the Doñana Nature Reserve, one of the nation's most important wildlife sanctuaries and a Unesco World Heritage site. Susana Diaz, the regional president of Andalusia, said no deaths have been reported and about 1,000 people were evacuated from campsites and houses near the town of Moguer, where the fire started on Saturday. The fire comes a week after wildfires killed 64 people in Portugal. At right, a firefighter douses flames outside the coastal town of Mazagón.

—Associated Press



Cristina Quicler/Agence France Presse/Getty Images

## Generations Divide Saudis Over New Prince

By SUMMER SAID

MECCA, Saudi Arabia—In Islam's holiest city, two views of the new crown prince are emerging, breaking sharply along generational lines.

Like in other Saudi cities, the young here view the 31-year-old Prince Mohammed bin Salman as a breath of fresh air, someone who will take on the conservative religious establishment, tackle corruption and transform an oil-dependent economy. They hope his surprise elevation to crown prince last week will usher in a new era of openness, not only for foreign investors but for the latest Hollywood movies, which are still banned. It is the moment, young Saudis say, to modernize an ancient kingdom.

"We have a crown prince from our generation who is very determined, smart and wants to make real change," said Nader Mohammed, a 20-year-old power engineering

student who lives in Mecca. "Saudis need someone to shake them and get the best out of them."

Prince Mohammed's ascent has coincided with the appointment of other young princes to top positions, such as 33-year-old Prince Abdul Aziz Bin Saud Bin Nayef's promotion to interior minister earlier this month.

But older Saudis have questioned the wisdom of ousting the former crown prince, Mohammed bin Nayef, a respected yet cautious leader, in favor of his younger, impulsive and largely untested cousin. The move puts Prince Mohammed in a position to take over from his 81-year-old father, King Salman, before he might be ready, they say. And while many Saudis agree change is needed, not many—especially among the older—are ready to embrace upheaval.

Khalid al-Hilali, a retired 63-year-old government employee in Mecca, also ex-

pressed reservations.

"I like the crown prince and I pledge allegiance to him but I'm worried about the future of Saudi Arabia. He rules in a more forthright way than others in the royal family but he is also confrontational, which could backfire when it comes to politics. We Saudis are used to a different approach."

Prince Mohammed, who has

overseen the economy and defense as deputy crown prince, is taking over Mohammed bin Nayef's domestic security portfolio as well.

For now, there are few signs that ambivalence about Prince Mohammed among older Saudis will lead to political unrest.

Those bent on change, however, are bound to collide with

those who resist it, namely the religious establishment. Even younger Saudis who support Prince Mohammed fear a backlash from religious clerics who have lost influence in recent years as the country has begun to change.

"If they come back," said 36-year-old Ziad, an army officer, "they will come back with vengeance."

Last week, Mr. Tillerson called for Saudi Arabia and others to issue a list of demands that were "reasonable and actionable," after the U.S. State Department questioned the motives of the Gulf Arab countries' boycotting Qatar.

The Saudis, acting with Egypt, the U.A.E. and others have blockaded Qatar for the past three weeks, closing borders and canceling airline flights while accusing Doha of supporting extremist movements and cultivating ties to Iran.

—Felicia Schwartz

### U.S. Acknowledges Tough Qatar Terms

WASHINGTON—The U.S. sees a list of demands put forward late last week from Saudi Arabia and other governments to Qatar as a starting point for discussions to end a three-week standoff, though some conditions will be difficult to meet, Secretary of State Rex Tillerson said Sunday.

The list to Qatar from Saudi Arabia, the United Arab Emirates,

Egypt and Saudi Arabia, delivered Thursday, includes demands that Qatar shutter state broadcaster Al Jazeera, curb ties with Iran and end Turkey's military presence on its soil, among others.

"While some of the elements will be very difficult for Qatar to meet, there are significant areas which provide a basis for ongoing dialogue leading to resolution," Mr. Tillerson said. "A productive next step would be for each of the countries to sit together and continue this conversation."

## TERROR

Continued from Page One

"The guy was able to build a bomb, but the bomb failed," said Claude Monique, a former French intelligence official who leads the Brussels-based European Strategic Intelligence and Security Center, a think tank. "Most of these attacks fail because these guys are not trained."

Such terrorism marks a shift from the kind of large-scale attacks carried out by extremist cells that have hit the Continent in the past, including Islamic State militants' gun-and-bomb attacks in Paris in November 2015 and March 2016 attacks on Brussels airport and subway.

Authorities across Europe say they have seen an uptick in terror activity—often of the small-scale, less-organized

kind—since a May 2016 call by Islamic State for its supporters to kill non-Muslims in the West.

The changing nature of the attacks also reflects improved security in Europe, where the European Union and national governments have stepped up surveillance, tightened borders and deployed more police and soldiers. Military campaigns against Islamic State in the Mideast have also made it more difficult for terror leaders to organize and carry out attacks.

But officials warn it would be reckless to underestimate the continuing threat of extremist groups even if they may be conducting operations that are more frequently smaller-scale. "It is too easy to say they are too degraded, they are not capable anymore," said a European official. "That would be a mistake."

In May, a suicide bomber killed 22 people in Manchester, England, with a powerful

and relatively sophisticated device in an attack claimed by Islamic State. British authorities are investigating whether the assailant met with Islamic State operatives in Libya ahead of the attack.

Authorities in Germany last

year said they arrested two groups of people on terrorism-related charges who were suspected of traveling from Syria with the purpose of carrying out a large attack.

In the U.S., a Canadian man,

Amor Ftoohi, was charged in

an assault on a police officer Wednesday at the Flint, Mich., airport. Authorities said Mr. Ftoohi, who is of Tunisian descent, yelled "God is great" in Arabic before he stabbed the officer in the neck. "We continue to have no indication to suggest the attack was part of a wider plot," said David Gelios, FBI special agent in charge.

A U.K. government official said in May that security services had disrupted 18 separate plots in Britain since June 2013, five of them since a Muslim convert plowed his car into pedestrians and then fatally stabbed a police officer in March outside the country's Parliament building.

In April, police arrested a man carrying knives as he neared 10 Downing Street, the official residence of the country's prime minister.

The number of attempted

attacks also has jumped in France over the past two

years, French law-enforcement officials said. One of the officials attributed many of the attacks to men who didn't belong to organized networks and had become radicalized through exposure to materials on the internet.

Adam Djazari, the man who crashed his car into the police van last Monday in Paris, was described by authorities as an Islamic State sympathizer. He had been summoned by police to a meeting the afternoon of the attack, prompting him to act in haste, officials said.

Since a November 2015 jihadist assault in Paris that killed 130 people, there have been roughly a dozen terror attacks in France. More than half of those targeted police or military patrols; three police officers were killed.

—Bertrand Boen in Berlin, Valentina Pop in Brussels and Jenny Gross in London contributed to this article



DIRK WAEM/ZUMA PRESS

The Brussels train station, where a man tried to set off a bomb.

## WORLD NEWS

# Modi, Trump Seek to Redefine Relations

India's prime minister to open talks in Washington with the U.S. president

When Indian Prime Minister Narendra Modi visits the White House on Monday for his first meeting with President Donald Trump, a principle that has long underpinned relations will be at stake: that supporting the growth of a strong India is in America's national interest.

By Niharika Mandhana in New Delhi, and Michael C. Bender and William Mauldin in Washington

Mr. Trump will use the talks to "really expand his knowledge base about India and understand the importance of the Indian relationship," a senior White House official said. The Trump administration, the official said, will "roll out the red carpet" for Mr. Modi, setting an upbeat tone for the meeting.

By QASIM NAUMAN

At least 138 people were killed and nearly 150 were injured after gasoline spilled from an overturned fuel truck and caught fire in central Pakistan on Sunday, officials said.

The truck was traveling on a highway outside the town of Bahawalpur, around 300 miles southwest of Islamabad, when it flipped over, spilling its contents, police said. The truck was carrying thousands of gallons of gasoline north from the southern port city of Karachi.

Officials closed the highway 1.5 miles to either side of the overturned truck and warned passersby to stay away, but a large crowd, including residents of nearby villages, gathered to try to scoop up the fuel, local officials and police said.

Hundreds of people were at the site when the spill ignited around 6 a.m., officials said.

The fireball engulfed the crowd and vehicles nearby, killing at least 138 people. At least 145 more were injured, including dozens with third-degree burns, said Jam Sajad Hussain, a government rescue service spokesman.

Dozens of motorcyclists had swarmed to the site and were among those gathering spilled fuel, he said.

"We found a lot of de-

But differences over immigration, trade and climate topics that animated Mr. Trump's "America First" slogan—have the potential to strain relations that have been prone to rough patches. If Mr. Trump takes a more transactional stance than his predecessors, ties could hinge on India's ability to create American jobs or contribute more to maritime security.

Since the final years of Bill Clinton's presidency, U.S. leaders have chipped away at the history of distrust with India, which leaned toward the Soviet Union during the Cold War. President George W. Bush broke down barriers by championing a 2008 landmark nuclear agreement with New Delhi. President Barack Obama called the U.S.-India relationship "one of the defining partnerships of the 21st century" and strategic and defense cooperation between the countries grew under him, fueled by a shared wariness of China.

Mr. Trump, in a post-inauguration phone call with Mr. Modi in January, called India a "true friend," the White House

said at the time. He sees India as a critical partner for stability in the Asia Pacific, a region being reshaped by China's rise, and for economic growth, the White House official said.

Indian officials said the meeting would be an opportunity for the leaders to get to know each other. Both have promised economic programs rooted in increasing manufacturing in their countries, and have ridden waves of nationalist sentiment to shake up politics at home.

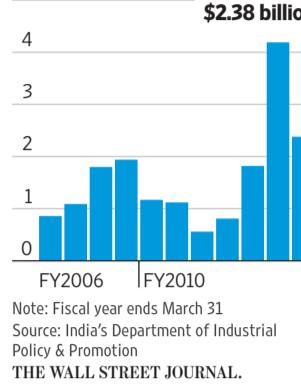
"A lot depends on what sort of rapport they strike," said Harsh Pant, head of strategic studies at New Delhi-based think tank Observer Research Foundation. "If they don't [develop an understanding], irritants that were pushed aside in recent years could just as easily resurface and overwhelm the relationship."

As a presidential candidate, Mr. Trump assailed the skilled-worker visa program used by hundreds of thousands of Indians employed in the U.S. In office, he has ordered a review, saying the so-called H-1B visas should only

### Land of Opportunity

The U.S. accounted for 5.5% of foreign direct investment last year in India.

#### U.S. FDI in India



Note: Fiscal year ends March 31  
Source: India's Department of Industrial Policy & Promotion

THE WALL STREET JOURNAL.



PATRICK DE MELO MOREIRA/AGENCE FRANCE PRESSE/GETTY IMAGES

Prime Minister Narendra Modi.

ing billions of dollars from developed nations, something New Delhi refuted.

U.S. Trade Representative Robert Lighthizer said Wednesday that officials were working with Indian counterparts to address U.S. concerns about India's intellectual property standards and barriers to foreign direct investment.

"We're hoping that we end up with deliverables," he told the Senate Finance Committee.

Monday's talks will have a particular focus on regional security and defense collaboration, Indian officials said. These were engines of growth under Mr. Obama as New Delhi emerged as a leading buyer of U.S. arms, and China began altering the balance of power in Asia. Although India remains opposed to a formal security alliance with the U.S., Mr. Modi, who built a personal rapport with Mr. Obama, embraced Washington more than Indian leaders before him.

Trump administration officials said they support this burgeoning partnership.

—Paul Sonne in Washington contributed to this article.

# Fuel-Truck Fire on Pakistan Highway Kills Scores



Rescue workers examined the site where a fuel tanker overturned and spilled its load near Bahawalpur. Many of the injured were badly burned.

ment officials said an investigation had been launched determine what caused the truck to overturn, and how the fire started.

Imran Shah, a police spokesman, defended the police response.

"We warned them, we told them this oil can catch fire any second but a lot of people still came," he said.

Shaukat Hayat, head of the National Highways and Motorway Police, said, "There were hundreds of people around the tanker. What could a few [police] do other than guide them? They couldn't remove them by force."

## WORLD WATCH

### CHINA

#### Scores Missing After Deadly Landslide

Nearly 100 people were missing after a deadly landslide in an area of southwestern China that had been the focus of geologic concern since a devastating 2008 earthquake.

Sichuan province authorities said more than 3,000 rescue workers were combing through the rubble after the landslide swept through the remote mountain village of Xinmo in Marxian county Saturday morning, swallowing 62 homes. Authorities said there was little chance of finding any survivors, citing the depth of the layer of fallen rock.

Amid the confusion of the emergency rescue operation, authorities in Sichuan said 10 people were confirmed dead and 93 were missing. The Sichuan provincial government said through its social-media account that 15 people, including two children, thought to have been buried in the landslide had been found safe and well.

Local TV reports showed that authorities were also working to unclog a local river that had been blocked by rocks and debris from the landslide.

The landslide followed persistent seasonal rains, though geologists said Marxian has been vulnerable ever since an earthquake struck Sichuan in 2008, killing more than 87,000 people and weakening the mountainous region's geology. Marxian is 25 miles from Wenchuan, the epicenter of the 2008 quake.

—Trefor Moss

#### Billionaire Faces Trial Over Alleged Bribes

Macau billionaire Ng Lap Seng will head to Manhattan federal court on Monday to face charges that he orchestrated an elaborate scheme to bribe Caribbean diplomats to the United Nations, in a trial expected to put a spotlight on China's ambitions at the international organization.

Prosecutors allege Mr. Ng, a real-estate and casino mogul, paid hundreds of thousands of dollars in bribes to ambassadors to the U.N. from Antigua and Barbuda and the Dominican Republic to get the organization's support for a multibillion-dollar conference center he and a suspected Chinese intelligence agent planned to build in the Chinese gambling haven of Macau.

Mr. Ng wanted the center to serve as China's official venue for U.N. events, according to court documents, including the annual expo of the United Nations Office for South-South Cooperation, which works with developing countries. A representative for the Chinese Embassy in Washington didn't respond to requests for comment.

Prosecutors will seek to prove that Mr. Ng, who has pleaded not guilty, controlled the payments and intended for them to be bribes, according to court documents. Mr. Ng, who turns 69 years old on Monday, has been under house arrest in his Manhattan apartment since October 2015.

The defense has indicated it will argue Mr. Ng's payments were legitimate donations.

—Kate O'Keefe

### UNITED KINGDOM

#### More Towers Found Lacking in Safety

Authorities raised to 60 the number of residential towers in England that have failed fire-safety checks triggered by the lethal blaze in a London high-rise this month, as concerns grew over the safety of residents in

low-income housing.

All buildings examined so far have failed the checks, which involve testing samples of their external cladding for flammability, a spokesman for the Department for Communities and Local Government said.

The government has asked landlords to send in samples from the buildings they are most concerned about first, which

means the initial batch is likely to fail the tests, the spokesman said. The 60 buildings that failed are located in 25 areas across England, including north London, Manchester and Plymouth.

The exterior facade is suspected of having contributed to the quick spread of the fire that incinerated west London's Grenfell Tower on June 14, killing at least 79.

—Wiktor Szary



Rescue workers searched for victims of a landslide in China's Sichuan Province on Sunday. Authorities said there was little chance of finding any survivors, citing the depth of the layer of fallen rock. The slide, on Saturday morning, swallowed 62 homes.

#### Cyberattack Attempt Targets Parliament

The U.K. Parliament said a cyberattack targeting user email accounts hit its computer network, just weeks after Britain's health service was caught up in a giant internet pandemic that swept the globe.

A parliamentary spokesperson said the legislative body had discovered unauthorized attempts to access user accounts, and that it was investigating the incident in coordination with the National Cyber Security Center, part of Britain's intelligence agency.

As a precaution, Parliament has restricted remote access to its network, meaning some U.K. lawmakers may temporarily be unable to use their email accounts.

—Michael Wright

### INDONESIA

#### Suspected Militants Kill Police Officer

Two suspected militants with possible Islamic State links attacked police in western Indonesia, killing one officer, authorities said.

Police shot one assailant dead and critically wounded the other in the predawn attack on a police post, while an officer died from stab wounds, national police spokesman Setyo Wasisto said.

Police suspect the attack was linked to the arrest of three suspected terrorists last week in Medan, one of Indonesia's largest cities, for allegedly planning to attack police officers, Mr. Wasisto said.

—I Made Sentana

# U.S. NEWS

# Health Bill Showcases Partisan Split

Democrats are poised to play defense in next year's critical midterm elections

By KRISTINA PETERSON

WASHINGTON—This week's expected Senate vote on the GOP health-care bill will showcase a sharp partisan divide on the issue in states where Democrats are poised to play defense in next year's midterm elections.

All Senate Democrats are expected this week to oppose Republican legislation that would dismantle and replace much of the Affordable Care Act. Many of their potential challengers in next year's elections are House Republicans, who supported a similar bill when it passed their chamber in May.

Such a stark partisan divide, while the norm across much of the country, is unusual in the most competitive states held by Democratic senators. The 10 Senate Democrats up for re-election next year in states won by President Donald Trump comprise much of the shrinking pool of centrist Democrats who are willing to cross the aisle on high-profile votes.

The group includes Heidi Heitkamp of North Dakota, Joe Manchin of West Virginia, Bob Casey of Pennsylvania, Claire McCaskill of Missouri and Joe Donnelly of Indiana.

Some of these red-state Democratic senators, for example, voted to confirm some of

Mr. Trump's most contentious cabinet nominees and his staunchly conservative pick for the Supreme Court. They also have broken rank on energy policy and gun-control legislation.

Although many of these Democratic senators have been critical of the ACA, none have endorsed the GOP's approach to dismantling it.

The partisan split forced by the health-care votes presents a clear political test in these battleground states: Will the ACA's enduring unpopularity, especially among conservatives, boost those who voted to overhaul it? Or will recently rising support for the ACA, and the public's skepticism of the GOP alternative, help those who sought to block Republicans' efforts?

It may come down to which health plan voters dislike more. Candidates on each side appear to be spending more time disparaging the other party's bill than praising their own. "Based on my initial review, the health-care bill released by Republican leadership appears to be as bad of a deal for West Virginia as the House bill," Mr. Manchin said last week. "This bill makes things worse, not better."

Their stance may in part reflect that the ACA was already a more centrist law than the single-payer government-run system that more-liberal Democrats had hoped to pass, said Gabriel Horwitz, vice president for the economic program at Third Way, a centrist



Sen. Heidi Heitkamp of North Dakota, center, at a Democratic leadership news conference in May, with Sen. Joe Manchin of West Virginia, left, and Sen. Bob Casey of Pennsylvania. They are among Democrats up for re-election next year in states won by President Trump.

Democratic think tank.

"Its bones are moderate. It's all about a private-sector solution," Mr. Horwitz said of the ACA. "If you're a red-state Democratic member, you're saying, 'I support a moderate piece of legislation.'"

In the most recent Wall Street Journal/NBC News poll, just 16% said the House-passed version of the bill was a good idea. The 2010 health-care law, often referred to as Obamacare, was viewed as a good idea by 41% of respondents.

The gap is likely more narrow in red states, however, where Republican leaders dispute the notion that the ACA is "moderate" and have spent years campaigning on their pledge to roll it back.

Republicans currently hold a slim 52-48 advantage in the Senate, and the party that

controls the White House often suffers in midterm elections. However, far more Democrats than Republicans are in precarious seats in 2018, and how the health debate plays out in those states could be pivotal to the outcome of the contest for the Senate.

In six of the most competitive Senate seats held by Democrats up for re-election next year, nine possible House Republican opponents have already voted for the GOP health-care bill.

The House bill was backed by possible Senate challengers GOP Reps. Todd Rokita and Luke Messer of Indiana, Ann Wagner and Vicky Hartzler of Missouri, Mike Kelly and Lou Barletta of Pennsylvania, Kevin Cramer of North Dakota and Fred Upton of Michigan. GOP Rep. Evan Jenkins of

West Virginia has already announced he will challenge Mr. Manchin next year.

The Senate Democrats could also face challengers from outside the House, depending on the results of GOP primaries. Those candidates will likely get pressed on how they would have voted on the GOP health-care bill.

The Senate health-care bill headed to the floor this week has much of the same basic architecture of the House bill, though it contains a more gradual phasing-out of the Medicaid expansion and altered tax credits to help people buy health insurance if they don't get it through work.

One complicating factor for House Republicans with statewide ambitions is that Mr. Trump himself called their bill "mean" in a meeting with Sen-

ate Republicans earlier this month. He has told lawmakers he supported making the Senate bill more generous.

"I agree with the president," Ms. McCaskill said last week. "I look for opportunities to agree with the president, and I agree with him on that one."

House Republicans noted that Mr. Trump had invited them to the Rose Garden for a press conference touting their victory the day it passed in May. "The president clearly embraced the work of the House. He pushed hard for the House passage of a bill," Mr. Jenkins of West Virginia said Friday.

Others said they viewed Mr. Trump's comments as strategic. "One more time he's proven he's not the traditional, stereotypical politician," said Mr. Cramer of North Dakota. "If this is his way of playing senators, I'm all for it."

## HEALTH



Republican Sen. Bill Cassidy of Louisiana in Washington last week.

The Senate plan echoes a health bill passed by the House last month, but it contains several differences, including a more gradual phasing-out of the funding for the Medicaid expansion.

Sen. Pat Toomey (R., Pa.), who supports the bill, said Sunday on CBS he "strongly disagreed" with the notion that it would end the expansion of Medicaid. The Republican bill allows states to keep the Medicaid expansion, but they wouldn't get the federal funding for it. That enhanced federal funding would be phased out beginning in 2021 and eliminated in 2024.

Mr. Toomey also noted conservative Republicans' concerns that it didn't go far enough in cutting costs. "I'm sympathetic about the kinds of reforms they'd like to make to lower premiums...but I see this bill as a first step, a first important step," Mr. Toomey said.

Sen. Susan Collins (R., Maine), who had previously expressed worries about the bill's cuts to Medicaid, said Sunday it would be difficult for President Donald Trump and Mr. McConnell to come up

with a bill that she can support. "I'm very concerned about the cost of insurance for older people with serious chronic illnesses, and the impact of the Medicaid cuts on our state governments," Ms. Collins said on ABC.

Mr. Trump said Sunday he expects to see the Senate pass a health-care bill after further negotiations. "We have a few people that...want to get some points; I think they'll get some points," he said during a Fox News interview that aired Sunday.

He said of the Republicans who have withheld their support so far: "I don't think they're that far off...I think we're going to get there."

Democratic Senate leader Chuck Schumer of New York said members of his party are open to negotiations to "improve" the current law but that they don't support the Republicans' current proposal.

Republicans "have, at best, a 50-50 chance of passing this bill," Mr. Schumer said Sunday on ABC. "The bill is just devastating" and "that's what's making it so hard for them to pass."

President Donald Trump's decision to fire FBI Director James Comey is increasingly unpopular, a new Wall Street Journal/NBC News poll found. At the same time, half of those surveyed said they believe the news media has exaggerated allegations about the president.

## FBI Director Nominee's Client List Poses Conflicts

By ARUNA VISWANATHA

Christopher Wray has spent the past 12 years building up one of the most successful white-collar-defense law groups in America. Now, that work could limit his oversight of some major investigations if he is confirmed as director of the Federal Bureau of Investigation.

While Mr. Wray's confirmation process is expected to focus on the abrupt firing of the last FBI director, James Comey, lawmakers are also likely to raise questions about Mr. Wray's high-profile defense work.

A thorough hearing process considering any nominee's background will look into potential conflicts of interest," said Sen. Chris Coons, a Delaware Democrat who is on the Judiciary Committee, which will consider Mr. Wray's nomination.

The White House hasn't formally sent Mr. Wray's nomination to the Senate, and no hearings have been scheduled.

Mr. Wray recently represented New Jersey Gov. Chris Christie in the 2013 George Washington Bridge lane-closure controversy and Credit Suisse AG in a major tax investigation in which the Swiss bank pleaded guilty—both matters that faced federal

probes. He oversaw a group of 79 lawyers at the firm King & Spalding, which specializes in representing clients under criminal investigation, including by the FBI.

Under ethics rules, Mr. Wray would automatically be barred from having any involvement in matters he handled personally, and Justice Department officials also are generally blocked for two years from investigations into people or companies represented by their former law firms.

Mr. Wray's firm biography lists more than a dozen recent representations in Justice Department and other investigations, including five Fortune 100 firms, several pharmaceutical companies and a telecommunications company. It is unclear which matters may still be ongoing.

Mr. Wray isn't speaking to the media ahead of confirmation hearings, but John Richter, who worked with him at the Justice Department and at King & Spalding, said many of the matters handled by Mr. Wray at the firm wouldn't cross the desk of the FBI director.

"Chris is very familiar with the ethics rules that will govern him as FBI director and will consult closely with DOJ

ethics personnel so as to avoid conflicts," Mr. Richter said.

Jeff Danik, a retired FBI supervisor, said Mr. Wray would clearly have to abstain from involvement in some cases.

"There are a significant number of current FBI investigations listed on the King & Spalding website, where surely they have been paid large fees and are responsible for defending those clients," Mr. Danik said.

Most senior FBI executives come from within the agency and have limited issues with former client recusals. Mr. Comey came to his FBI post from a hedge-fund firm, Bridgewater Associates LP. The previous FBI director, Robert Mueller, served as U.S. attorney in San Francisco before his nomination to the job in 2001.

The agency has, however, come under scrutiny recently over other potential conflicts. Andrew McCabe, now acting director, helped supervise the investigation into Democratic presidential candidate Hillary Clinton's email use after his wife had received large donations from a Clinton ally for her state Senate campaign. The FBI's ethics office had cleared his involvement.

—Byron Tau contributed to this article.

### More Disapprove Of Comey Firing

President Donald Trump's decision to fire FBI Director James Comey is increasingly unpopular, a new Wall Street Journal/NBC News poll found. At the same time, half of those surveyed said they believe the news media has exaggerated allegations about the president.

The poll of 900 adults found that 46% disapproved of Mr. Trump's decision to fire Mr. Comey on May 9, which came during the FBI's probe of alleged Russian interference in the 2016 election. Some 38% disapproved of the firing in mid-May, shortly after it occurred.

The poll also found that Mr. Trump's job-approval rating had remained essentially unchanged at 40% despite the growing opposition to the Comey firing.



In mid-May, 38% of people in a poll faulted Mr. Trump for firing Mr. Comey. Now, 46% disapprove.

"The public is not focused on it nearly as much as we may be," said Jeff Horwitt, a Democratic pollster who helped conduct the survey. "But public opinion is moving away" from Mr. Trump.

Mr. Comey testified on Capitol Hill this month that Mr.

Trump asked him to ease off an investigation into former national security adviser Mike Flynn and sought his personal loyalty, and subsequently fired him in an effort to influence the course of the Russia probe.

Mr. Trump has denied he pressured Mr. Comey on the Flynn investigation or had asked for his loyalty.

When poll respondents were asked which man they were more likely to believe, 45% said Mr. Comey, while 22% said Mr. Trump. Some 21% supported neither of them.

The poll also found widespread mistrust of the media, as 50% agreed with the statement that news media coverage of recent allegations against Mr. Trump was "irresponsible," "over-dramatized" and "sensationalized." One-third said it was "responsible," while 12% said the media had been too restrained.

—Janet Hook

## U.S. WATCH

standing concerns, according to several people who attended. He spoke of the impact of technological change, the need for civility in political discourse and the importance of public service plans. Then, according to someone present at the black-tie event at the Supreme Court, he said he had a final announcement to make, addressing an issue of untold speculation.

To the relief of the law clerks, who typically share a lifelong bond with the justice they served, Justice Kennedy, 80 years old, declared: The bar would be open downstairs.

—Jess Bravin

### OHIO

#### Government Sites Reported Hacked

A number of Ohio state government websites have been hacked with a message that purports to be supportive of the Islamic State terrorist group.

The message left on the website says "Trump" and "all your people" will be held accountable for "every drop of blood spilled in Muslim countries." The message also says, "I love the Islamic state."

—Associated Press

## IN DEPTH

# SHALE

Continued from Page One  
more by the world's burgeoning middle classes.

"It's a tectonic shift in the hemispherical balance of who makes what to essentially feed the manufacturing sector," said Dow Chief Executive Andrew Liveris, referring to the growth of production in the U.S. His company now plans to double down on its U.S. expansion with a \$4 billion investment in a handful of projects over the next five years.

Companies are eagerly launching new U.S. petrochemical projects—310 in all according to the Chemistry Council—because at a time of uncertainty over when demand for transportation fuels may peak, due to electric cars and ride sharing, the world's appetite for plastics is expected to rise for decades to come.

That demand typically grows at least 1.5 to 2 times as fast as global gross domestic product, according to industry analysts. That theoretically makes petrochemicals one of the safer fossil-fuel investments, though skeptics question whether the margins on U.S.-made plastics can last.

The new investment will establish the U.S. as a major exporter of plastic and reduce its trade deficit, economists say. The American Chemistry Council predicts it will add \$294 billion to U.S. economic output and 462,000 direct and indirect jobs by 2025, though analysts say direct employment at plants will be limited due to automation.

Firms are betting the price of the feedstocks will stay low for years due to shale drilling.

For energy companies, the build-out creates a new market for byproducts they previously had little use for. Drillers have been flush for years with the raw materials but have left them in the gas stream to be burned off, because no one wanted them. A spike in demand in coming years could make drilling more profitable.

Petrochemical companies are betting the price of the feedstocks—their most costly expense—will remain low for years due to shale drilling. As a result, net U.S. petrochemical exports, which include plastic as well as products such as fertilizer, adhesives and solvents, will grow to \$110 billion a year by 2027 from \$17 billion last year, according to IHS Markit. That would come close to the value of Saudi Arabia's current annual oil exports.

"There's no other industry that comes close to that level of growth," said IHS economist Thomas Runiewicz.

Many of the companies investing in the U.S. are foreign, including Saudi Arabia's state-owned chemical company and some of the largest petrochemical companies in Brazil,

Japan and Thailand.

In April, Exxon said it selected a site near Corpus Christi, Texas, for a \$9.3 billion petrochemical complex it is building jointly with Saudi Basic Industries Corp. The proposed facility, the largest of its kind in the world, is expected to be done by 2021 and produce 1.8 million metric tons a year of ethylene, the main component of plastic.

"We don't see this as a bet," said Neil Chapman, president of the chemicals unit at Exxon, which is investing a total of \$20 billion in such projects along the Gulf of Mexico. "You've got to pinch yourself sometimes and say 'this is the envy of the world.'"

Dow's plant in Freeport, Texas, when fully operational by the end of the year, will produce 1.5 million metric tons of ethylene annually. The company plans to export at least 20% of the plastic it makes in the U.S. and is particularly eyeing Latin America as a ripe market.

Dow expects plastic baby food containers will be a booming business in Brazil, where an increasingly career-oriented female population is favoring prepared baby foods in innovative packaging to save time, according to a 2015 World Health Organization study. That is expected to fuel projected annual growth of about 10% in sales of the industry's flexible and rigid plastic packaging in Brazil, the report said.

"We are taking advantage of population growth, the rising middle class and the on-the-go lifestyle," said Paloma Alonso, Dow's vice president of plastics in South America. "The Gulf investment is really essential for us."

The U.S. investments aren't without risk. American petrochemical facilities mostly run on ethane, a byproduct tied to natural-gas prices, while counterparts in Asia and Europe primarily use naphtha, a crude oil derivative.

Ethane prices fell when U.S. natural-gas prices fell in 2009, while naphtha prices increased as oil prices soared to more than \$100 a barrel in 2011. Since then oil has fallen below \$50 a barrel, making companies that use naphtha more competitive. Natural-gas prices remain historically low, but the wave of new ethane demand could drive up prices.

Paul Bjacek, a chemicals expert at Accenture, said diminishing margins might push smaller companies or private-equity investors out of the second wave of investment, but larger operators will move ahead.

"The margins are still good, they're just not as good as they were, which was amazing," he said.

Human beings have been using pliable materials found in nature, such as rubber, for centuries. But when Leo Baekeland, a Belgian-born American chemist, invented the first fully synthetic plastic derived from coal in 1907, it set off the modern consumer era, flooding the market with cheap durable goods almost entirely derived from fossil fuels.

Chemists can take the carbon atoms found in fossil fuels



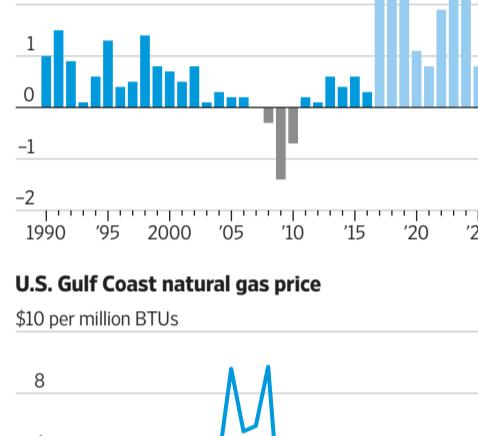
A new petrochemical facility in Freeport, Texas, on the Gulf of Mexico is part of Dow Chemical's \$8 billion investment.

SCOTT DALTON FOR THE WALL STREET JOURNAL

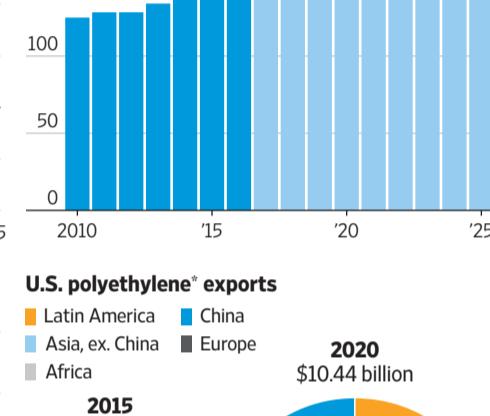
### Plastic Model

While natural gas prices remain at low levels, petrochemical companies have been pouring money into expanding production of ethylene, made from gas byproducts. The world's consumption has soared, and the U.S. forecasts major growth in exports.

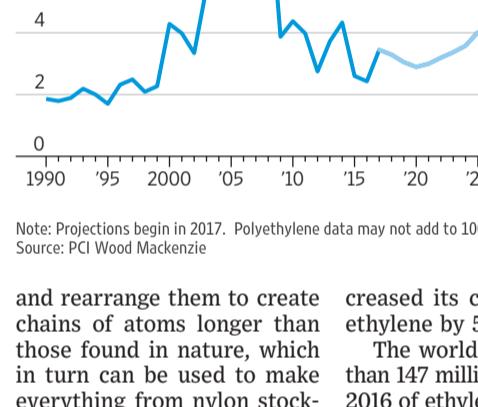
#### New U.S. ethylene capacity



#### Global ethylene consumption



#### U.S. Gulf Coast natural gas price



Note: Projections begin in 2017. Polyethylene data may not add to 100% due to rounding. \*The main material produced from ethylene

THE WALL STREET JOURNAL.

Source: PCI Wood Mackenzie

and rearrange them to create chains of atoms longer than those found in nature, which in turn can be used to make everything from nylon stockings to PVC piping.

Oil and gas byproducts, including ethane, butane and propane, are sent to huge furnaces called "steam crackers," which use superheated steam fed at high pressure to break apart molecules. Ethane is cracked into a smaller molecule, ethylene. The majority of ethylene in turn is used to make a plastic called polyethylene, and formed into pellets.

Millions of these U.S.-made pellets will be loaded into 25 kilogram sacks and sent via cargo ships to factories around the world, where they will be melted and shaped into plastic products.

By the end of the decade, energy consultancy PCI Wood Mackenzie estimates the U.S. chemical industry will have in-

creased its capacity to make ethylene by 50%.

The world consumed more than 147 million metric tons in 2016 of ethylene and will need more than 186 million tons by 2023 to meet global demand, according to the consultancy. It said U.S. exports of polyethylene, the plastic pellets, are expected to reach \$10.5 billion by 2020.

China is also rushing to build new plastics factories to meet domestic demand, which is already more than double U.S. demand and is expected to grow 6% annually.

The boom in U.S. petrochemicals is a big turnaround from just a decade ago. Following a period of large investment in U.S. projects in the 1990s, U.S. ethylene manufacturers made huge cuts in the 2000s.

Instead, chemical companies invested in large projects in the Middle East and Asia,

attracted by cheaper raw materials and closer proximity to manufacturers, who had also fled the U.S. because of higher costs. The tough times were exacerbated by falling demand for plastic as the financial downturn took hold in 2009.

More than a dozen facilities on the U.S. Gulf were shut down in 2008 and 2009. Dow alone closed a half dozen plants on the Gulf and laid off 5,000 employees worldwide. Chevron Phillips Chemical, a joint venture between Chevron Corp. and Phillips 66, temporarily closed two factories and ran others at lower capacity. LyondellBasell shut down its complex in Chocolate Bayou, Texas, and declared bankruptcy in the U.S.

"The industry was really looking inward and saying 'it's not dead but it's not going to grow anymore,'" said Steve Zinger, a petrochemical consultant at PCI Wood Mackenzie.

During the height of its construction, more than 4,500 construction workers and engineers were on site. Once operational, it will only take around 200 employees to run.

"I had told the board the U.S. was not a growth play, but by 2010 I saw things were changing," said Ron Corn, Chevron Phillips' senior vice president of projects. "Of course, once you put in the capital, you have to wait five years."

For Chevron Phillips, the biggest challenge isn't profitably making plastic pellets. It is getting them to market in a crowded Gulf Coast.

Because there is so much traffic in the Port of Houston, and a dearth of shipping containers there, the company has created a fleet of 2,750 railcars to divert many of the pellets north to Fort Worth. From there, they will be sent by train to ports in Long Beach, Calif., and Charleston, S.C., where they will be shipped to Asia and South America. Some exports will also leave from Houston and Freeport, Texas.

"Everyone has the same great idea at the same time in this industry," Mr. Corn said. "The way you win is on logistics."

# BOOZE

Continued from Page One  
marked "Bar" didn't. Some Jet employees squirrelled away a few bottles before an outside company packed up the contraband, says one former employee.

"I would not say it's a party culture, but not the opposite of that," says another former Jet employee.

In fact, Wal-Mart had made a major concession to Jet's thousands of employees by allowing Jet to pay for an off-site happy hour. There are no champagne toasts at Wal-Mart headquarters in Bentonville, Ark., thanks to a cocktail of conservative culture and a strict low-cost ethos.

Benton County, where the company has been based since Sam Walton opened his first store in 1950, prohibited the sale of alcohol until 2012. Wal-Mart generally doesn't allow employees to expense alcohol during work outings, let alone drink in the office.

"People don't really talk about drinking at work because you don't want to have that reputation," says Bo Yarbrough, a former recruiting manager at Wal-Mart. Increases

ingly, employees gather at the growing number of local bars for weekday happy hour after work, "but you wouldn't want to put that kind of thing on a work calendar," says Mr. Yarbrough, who left the retailer last summer.

Jet is based in Hoboken, a city where some locals brag about the high number of bars per capita. Jet founder Marc Lore, a New York native, is a

wine aficionado and owner of a small vineyard in California's Napa Valley. Lore Vineyard's 2013 Cabernet Sauvignon earned a coveted 97 points from the Robert Parker Wine Advocate for its "fabulous intensity and loads of blackberry," though recent vintages aren't sold to the public.

Wal-Mart's absorption of Jet is part of its intensifying battle with Amazon.com Inc.

After buying the company, Wal-Mart put Mr. Lore in charge of its U.S. e-commerce business and swallowed several other online startups, including San Francisco's ModCloth, which sells women's apparel, and Michigan's Moosejaw, an outdoors specialist. This month, it paid \$310 million for New York City-based Bonobos Inc., another apparel seller.

The change is permeating the empire. Wal-Mart had

Mr. Lore and Wal-Mart CEO Doug McMillon discussed the potential culture clash in meetings before the Jet acquisition, including what to do with the startup's office drinking, says Ms. Landsman, Jet's president. The executives invented the off-site happy hour compromise to preserve "key touchstones in the culture" that made Jet's entrepreneurial talent valuable to Wal-Mart in the first place, she says.

Several months ago, Mr. McMillon asked Jet executives whether the retail giant was "hugging" Jet too tightly or not enough, she said. Jet executives said things were largely going well but many employees had stopped coming to happy hour after it was moved outside the office.

One of the huge advantages of the office was the ability to float in and out, mingling, then going back to work at your desk, says Jack Hanlon, a Jet vice president.

Wal-Mart reversed course. In recent weeks Jet brought back Thursday night happy hour in the office—generally beer, wine and food. "It's a pretty big signal from Wal-Mart that they were able to be flexible," says Mr. Hanlon.

The change is permeating the empire. Wal-Mart had

wine and beer at a tailgate for its e-commerce team in San Bruno, Calif., when it hosted its annual day at a San Francisco Giants game in May. It is also allowing other startups it has acquired to host a weekly office happy hour pending approval from a Wal-Mart executive vice president.

The employees at Madison Heights, Mich.-based Moosejaw, which Wal-Mart bought in February, never lost access to the "4 p.m. beer fridge" and keg, unlocked for one hour on Thursdays. "It helped that our beer fridge had always been run responsibly," with a two-beer maximum, Moosejaw CEO Eoin Comerford said.

Mr. Lore spoke to Bonobos staff in New York the day of the acquisition and cited Wal-Mart's newfound flexibility on office drinking as an example of how hard it will work to protect culture, said a Wal-Mart spokesman.

There are other aspects of Wal-Mart's traditional habits that still raise eyebrows among Jet staffers. For example, Wal-Mart asked Jet employees to be mindful of swearing in the office.

"That did not last," said Jeannie Slivensky, a marketing manager at Jet. "This is New York."



SETH WENIG/ASSOCIATED PRESS

Jet.com's office in Hoboken, N.J., a city where some locals brag about the number of bars per capita.

## U.S. NEWS

THE OUTLOOK | By Richard Rubin

# Debt Finance Now Appears Vulnerable

 Republicans looking to rewrite the U.S. tax code are taking aim at one of the foundations of modern finance—the deduction that companies get for interest they pay on debt.

That deduction affects everyone from titans of Wall Street who load up on junk bonds to pay for multibillion-dollar corporate takeovers to wheat farmers in the Midwest looking to make ends meet before harvest. Yet a House Republican proposal to eliminate the deduction has gotten relatively little sustained public attention or lobbying pressure.

Thanks in part to the deduction, the U.S. financial system is heavily oriented toward debt, which is cheaper than equity financing and widely accessible. In 2015, U.S. businesses paid in all \$1.3 trillion in gross interest, according to Commerce Department data, equal in magnitude to the total economic output of Australia.

Getting rid of the deduction for net interest expense, as House Republicans propose, would alter finance. It also would generate about \$1.5 trillion in revenue for the government over a decade, according to the Tax Foundation, allowing for investment breaks and rate cuts elsewhere in the tax code.

**Eliminating the deduction for net interest expense could prove to be messy.**

"The overall goal is to be pro-growth. What we're proposing is to take the tax preference from the source of funds, borrowing, and take that preference to the use of funds, business investment and buildings, equipment, software, technology," Rep. Kevin Brady (R., Texas), the author of the plan, said at The Wall Street Journal CFO network this month.

In a world with no interest deduction, debt-fueled leveraged buyouts by private-equity titans could become more expensive to finance and junk bonds less appealing. "That's not necessarily bad for society," said David Beim, a retired finance professor at Columbia University. "We have too much systemic financial risk in our economy."

But for some debt-reliant businesses, the interest deduction's demise could be a significant blow. Crop growers who depend on bridge loans to work through seasonal business fluctuations could face higher tax bills for little benefit.

Midsized businesses may also get squeezed.

"The people that utilize debt, they utilize it because they don't have the cash and they don't have the access to equity," said Robert Moskowitz, chief financial officer of

Leaf Commercial Capital, which finances businesses' purchases of items like copiers and telephone systems. "A dry cleaner in Des Moines, Iowa? Where is he going to get equity? He can't do an IPO."

The idea behind the Republican plan is to pair the elimination of this deduction with immediate deductions for investments in equipment and other long-lived assets. Party leaders expect the capital write-offs would encourage more investment and growth and greater worker productivity, but not the debt often associated with it.

The tax code treats equity financing more harshly than debt. While interest is deductible, dividend payments typically aren't. Corporate profits can thus be subject to two layers of tax—once at the business level and then when they go to shareholders in the form of dividends.

That means the effective marginal tax rate on equity-financed corporate investments is 34.5%, according to a report released by the Treasury Department early this year in the waning days of the Obama administration. The corresponding rate for debt-financed investment is negative 5%. That subsidy for corporate debt "potentially creates a large tax-induced distortion in business decision making," the report says.

But borrowing and deducting interest are deeply ingrained in American corporate finance. Dislodging the traditional practice will be challenging. Some firms might look to borrow offshore instead to reap tax benefits elsewhere.

"I don't even think people think about it much," said Robert Pozen, a senior lecturer at MIT's Sloan School of Management. "It's clear that they're going to finance it by debt if they have a big acquisition or a big project."

Because so much is at stake for so many sectors, writing the law could get messy. Mr. Brady said small businesses and utilities could get exceptions or specialized rules, as would debt-financed purchases of land, which wouldn't be eligible for immediate investment write-offs.

If Republicans can't stomach full repeal of the interest deduction and immediate write-offs, they could try something short of that with, say, half of capital expenses being deductible and half of interest being deductible.

Andrea Auerbach, head of global private investment research at Cambridge Associates, which advises institutions that invest in private equity, said the industry would survive a tax overhaul that removes the interest deduction.

"The effects will reverberate for sure," especially among larger firms that rely more on debt, she said. "But debt is still going to be cheaper than equity, so I don't think it's going away."

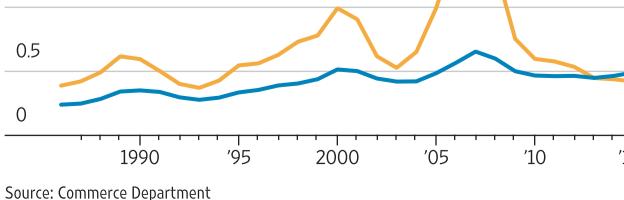
—Sam Goldfarb contributed to this article.

## Debt Booster

The ability to deduct interest can give companies an incentive to borrow. Annual gross interest payments:

■ Nonfinancial corporations ■ Financial corporations

\$2.0 trillion



Source: Commerce Department

THE WALL STREET JOURNAL.



The pride parade in Hollywood, Calif., on June 11 was renamed 'Resist March' in protest of the current administration's policies.

# Gay-Pride Activists Debate Priorities

BY IAN LOVETT

Gay pride parades in cities across the country have in recent years become showcases of the growing acceptance gay and transgender people enjoy.

Delta Air Lines and Diet Coke sponsor NYC Pride, which took place over the weekend—corporate support that would have been unthinkable when the first gay-pride march was held in 1970. Hillary Clinton, Gov. Andrew M. Cuomo and Mayor Bill de Blasio all marched in last year's parade. Same-sex couples show off wedding rings. Gay members of the military openly kiss their partners.

But the celebratory mood has dimmed this year. Now, gay pride events across the country have become the stage for a battle over what the gay-rights movement's priorities should

be—particularly under a Republican administration that has taken steps to roll back protections for lesbian, gay, bisexual and transgender people.

The outcome of these conflicts could help set the agenda for a movement that has had significant impact on the nation's politics and culture. The movement's two biggest political goals of the last 20 years—the legalization of same-sex marriage and the right for gays and lesbians to serve openly in the military—have been achieved. Activists are now fighting about what events like LGBT-pride marches should stand for, and who should have a say in that decision.

In one city after another, pride parades have been disrupted by gay and transgender activists who say the needs of many in the community—especially LGBT people

who are racial minorities—have been sidelined.

The discord is now spilling into public view, activists said, because LGBT people are worried that gains achieved under former President Barack Obama will be reversed under a Republican administration.

Already, the administration of President Donald Trump has revoked federal guidelines allowing transgender students to use the public school bathrooms that match their gender identities; the administration preserved an executive order banning antigay bias by federal contractors, but removed the requirement the businesses prove they don't discriminate.

"These tensions have been simmering for years," said Andrea Bowen, a transgender activist and former executive director of Equality Garden State, an LGBT rights group in New Jersey.

Despite recent political successes, some LGBT people believe pride has strayed from its original purpose. Martin Duberman, a gay historian, said the early marches were "entirely political," but the events have become increasingly corporate and commercial.

"I'd like to see them start paying attention to a host of issues that have been sublimated under the guise of winning acceptance," he said.

Protesters say they are aiming to do just that. At Capitol Pride in Washington, demonstrators' demands included an end to corporate partnerships with big banks and defense contractors.

Jen Deerinwater, a member of the Cherokee Nation of Oklahoma, said Capitol Pride should be working on progressive causes—from Native American sovereignty to police violence in black communities.

# Reservoir Highlights Risks to Aging Dams

BY JIM CARLTON

FREMONT, Calif.—The coastal mountains that frame this working-class city next to San Francisco Bay harbor a hidden menace: a reservoir 10 miles away that sits next to an active earthquake fault, which experts say could cause a dam break and flood thousands of homes.

The potential threat is so severe, the owner of the Calaveras Reservoir decided to build a replacement dam. But seven years after that work began, the dam is unfinished and isn't expected to be complete until 2019—four years behind schedule.

The myriad issues hampering the Calaveras Reservoir project show how difficult it can be to repair or replace an

old dam, which is of growing concern nationally.

An estimated 27,380 dams, or 30% of the 90,580 listed in the latest 2016 National Inventory of Dams, are rated as posing a high or significant hazard. Of those, more than 2,170 are considered deficient and in need of upgrading, according to a report by the American Society of Civil Engineers. The inventory by the U.S. Army Corps of Engineers doesn't break out which ones are deficient.

But both funding and inspection staffing to deal with the problem are considered inadequate, the civil engineers' report said. An estimated \$64 billion is needed to upgrade those dams, including \$22 billion for the ones posing the highest hazard, according to

the Association of State Dam Safety Officials, a nonprofit safety group in Lexington, Ky.

"It's a huge problem with limited resources," said Ivan Wong, a consulting seismologist from Walnut Creek, Calif., who works on dam projects nationally. "We can barely pay for our schoolteachers, but if a dam fails and there's a population downstream, we're talking about a disaster. We have to fix our dams, there's no doubt about it."

At the Calaveras dam, California's Division of Safety of Dams in 2001 ordered the San Francisco Public Utilities Commission to keep its 31 billion-gallon capacity Calaveras Reservoir no more than 40% full.

Utility officials say the extra time is needed to make the dam—with a massive 1,200-

foot-wide base and spillway walls up to 4 feet thick—hopefully failproof.

"It's better to plan for the worst and hope for the best," Dan Wade, who oversees the \$800 million project for the city utility, said on a tour on Wednesday. The cost is double the original \$400 million estimate.

Earthquakes pose especially big risks for dams. The seismic threat is highest along the geologically active West Coast, including Washington and Oregon, which scientists say could see rare but potentially catastrophic quakes.

Few states face as much of an earthquake threat as California, where nearly three-fourths of the state's 1,585 dams are rated as having high or significant risk of failing.

## BANKS

Continued from Page One  
banks' plans to boost dividends and buybacks for shareholders, and the numerical part of the exams will still be crucial to determining those payouts. Nevertheless, a reduced emphasis on the subjective aspects of the exams could make the tests far less tense for bankers.

"The qualitative [part of the tests] is a lot of process work," William Demchak, chief executive of PNC Financial Services Group Inc., said in a June interview.

He said the risk committee of the bank's board of directors discusses aspects of the exams at each regular meeting, even though sometimes "there is no reason to" do so because there haven't been significant changes to the firm's program. "But we do, to prove [to the Fed] we have a quality review." PNC has never failed the tests.

The idea of a bank supervisor publicly calling out a bank's failings has always made some policy makers nervous. After all, one of supervisors' primary jobs is to prevent damaging "runs" that occur when the public loses confidence in banks and withdraws deposits en masse. If regulators have problems with bankers, they almost always address them privately.

Former Fed governor Daniel Tarullo, who helped build the

### Fresh Test

This year's exams included a new supplementary leverage ratio assessing how banks' on- and off-balance-sheet assets would perform in a recession. All banks tested met the minimum 3% ratio. Below, results for the banks considered globally systemically important.

#### Low point in the Fed's hypothetical 'severely adverse' scenario

		3.8%
Morgan Stanley	3.8%	
Goldman Sachs	4.1%	
State Street	4.2%	
J.P. Morgan Chase	5.0%	
Bank of America	5.4%	
Citigroup	5.5%	
Bank of New York	5.5%	
Mellon	5.5%	
Wells Fargo	6.1%	

Source: Federal Reserve

THE WALL STREET JOURNAL.

tests while serving as the Fed's regulatory point man between 2009 and earlier this year, has said the Fed departed from a tradition of privacy in part because he and other officials were "stunned" during the financial crisis at what they viewed as banks' inability to quickly assess the risks they faced.

They created an annual stress test with two main parts. One judges whether banks' plans for paying out capital to shareholders would still allow them to withstand a hypothetical economic downturn. The other part is a "qualitative" evaluation of how they manage risks. If a bank fails either part, the Fed discloses they have failed the tests and rejects their requests for

higher payouts.

"The potential for embarrassing, public" stress-test failures "was intended to, and has, focused the minds of banks' senior management on their capital positions and capital planning processes," Mr. Tarullo said in an April speech.

In 2014, Mr. Tarullo and other senior Fed officials judged Citigroup hadn't made enough progress in improving risk management. The firm failed the qualitative portion of the tests, and spent about \$180 million during the second half of that year to meet the Fed's expectations. The failure also meant Citigroup couldn't boost shareholder dividends.

In 2017 Fed officials changed the rules. For 21 of 34 big banks, the qualitative part

of the tests would no longer be a basis for failure. The 21 firms—those with less than \$250 billion in total assets and less than \$75 billion in assets in nonbank businesses—could still face a reprimand from the Fed, but that would happen privately as part of the Fed's year-round, ongoing oversight.

In proposing the rule change, the Fed cited "the high public profile" of the tests and the risk that "non-complex firms will overinvest in stress testing," even though they pose less risk than larger, more complex peers.

The change means those 21 firms are breathing easier ahead of Wednesday's results.

Mr. Tarullo also said in April "the time may be coming" to remove the qualitative portion of the tests for all firms, even large, complex ones such as Citigroup, J.P. Morgan Chase & Co., Bank of America Corp., and Goldman Sachs Group Inc.

Fed governor Jerome Powell, serving in Mr. Tarullo's role until President Donald Trump nominates a Fed vice chairman in charge of bank rules, supported the same idea in Senate testimony Thursday.

"Many of our largest banking firms have made substantial progress toward meeting supervisory expectations," Mr. Powell said. "If that progress continues, I believe it will be appropriate to consider removing the qualitative [part of the tests] for those firms that achieve and sustain high-quality capital planning capabilities."

# LIFE & ARTS

HEALTH

## When Are Doctors Too Old?

Hospitals that test older physicians for mental and physical ability raise issues of fairness, scientific validity—and ageism

BY LUCETTE LAGNADO

**IN FEBRUARY**, Robert Brown received an email that left him troubled. The New Jersey hospital where the 71-year-old pediatrician was practicing informed him that doctors age 72 and older would have to take a test to assess their physical and mental health—or risk losing their privileges.

"Who are they to tell me I can't practice medicine?" he thought. He was going to fire off an angry response—then took a deep breath. Instead, he did some soul-searching about his abilities, while considering the new policy at Cooper University Health Care in Camden. What was physician competence, Dr. Brown wondered, and how could it be measured?

Testing older physicians for mental and physical ability is growing more common. Nearly a fourth of physicians in America are 65 or older, and 40% of these are actively involved in patient care, according to the American Medical Association. Experts at the AMA have suggested that they be screened lest they pose a risk to patients. An AMA working

'I am 76 years old, so I could retire, but I don't want to retire because I really love what I do.'

-Dr. William Sharrar, pediatrician

group is considering guidelines.

Concern over older physicians' mental states—and whether it is safe for them to care for patients—has prompted a number of institutions, from Stanford Health Care in Palo Alto, Calif., to Driscoll Children's Hospital in Corpus Christi, Texas, to the University of Virginia Health System, to adopt age-related physician policies in recent years. The goal is to spot problems, in particular signs of cognitive decline or dementia.

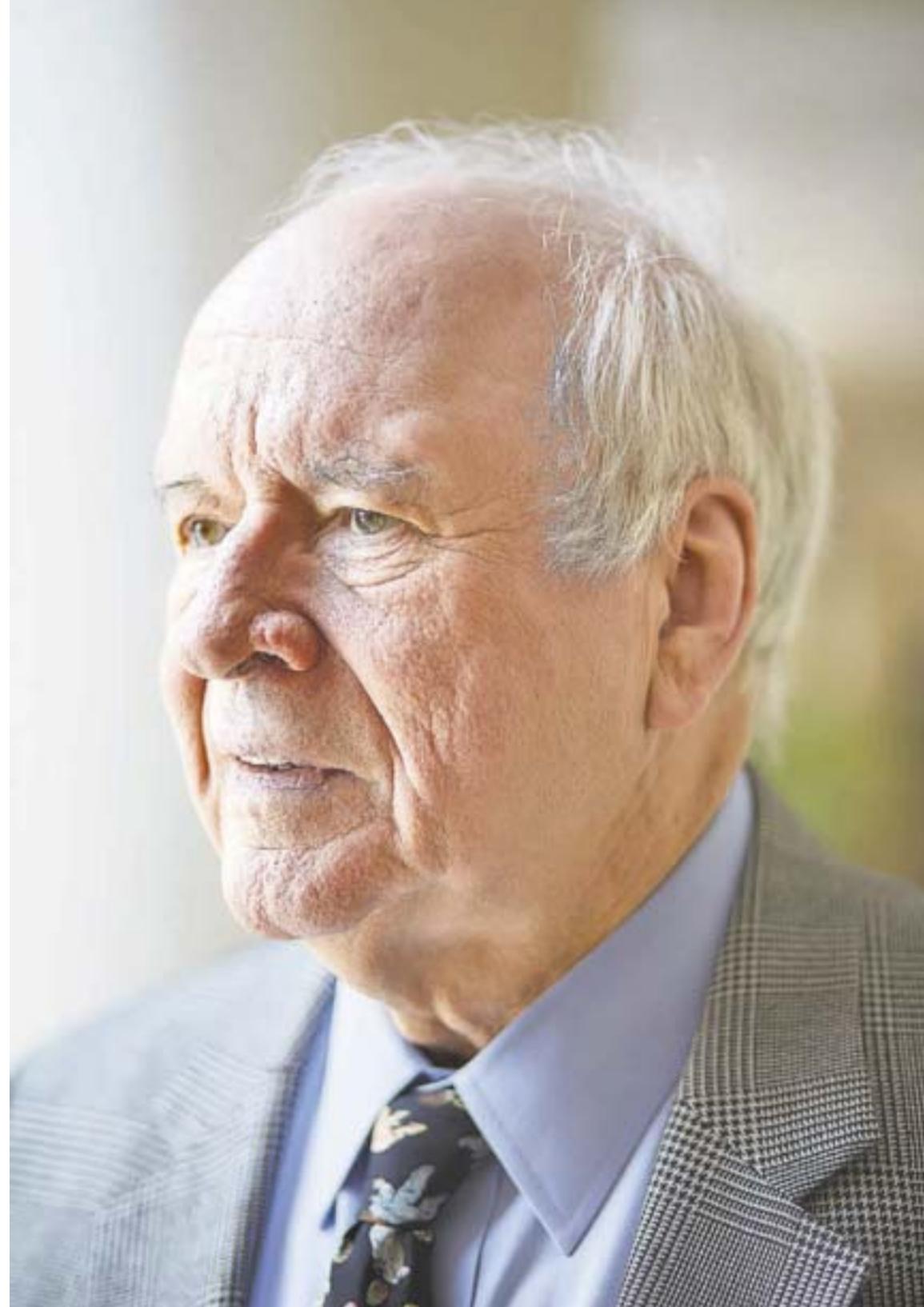
Now, as more institutions like Cooper embrace the measures, they are roiling some older doctors and raising questions of fairness, scientific validity—and ageism.

"It is not for the faint of heart, this policy," said Ann Weinacker, 66, the former chief of staff at the hospital and professor of medicine at Stanford University who has overseen the controversial efforts to implement age-related screening at Stanford hospital.

A group of doctors has been battling Stanford's age-based physician policies for the past five years, contending they are demeaning and discriminatory. The older doctors got the medical staff to scrap a mental-competency exam aimed at testing for cognitive impairment. Most, like Frank Stockdale, an 81-year-old breast cancer specialist, refused to take it.

Stanford hasn't budged and indeed strengthened one aspect of what it calls the Late Career Practitioner Policy, which involves getting several peer reviews of physicians ages 75 and older by people with whom they work. Dr. Stockdale, who organized the doctors opposing the policies, asks why Stanford can't apply the policy it to all doctors, not simply the older ones?

He noted that the physicians in



To comply with Cooper University Health Care's policy, pediatrician William Sharrar went to a neuropsychologist for cognitive exams that lasted about three hours, with breaks. The results are not yet known.

his group of dissidents have made major contributions to medicine. One helped find a cure for a form of cancer; another is a pioneer in genetic engineering. More than 50 years ago, Saul Rosenberg, an 89-year-old oncologist, along with a Stanford radiologist, developed the cure for Hodgkin lymphoma, a cancer of the lymph nodes that had been 100% fatal.

"I am quite elderly, and I know what I know and I know what I don't know," said Dr. Rosenberg, who still sees patients. "It is very upsetting that they make it difficult for me to get my hospital privileges."

He noted that among younger colleagues, there are "physicians who are alcoholics or drug addicts." Yet his institution targets older physicians for special screening.

Dr. Weinacker acknowledges, "we have some of the most amazing physicians in the world. But none of us is immune to the effects of aging, and as we age, lots of us function less well, including in

some of us the ability to think critically and solve complex problems."

She said there were policies to screen younger physicians "when we have concerns that someone is impaired." The idea of screening all physicians, she added, is not practical.

Older physicians who have mild cognitive dysfunction typically don't realize it, she said, and their colleagues don't report them. In a paper published last year in the Journal of Continuing Education in the Health Professions, a group of authors led by an AMA vice president cited studies showing how "increasing years in practice is associated with decreasing knowledge; lower adherence to evidence-based standards of care for diagnosis, prevention and treatment; and worse patient outcomes."

Studies have found that, on average, knowledge declines over time, but it varies significantly among individual physicians, the AMA says.

Meanwhile, a study published in May in the British Medical Journal

that looked at the outcomes of hospitalists—doctors who work at in-patient hospital units—found that patients treated by older hospital who are over 60 have higher mortality than patients cared for by hospitalists under 40 except for physicians with high patient volumes, where there were no age-related differences in mortality.

Yet even the study's senior author, Anupam Jena, a 38-year-old associate professor of health-care policy at Harvard Medical School, calls age a "crude" measure of performance. He argues that hospitals should be analyzing outcomes of all doctors.

Dr. Jena also questions the emphasis on mental competence. Poor outcomes are due to outdated skills, he said, not dementia: "They need to focus on older doctors not because of cognitive impairment but because of their relative lack of familiarity with current treatments."

Martin Makary, a surgeon and health-quality expert at Johns Hopkins Medicine, found that older physicians have lower paid-practice claims than younger doctors. "Let us not make blanket generalizations about age and quality," said Dr. Makary, who is 44. He looked at so-called "never events"—catastrophic mistakes such as operating on the wrong patient or the wrong organ, or leaving behind a foreign object in the patient. In a study published in the April 2013 issue of Surgery, he found that physicians 60 and older had the fewest never-events claims.

Hospitals say they are trying to be sensitive. "We are not making our doctors go through this big elaborate psychological evaluation," said Dr. Karl Serrao, who helped develop a screening program for older doctors at Driscoll Children's Hospital. Doctors age 70 and over see a physician who both gives them a physical checkup and assesses their "fitness to work."

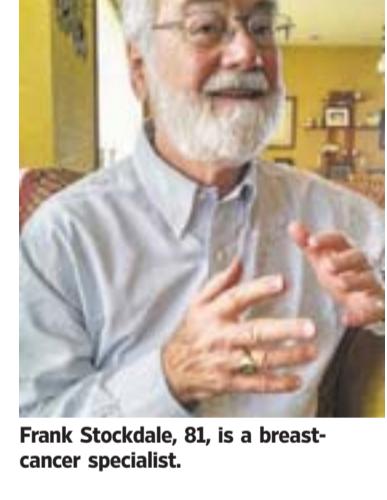
At Cooper University Health Care, Anthony Mazzarelli, a physician and senior executive vice president, said the new policy requiring



'It is very upsetting that they make it difficult for me to get my hospital privileges,' says Saul Rosenberg, an 89-year-old Stanford oncologist.



'None of us is immune to the effects of aging,' says Ann Weinacker, 66, a physician and Stanford University professor of medicine



Frank Stockdale, 81, is a breast cancer specialist.

the mental and physical exams "wasn't meant to target physicians to not practice. It was to help them practice longer" by reassuring both the hospital and the doctor.

That is exactly what William Sharrar, a pediatrician, is hoping. "I am 76 years old, so I could retire, but I don't want to retire because I really love what I do," Dr. Sharrar said. He wasn't particularly worried about the competency test, he said; he looked at it as a challenge, like the puzzles and jumbled-word games he loves.

Last week, Dr. Sharrar reported to a neuropsychologist for cognitive exams, which took about three hours, with breaks. Sample question: How are a giraffe and an elephant alike? (They are both animals.) "I am not sure the testing correlates with your ability based on 45, 50 years of experience," he muses. "How does it correlate with the practice of medicine?"

David Libon, the neuropsychologist who administers the tests at Rowan University's New Jersey Institute for Successful Aging, counters: "I am not asking the questions physicians take to get licenses." The test, typically for the aged, assesses cognitive function.

Dr. Sharrar's colleague, Dr. Brown, took a different route. The new policy made him confront some physical realities. Numbness in his hands made it hard for him to examine his patients; he worried about missing a mass, and felt he couldn't practice medicine safely.

Now 72, Dr. Brown chose to retire and not take the competency tests. He still questions their validity. The exams may be useful to assess elderly people "to see if they are failing," he said, but that is different from figuring out if a physician is competent.



Cooper University Health Care in New Jersey wants to test older doctors for physical and mental health.

## LIFE & ARTS



NATE RYAN FOR THE WALL STREET JOURNAL

**WHAT'S YOUR WORKOUT?** | By Jen Murphy

# Your Spin Class Isn't Like This

How a Minnesota teacher keeps up with competitors half her age on the log rolling circuit; 'I can stay on all day'

**JENNY ATKINSON GREW UP IN**  
Stillwater, a Minnesota city rooted in the lumber industry. As a child, she begged her parents to balance on a log instead of a gymnast beam.

At age 10 she was taking log rolling lessons, and by 17 she turned pro. Now 44, she's a three-time log rolling world champion. She's won another three world titles in boom running, an offshoot of log rolling where two contestants race across floating logs. Ms. Atkinson is considered a veteran lumberjack, double the age of most of her competition. She believes she would have been in close contention for a few more titles had she not been diagnosed with breast cancer in 2009, eight months after giving birth to her son. She competed throughout treatment and is now cancer-free. "I plan to be log rolling into my 80s," she says.

Ms. Atkinson teaches elementary school in Stillwater, which allows her summers off to compete. The U.S. Log Rolling Association's professional circuit kicked off June 10 and includes six stops, culminating July 20 to 22 at the Lumberjack World Championships in Hayward, Wis. These days, Ms. Atkinson only competes in log rolling. She trains year round.

A log rolling match consists of two people running on the same log at the same time with the objective of outlasting one's opponent. Whoever's foot is on the log last wins the fall, the term used for scoring. A match is best three out of five. Women typically start competitions on a 12-foot-long, 14-inch-wide log, and the match progresses onto smaller logs, which sink lower and spin faster. Some matches can last for 30 minutes.

"The sport encompasses all things athletic," Ms. Atkinson says. "It's an aerobic and anaerobic workout utilizing strength, power, agility, balance and endurance."

Ms. Atkinson is ranked ninth in



At 44, Jenny Atkinson, above and top, is one of the oldest competitors in the sport of log rolling.

the U.S. Log Rolling Association's elite rankings. She says a podium spot is always the goal, but her motivation these days is to be a role model for newcomers to the sport and her 8-year-old son, Bear, who started log rolling last summer.

### The Workout

During the summer season Ms. Atkinson log rolls for one to two hours, five days a week with other elite-level log rollers or up-and-coming teenagers, usually men. "If I'm on a log alone, I can stay on all day," she says. "A second person's weight and movements contradict what you do and challenge you. It's the only way to reach the next level."

Ms. Atkinson has a cabin with a man-made pond stocked with various types of logs and booms for training. She often does intervals on

her logs. "In competition you have spurts of really fast rolling where your heart rate spikes," she says. "You need to be able to calm down after those spurts so you can anticipate your opponent's next move."

She complements her training with cycling, weightlifting and yoga. In the off-season, she takes a break and stays fit with alpine and Nordic skiing and plays forward on a hockey team.

### The Diet

Ms. Atkinson's diet focuses on fruits, vegetables, lean protein and complex carbohydrates. "After a tournament or hard workout I just listen to what my body craves," she says. In the morning she often has eggs, an English Muffin topped with peanut butter and homemade jam and tea.

A favorite dinner is chicken al-

fredo with salad. Ms. Atkinson drinks water with lemon throughout the day.

### The Gear & Cost

With help from sponsors, Ms. Atkinson trains on two full booms. One is 14 logs long, the other nine, and a Key Log, a 65-pound synthetic log (\$2,150) that fills with water. "Logs are typically 400 to 500 pounds, which has really held our sport back," Ms. Atkinson says. "The Key Log is easy to transport, like a kayak, and has made log rolling much more accessible." She often trains in soft-soled shoes, like Tevas.

### The Playlist

"Log rolling is a social sport and I like to practice with music in the background, usually U2 or anything from the '80s."

**All the Conditioning Your Body Needs ... On a Floating Log**



Ms. Atkinson, left, practices with log roller Alicia Diethert.

Log rolling might seem like a quirky regional hobby, but according to a 2015 study by the American Council on Exercise, running on a log can actually deliver a great workout.

Shana Verstegen, a six-time world-champion log roller and boom runner and personal trainer based in Madison, Wis., says aspects of every pillar of fitness—strength, coordination, balance, aerobic and anaerobic conditioning, and mobility—are called into play during log rolling.

"A log rolling match can be likened to an interval run," she says. To be able to move your feet very fast on a piece of wood that is only 12 to 14 inches in diameter and keep your body centered and controlled takes extreme coordination and body awareness, she says.

Ms. Verstegen says the ability to move well in the hips and shoulders is key for some of the quick, long strides and far reaches need to control balance. "Throw in the need for absolute concentration and patience and you have yourself one of the most challenging workouts around," she says.

## WSJ BOOK CLUB

# MARY GAITSKILL READS 'CLOUDSPLITTER'

BY CHRISTOPHER JOHN FARLEY

**FOR ALMOST TWO DECADES,** author Mary Gaitskill put off reading "Cloudsplitter," a historical novel by Russell Banks about real-life abolitionist John Brown, because she didn't like the title.

"I thought it sounded pretentious," Ms.

Gaitskill told The Wall Street Journal in a recent phone interview. Spurred by a recommendation from her husband, writer Peter Trachtenberg, she finally finished the book last summer and she concluded that it was the best novel she had read in more than a year.

"Once I started it, I realized

"Cloudsplitter" is just a name of a mountain that John Brown

lives near and that took away

from the feeling of pretension."

Ms. Gaitskill, the author of such works as the short-story collection "Bad Behavior" and

the novel "Two Girls, Fat and Thin," is the guest host of the WSJ Book Club and she selected "Cloudsplitter" for the members of the club to read over the next month.

Brown was a white anti-slavery crusader

who in 1859 led an attack on a federal arse-

nal in Harpers Ferry, W.Va., with the larger

aim of sparking a slave rebellion. He was

captured and executed that same year, but his martyrdom helped galvanize the abolitionist movement and inspired songs like the Union Army marching number "John Brown's Body." "Cloudsplitter" tells the story behind Brown's exploits and is narrated by his adult son, Owen. Ms. Gaitskill said she didn't know much about Brown before reading "Cloudsplitter" but she was quickly won over by the 758-page novel's "scope and quality and depth."

Ms. Gaitskill, who recently published an essay collection titled "Somebody With a Little Hammer," talked to The Wall Street Journal in a phone interview. An edited transcript follows.

### What makes "Cloudsplitter" special?

One of the reasons I liked it was for the complexity of the characterization. Banks por-

trays Brown as not exactly

crazy but as emotionally stupid. His son

comments repeatedly that there are things

that [his father] does not understand emotion-

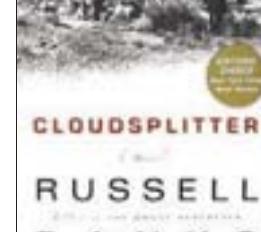
ally. Also he's a very rigid egomaniac

and yet at the same time he's presented as

genuinely outraged over slavery...He's very

mixed morally and that's how I see most

people as being.



RUSSELL BANKS

NATIONAL BESTSELLER



Author Mary Gaitskill in 2015

In an author's note at the beginning of "Cloudsplitter," Banks writes that while some of the characters and incidents in the book are real, he's altered and rearranged facts "to suit the strict purposes of storytelling." Do you think there are any rules to writing historical fiction that authors need to follow?

My basic feeling is if it's a novel, you have a lot of leeway. Because novels don't represent themselves to be factually true. I know that Banks made up certain things. There is a scene where Owen Brown meets a woman on a ship who he really has a profound conversation with and he thinks they have perhaps shared a romantic moment and she kills herself that night. I was haunted by the idea that this might have actually happened, and so I looked it up and it didn't and I was a little disappointed. But if [a book] is calling itself a novel, right away, it isn't bound

to represent what's literally true.

### How do you go about selecting titles for your books?

"Bad Behavior" honestly wasn't my title. The only reason I accepted it was because it was my first book and I was not confident in my ability to pick a title. It was actually my editor's boyfriend that picked it and I didn't like it, but they didn't like my title which was "Daisy's Valentine" and which I actually think is better...The title ["Somebody With a Little Hammer"] is from a quote from Chekhov that's in my essay in the book. There are some translations where the line reads "there ought to be a man with a hammer" and I thought that seemed almost threatening. When I realized it was "somebody with a little hammer" that was just right for my title.

### Why is there an image of the indie comic book character Cerebus the Aardvark on the cover of "Somebody With a Little Hammer"?

I actually designed that cover. That design was originally the cover of a journal that I did that I felt like decorating. I showed it to my editor and she really liked it and it's Cerebus the Aardvark because I really like the image and I'm a Cerebus fan.

### What should readers look for as they read "Cloudsplitter"?

If I'm reading for enjoyment, I'm not really reading that critically. If something works for me, it's very intuitive and natural. I'm not reading with a fine-tooth comb or looking for things they might be doing wrong or looking for things they might be doing right. I'm just receptive to it, and if I enjoy it I'm going to keep reading. I don't even care if it's good or not frankly, if I enjoy it I'm going to keep reading. And if it isn't enjoyable, I don't care if someone thinks it's great, I'm not going to keep reading it.

## OPINION

### REVIEW & OUTLOOK

## America's Health-Care Advance

**S**enate Republicans released their draft bill to repeal and replace ObamaCare on Thursday, and Majority Leader Mitch McConnell is hoping for a vote this week. The binary choice now is between pushing past the media and Democratic flak to pass a historic achievement, or wilting under the pressure and ratifying the ObamaCare status quo.

The bill is an imperfect compromise between moderate and conservative Republicans, and it makes pains to accommodate different interests and the Americans, states and businesses that have adapted to ObamaCare over the years. The center-right nature of the details means the Senate won't be ushering in some free-market utopia. But the reform is a major improvement over the U.S. health-care status quo that will worsen if the bill fails.

\* \* \*

The Senate bill works off the American Health Care Act that the House passed in May. Like the House, the legislation replaces ObamaCare's subsidies with tax credits for people who buy insurance on the individual market, ends Medicaid's status as an open-ended entitlement and starts to resolve some of the health-care system's abiding flaws.

Medicaid was most divisive for Republicans in their monthslong internal debate, so the pleasant surprise is that the Senate's entitlement overhaul is somewhat stronger than the House's. The program originally meant for poor women, children and the disabled—which ObamaCare opened to able-bodied, working-age adults above the poverty level—would be modernized for the first time. This could become the most consequential social reform since the welfare reconstruction of 1996.

Like the House, the Senate would end the funding formula that rewards states for spending more and transition to block grants, allocated on per capita enrollment. Governors would receive far more regulatory flexibility to manage their programs. Under the final House bill, the grants would max out at the rate of inflation plus one percentage point, starting in 2020.

The Senate waits four years instead of three but pegs the grants to inflation with no adjuster. The danger of delay is that grants become another phony rule like the old Medicare "doc fix" that Congress refused to enforce. But the Senate's structural changes are more ambitious, and the benefits of those revisions will compound over time.

The Senate also ends ObamaCare's discrimination between old and new enrollees, which liberals caricature as "rolling back" the Medicaid expansion. The government now pays the whole cost for the expansion population, to encourage Governors to join, but states are only compensated at a national-average 52% match rate for traditional beneficiaries like poor kids. Funding everyone equally—starting in 2021—will cause Governors to find efficiencies and retarget care to the most vulnerable.

As for the failing ObamaCare insurance exchanges—Anthem quit Wisconsin and Indiana on Wednesday—the Senate would provide tax credits for use in a somewhat deregulated individual market. Rather than mandates to force Americans to buy coverage, which don't work in any case, the bill uses incentives to lure consumers and insurers back with patient-centered coverage that is more affordable and better meets individual needs.

The House's tax credits are flat but rise with age as a proxy for health expenses. By extending the credits to all income levels through the upper-middle class, the idea is to minimize work disincentives, where earning an extra dollar of income means losing a dollar or more of federal benefits. The Senate's credits are more generous than the House's, and thus more costly to the federal fisc, and also means-tested.

## The Blackstone Entitlement

**T**he financier and occasional Journal contributor Stephen Schwarzman took us to task in a letter last week for our May 26 editorial ("The Ivanka Entitlement")—both of which are available to read on WSJ.com—on President Trump's family-leave proposal. We welcome the riposte because the Blackstone Group founder helps us make the crucial policy distinction.

"At Blackstone, contrary to your view," Mr. Schwarzman writes, "we have found that paid family leave isn't only smart policy, it's good for business." He says his company expanded paid maternity leave to 16 weeks from 12, and he says this has reduced turnover and supported a more loyal workforce.

Bully for Blackstone, Steve. Employers and workers are free to negotiate compensation, and if Blackstone thinks even six months or a year of leave helps recruit and retain talent, then go for it.

In a tight labor market, employers expand benefits to compete for workers, which is why a growing economy is the best antidote to inequality.

**Steve Schwarzman illuminates the family-leave debate.**

But our point wasn't to oppose family leave. The editorial opposed a *government* plan to create a new spending entitlement through unemployment insurance, as the Trump Administration proposes. This would inevitably require higher payroll taxes or some other tax on business, especially when Democrats triple the leave benefits when they return to power.

One irony is that a new entitlement could crimp what has been a decadeslong expansion of benefits by private business. If taxpayers will be subsidizing some minimum leave, many companies with thinner margins than Blackstone may see little point in broadening their own coverage.

The left's reflex is that if something is good then the government ought to provide it, and some conservatives are falling into the left's political trap. As we're learning the hard way this year with ObamaCare and Medicaid, once an entitlement is in place it is nearly impossible to repeal.

Middle-class taxpayers shouldn't have to pay higher taxes to finance family leave for the employees of Wall Street giants.

**The draft bill contains many conservative victories, which is why the left hates it.**

The fear among Senators is that the House approach doesn't prioritize resources and lacks sufficient "heart" for the less affluent, as President Trump has put it. The House also would create its own work disincentive for people who leave Medicaid as their income rises slightly above the poverty line and would then become exposed to the full out-of-pocket cost of private

insurance.

The opportunity is to show that center-right solutions can get better results than government in the form of lower premiums and more coverage options. The Senate includes about \$100 billion for a "stability fund" that would start to contain ObamaCare's damage and could be used by creative Governors to support insurance markets, as states like Alaska and Maine have recently demonstrated.

The House bill creates waivers that would allow states to opt out of most ObamaCare regulations and mandates, but this provision violates Senate budget rules. The Senate adapts an Affordable Care Act program called 1332 waivers that would become nearly identical in practice. Freed from federal command-and-control, partially deregulated state insurers could sell a much wider variety of products.

There's one exception to the waivers: The Senate wouldn't allow states to apply to relax the community rating regulation, which limits how much premiums can vary among individuals with different health risks to a 3-to-1 ratio. This rule helps explain why costs have exploded and enrollment is declining, but Republicans have shown they are hapless in the pre-existing conditions debate. Better to fight another day than doom the entire effort.

Importantly, the Senate bill also repeals all of ObamaCare's tax hikes, including the industry taxes that are passed on to consumers and the 3.8-percentage-point surtax on investment income. Some Senators pushed to keep the surtax to avoid the tax-cuts-for-the-rich label and spend the revenue on something else, but the payoff in economic growth and rising incomes outweighs the temporary political hit.

\* \* \*

Republicans have campaigned across four elections against ObamaCare, and now Americans will see if they have the courage of their professed convictions. Conservatives must determine if progress that is politically feasible is preferable to impossible ideological purity, and moderates must defend policy substance from the distortions of critics.

Four conservative Senators said Thursday they oppose the draft in its current form, enough to kill it. They say they're open to negotiation, but Majority Leader McConnell's goal over many weeks of talks has been to produce a bill that can get 50 votes. Perhaps Ted Cruz, Ron Johnson, Mike Lee and Rand Paul are merely trying to coax one or two policy changes during debate, but a final "no" really would be a vote to live with ObamaCare.

Failure would expose Republicans as feckless, with conservatives attacking the GOP for having failed and Democrats attacking the GOP for having tried. And don't think Republicans could then drop the issue. Republicans would be under enormous pressure to shore up the failing insurance markets in this Congress.

The question is whether they do it on their terms with this bill, or later on Democratic leader Chuck Schumer's. Republicans would splinter over "bailing out" ObamaCare, while Democrats demand more money in return for help.

The Senate bill is imperfect, but it includes many conservative policy victories that have long been Republican goals. It's not too much to say this is a defining moment for whether the GOP can ever reform runaway entitlements. If Republicans fail, the next stop is single payer.

The Blackstone Entitlement

But our point wasn't to oppose family leave. The editorial opposed a *government* plan to create a new spending entitlement through

unemployment insurance, as the Trump Administration proposes. This would inevitably require higher payroll taxes or some other tax on business, especially when Democrats triple the leave benefits when they return to power.

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## A Case For 'Pre-Crime'



**BUSINESS WORLD**  
*By Holman W. Jenkins Jr.*

Liberals are aghast that a Bernie Sanders supporter and enthusiast for tax hikes on the rich was behind the attempted murder of Republican congressman practicing at a ballfield in suburban D.C. They can relax now.

Whatever his political views, something else was going on with James Hodgkinson. He had been living in his van for months. To locals in the area where the shooting occurred, he was a homeless man. He turned up at the adjacent YMCA every morning for several weeks to sit in the lobby and "look at his laptop or stare out the window," according to the Washington Post.

Now that reporters are digging into his past home and work life, they find the usual hair-raising warning signs of a personality off the rails, much of it documented in police and court reports.

The "snapping" of spree shooters is usually more of a slow burn, abruptly accelerated by a dissolving personal relationship, job or business venture. Ignore the testimony of semistrangers who said Hodgkinson seemed like a "normal guy." The story will turn out to be the not unfamiliar one of personal dysfunction and breakdown thinly overlaid with political obsessions.

At best, the Hodgkinson episode might bring more attention to a paper by Eitan Hersh of Yale on "political hobbyism," which was already ringing bells with many people.

Its abstract begins: "For many citizens, participation in politics is not motivated by civic duty or self-interest, but by hobbyism: the objective is self-gratification... Political hobbyism presents serious problems for a functioning democracy, including participants confusing high stakes for low stakes, participation too focused on the gratifying aspects of politics, and unnecessarily potent partisan rivalries."

If this sounds like mental illness masquerading behind a veneer of political "engagement," the description might also seem to apply to half the people on cable television. But these are performers. They know how to drop the act when the meter isn't running.

To those who insist the cure is gun control, show us you have the votes. No, show us you have *half the votes* to keep guns out of the hands of 10,000 non-maniacs, as likely would be required, to disarm a single prospective psycho. Gun controllers, you have a lot more work to do among the American electorate before

fore sale and ownership restrictions would raise serious barriers to a determined killer. Good luck with that.

Hodgkinson looks more and more like a typical mass shooter, for whom going on a spree is a way to escape responsibility for his unraveling life, the factor that explains so many workplace shooters over the years.

Progress is possible without the pie-in-the-sky dream of ending private gun ownership in a society accustomed to private gun ownership. Businesses, led by the pioneering U.S. Postal Service, knocked down workplace homicides by two-thirds since 1993, according to the National Center for Victims of Crime. And not by turning every office into a fortress, but rather by understanding who their workers are and paying attention to the threats they matter.

**Big tech firms already may know enough to provide a list of future suspects.**

With big data, with impersonal algorithms that could track every earthly resident's web activity, travels, purchases and electronic interactions with the world, it might be quite possible to know whose life and personality are disintegrating, who might seek to resolve the impasse by going on murder binge.

We don't doubt that if Amazon, Facebook, Google and Microsoft decided tomorrow morning to collaborate on a "mass shooter project," in about a month they could produce an interesting list of pre-crime suspects.

Yes, there would be false positives. You need false positives to refine the algorithms.

Pile on smart surveillance cameras, which not only see but interpret: The potential is inherent in digital technology; it's already being used (Google's words "predictive crime analytics"); it will have to be dealt with intelligently sooner or later.

How the "pre-crime" era of law enforcement will finally be accepted also seems fairly easy to predict. American voters will give their permission only when and if domestic terrorism reaches levels experienced in the U.K. or France. Meanwhile, the lone American who, from non-Islamist motives, decides to shoot a bunch of his fellow citizens is a problem we will be living with. But there's still hope. The more the average citizen can understand and recognize the pattern, the more such incidents likely will be avoided without us even knowing it.

## ISIS and the Destruction Of Middle Eastern Relics

**By Thomas Campbell**

**I**f you've ever been to the Metropolitan Museum of Art in New York, chances are that you visited the glass pavilion containing the Temple of Dendur. One of only three such temples outside Egypt, it was built by the Roman emperor Augustus around 10 B.C. as part of an effort to cultivate the local Nubian population. This month marks its 50th anniversary overlooking Central Park, where it provides an unforgettable glimpse of Egypt's ancient culture for millions of tourists who will never travel to the Middle East.

At a time when the U.S. is questioning the nature of its longstanding relationships with countries across the world, the temple is a symbol of international cooperation. In the 1960s, 50 nations united to save 22 irreplaceable monuments—including the Temple of Dendur—set to be submerged during the construction of Lake Nasser. These countries were motivated not by their own national interests but by an understanding that mankind has a common interest in protecting historic monuments.

With a final investment of \$16 million, the U.S. became the largest contributor to the \$100 million preservation project. As a demonstration of gratitude, Egyptian President Gamal Abdel Nasser gave the Temple of Dendur to the U.S. in 1965. After a competition led by the National Foundation on the Arts and the Humanities, President Lyndon Johnson decided that the 2,000-year-old temple should go to the Met.

The Middle East's fragile cultural heritage was in the news again last week. On Wednesday Islamic State blew up the historic Grand al-Nuri Mosque in Mosul, obliterating a cultural and religious site that had stood since 1173. Religious fundamentalism, illicit excavation, black-market trade and simple neglect have destroyed historic sites in the Middle East at an alarming rate. Wednesday's bombing underscores the most urgent problem: Islamic State and its affiliates have turned cultural destruction in Iraq and Syria into propaganda, even as they sell looted works of art on the black market to raise money for arms.

Why should we worry about a bunch of old monuments when the human cost of the unrest is so high? There are two reasons. First, the Middle East is the cradle of civilization. These monuments are integral to our collective human story. Architectural monuments illuminate the complexity of our common past. So much has already been lost. We have a moral obligation to save what remains.

A focus on history and heritage will also be key to the eventual recovery of the Middle East. Cultural sites provide citizens with a sense of their value and self-identity beyond religious dogma. They also provide jobs, income and stability by attracting tourists. Iraq and Syria are home to some of the most significant sites in the history of civilization. It may be hard to conceive of a vacation in Damascus or Baghdad today, but travel to Vietnam would have been equally inconceivable 40 years ago. In 2017, Vietnam projects tourist revenue of \$20 billion.

Countries with economies tied to tourism are motivated to maintain peace and internal safety. Thus it is in the U.S. national interest to protect Middle Eastern heritage sites.

Conflicts across the region make modern preservation efforts more complicated than the drive to save the monuments threatened by Lake Nasser. Over the past year, Britain and France created funds to help protect and restore monuments in Middle Eastern conflict zones. Earlier this spring, the United Nations passed a resolution defining the destruction of historic monuments as a war crime, creating the basis for future intervention and criminal prosecution.

This is all laudable and necessary preparation for a time when the region stabilizes. In the short term, local scholars and archaeologists, who often work in grave danger, may be the most effective avenue for aid. In late 2015, staff from the Met convened a conference in Istanbul for colleagues from museums in Iraq and Syria. They told us of their urgent need for basic photography and computer equipment to document collections that are at risk. In response, the Met developed portable documentation kits and sent them to these colleagues via Jordan.

While this may sound like a drop in the bucket, it met an urgent need.

This process of listening and responding to on-the-ground experts is both scalable and replicable. Governments and foundations should promote—and fund—similar collaborations. The U.S. government could certainly play a more active role than it has so far.

As we reflect on the effort that saved the Temple of Dendur, let's not be deterred by the sheer complexity of present-day challenges. Iraq and Syria will have peace once again. For the sake of future generations, let's play our part in safeguarding the cultural heritage of the Middle East.

*Mr. Campbell is director of the Metropolitan Museum of Art.*

## OPINION

# America Shouts While Europe Shrugs



DECLARATIONS  
By Peggy Noonan

**H**ere is a column on two very different topics. If my editor is clever he will find a common theme.

The first has to do with America's media climate at this time of political uncertainty, anxiety and division. I suspect at least half the country (those who support President Trump, have reserved judgment about him or just want the news straight) feel they can no longer trust, or feel actively excluded by, mainstream entertainment and news.

What we need from media folk is a kind of heroic fairness. What we have instead is endless calculation.

### The U.S. media foment division while Paris hardly notices a terror attack.

We are living in a time of the politicization of everything. You cannot, at the end of a long day, relax with a talk show because it will take a highly political point of view, in a dominant and aggressive manner, as if politics weren't part of life but life. It is obnoxious and assaultive. It effectively tells the audience: 'We only want you here if you agree with us. If you like Donald Trump, get lost.' Some news shows take a similar approach.

Dislike of Mr. Trump within the mainstream media is unalterable. It permeates every network, from intern to executive producer and CEO.

Here is a theory on what they're thinking: They're thinking attempts

at fairness and balance in this charged atmosphere get them nowhere. They're attacked by both sides. And anyway they think Mr. Trump is insane.

They live on ratings, which determine advertising rates. Hillary Clinton got 2.9 million more votes than Mr. Trump, so the anti-Trump audience is larger. Moreover, people who oppose Mr. Trump tend to be more affluent, more educated, more urban. They're more liberal, and they're younger. They're a desirable demographic. The pro-Trump audience is more rural, more working- and middle-class, older. A particularly heartless media professional might sum them up this way: "Their next big lifestyle choice will be death."

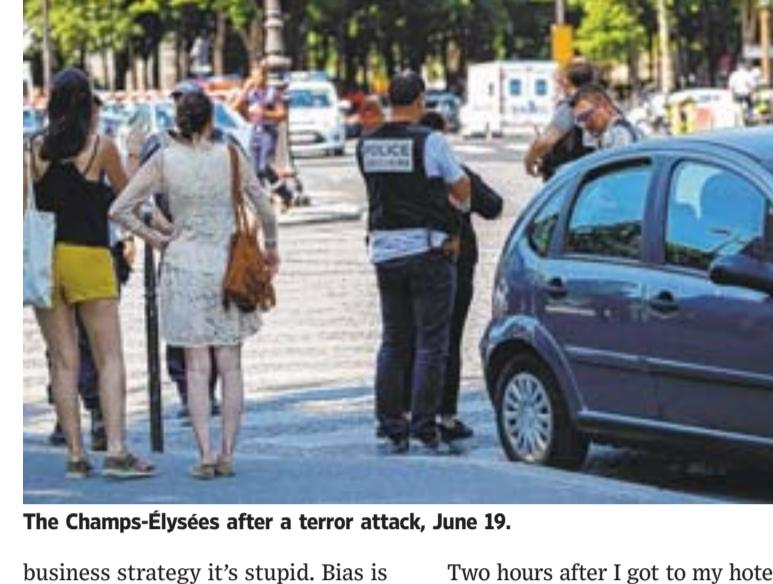
So, if you are a person who programs or sets the tone of network fare and you want to take a side, you throw your lot with the anti-Trump demo, serving them the kind of journalistic approaches and showbiz attitudes they're likely to enjoy.

Mr. Trump, you are certain, won't last: He'll bring himself down or be brought down. You want to be with the winning side. So play to those who hate him, exclude others, call it integrity and reap the profits.

That is my theory: media bias now is in part a financial decision, instead of what it used to be, a good old-fashioned human and institutional flaw.

This contributes to public division—to the great estrangement we see in America. I talk to media folk a lot, being one, and haven't found anyone who's said, "Why yes, that's exactly what we're doing, deepening our national divisions for profit!" I shared my theory last week with a senior manager of a news organization who quickly mentioned another major news organization and said: "I think that's what they're doing."

But I do think it's part of what is going on. I add only that it's not only cynical and destructive, as a



AP/GETTY IMAGES

The Champs-Élysées after a terror attack, June 19.

business strategy it's stupid. Bias is boring. It's predictable, rote, is an audience-limiter. What has value at a time like this is playing it straight and presenting the facts. That's what they ought to do instead of taking a side.

\* \* \*

I was traveling last week for work, in Europe.

When we arrived at Charles de Gaulle Airport in Paris, passport control was closed down. Many hundreds of people milled about confusedly. An airline worker said two unattended bags had been found and security personnel were on the scene. Officials might have to explode the bags where they are. Will there be any warning? Yes, I was told, they'll tell us before and we'll hear it. Does this sort of thing happen often? "A few times a day," an attendant said.

There was no air of alarm, and everyone around us was pleasant. After 35 minutes passport control opened, without an explosion. The attitude was that this was par for the course, just another day at the office.

Two hours after I got to my hotel, word came of a terror attack three blocks away, on the Champs-Élysées. I asked the woman at the desk for directions and she said, in low and measured terms, "I'm sorry madame, there has been a terrorist occurrence. You should not go there." I said "Yes, I'd like to go see it." She brightened: "In that case, go left, left, then final left!"

Soon I was in a small crowd being held back by a handful of police. They protested: *My work is there. I must go there.* I walked for a few blocks, to a small park off the Champs. Police had put up police tape, but as soon as they turned away people ducked under it and continued on their way.

No one in the crowd—workers in the shops, mothers with children, tourists—seemed the least put out or concerned, never mind scared, which they were not.

The next morning the story of what had happened on the Champs-Élysées was not even the top story on the international news. Which is a wonder, since this is what happened:

## Getting an Edge in the Long Afghan Struggle

By David Petraeus  
And Michael O'Hanlon

**C**an the U.S. succeed in Afghanistan? Not without a sustained, and sustainable, commitment. President Trump's decision to give Defense Secretary Jim Mattis the authority to add several thousand more U.S. troops to the 8,400 currently deployed is encouraging—but only if it's a first step in a comprehensive approach.

Army Gen. John Nicholson, commander of U.S. and allied forces in Afghanistan, should also receive greater leeway in the use of U.S. and NATO air power. And officials should remain open to the possibility of reconciliation with some insurgents, probably just those that break off from the central Taliban.

An intensified military effort could arrest the gradual loss of territory held by the government in recent years—now estimated by U.S. Central Command at only 60% of the country—and to regain battlefield momentum. Congress should enable all this by appropriating the \$5 billion or so a year above current levels that such a strategy will require.

America's leaders shouldn't lose sight of why the U.S. went to, and has stayed in, Afghanistan: It is in our national interest to ensure that country isn't once again a sanctuary for transnational extremists, as it was when the 9/11 attacks were planned there.

We have been accomplishing that mission since the intervention began in October 2001. Although al Qaeda in Afghanistan and Pakistan is diminished, it could rebound if given the opportunity. Islamic State could expand its newfound Afghan foothold as well.

The augmented troop levels Mr. Trump has authorized would be only 12% to 15% of the peak U.S. force levels, in 2010-11. America can sustain that level of commitment. While all casualties are tragic, our losses in Afghanistan would likely remain far

fewer than the losses from another major terrorist attack in the U.S.

Today the U.S. and its coalition partners lack the capacity to train and assist Afghan forces adequately in the field. As recently as 2015, the

### Trump's early approach holds promise if backed with a sustained, and sustainable, commitment.

Allied forces didn't even have a full-time advisory presence for the main Afghan army corps in Helmand province. Largely as a result, the Taliban gained control of much of the province.

Nor did the coalition have adequate advisers to help the smaller Afghan formations near Kunduz before that city fell to the Taliban in 2015. It was later liberated only at high cost, especially to Afghan forces and civilians. Restrictions on coalition air power reduced America's ability to help Afghan partners.

Adding some 3,000 to 5,000 U.S. and allied troops could provide the capacity for several dozen deployable mentoring teams. That is far from enough to assist each Afghan brigade or battalion. But it could support the units that are engaged in the toughest fights and are most intensively involved in rebuilding their capabilities.

Supporting those teams logistically and with air power, and providing quick-reaction forces in several parts of the country to help them if they get in trouble, would drive additional requirements for coalition troops into the low thousands.

On the civilian side, President Ashraf Ghani and Chief Executive Abdullah Abdullah need to continue their efforts against corruption, which have shown gradual, modest results to date. With U.S. help, they need to reform the electoral commis-

sions that will oversee parliamentary and presidential elections over the next two years.

Then there is Pakistan, where the U.S. needs a tougher approach. Washington reduced aid to Islamabad by more than half over the past five years. More can be cut. President Trump and Congress could also designate Pakistani individuals and organizations supporting the Taliban and impose sanctions on them. The U.S. could show less restraint in striking Taliban targets within Pakistan.

There are carrots available too: trade concessions, increased aid, more assistance to the Pakistani army's fight against internal extremists, dialogue with New Delhi to mitigate Pakistan's worries about India's

role in Afghanistan. But these must come on the condition that Islamabad put greater pressure on the Taliban (whose headquarters is in the Quetta area) and on the Haqqani insurgent network (in North Waziristan).

None of this will work unless Pakistani leaders recognize that allowing these groups' leaders sanctuary on their soil is foolish and dangerous. Given the way extremist groups collaborate in Central and South Asia, that approach will inevitably continue to backfire. After all, the greatest existential threat Pakistan faces is internal extremism, not India.

President Trump's early approach holds promise. In Afghanistan today, the military needs to revisit the phase of the mission it largely

skipped in the years after the surge of 2010-12 or so, when it downsized too quickly and too far. This approach won't achieve "victory" in Afghanistan, after which all troops can be withdrawn. That is an impossible goal in the near-term. But it will be sustainable and it can improve the prospects of shoring up our eastern flank in the broader battle against Islamist extremism—a fight that likely is to be a generational struggle.

*Mr. Petraeus, a retired Army general, commanded coalition forces in Iraq (2007-08) and in Afghanistan (2010-11) and later served as director of the CIA (2011-12). Mr. O'Hanlon is a senior fellow at the Brookings Institution.*

## Index Funds and Corporate Governance

By M. Todd Henderson  
And Dorothy Shapiro Lund

**A**merican investors are increasingly acting on the realization that a broad-based indexing strategy is superior to investing in individual stocks or actively managed funds. That's great news for investors, who will pay less and get better returns. But it has troubling implications for corporate governance.

No passive investor cares much about governance of a particular company. The impact on an index when a single company underperforms is usually either slight or offset by gains from its competitors.

It may be rational for index funds to ignore governance, since the money they spend on improving it benefits not just them but also rival funds that invest in the same stocks.

So it's a problem when these investors control voting outcomes for the companies that they invest in. This is often the case, since 88% of public companies count one of three large institutional investors—State Street Global Advisors, Vanguard, and BlackRock—as their largest investor.

All investors have a stake in companies being well-run, but they aren't always willing to pay higher fees for monitoring or governance. And because there is no such thing as universally good governance, the blind application of one-size-fits-all governance solutions across vastly different companies often has negative effects.

So how can the law ensure that these institutions make informed decisions about corporate governance? Three approaches are possible.

The first is to encourage them to rely on third-party corporate governance experts. Proxy adviser firms like ISS and Glass Lewis sell their expertise, making recommendations to investment funds about how to vote. But while outsourcing a fund's votes may be efficient in theory, academic critics have identified cases

of biased and self-serving behavior on the part of these advisers. Blind reliance on third-party recommendations is increasingly viewed as an abdication of a fund's duty to act in its investors' best interest.

In response to these critics, a second approach is growing in popularity: creating in-house govern-

### Troubling implications when it comes to shareholder voting.

nance teams that make recommendations to a fund's managers. Several large institutional investors now rely on these teams to prepare corporate-governance reports, issue and evaluate governance guidelines, and engage with management and the board.

But there is reason to believe that these teams aren't up to the task. As of October 2016, Vanguard's governance team employed 15 people to cover some 13,000 companies; BlackRock employed about 20 for its 14,000 companies; and State Street employed fewer than 10 for about 9,000 companies.

The recent proxy battle for control of Arconic, a metal-parts company spun off from Alcoa in 2016, illustrates the problem. Last January, the hedge fund Elliott Management Corp., which owns about 13% of Arconic, nominated new directors to Arconic's board after voicing displeasure with management's poor performance and the company's outmoded governance. Elliott took the matter to Arconic's largest institutional investors, creating a 300-page slide deck to make its case.

But the governance teams at BlackRock, State Street and Vanguard reportedly refused to support Elliott's position—despite contrary advice from ISS and Glass Lewis, as well as active-fund managers—and instead pressured both parties to settle.

It appears that the giant index-fund managers didn't want to have to cast the deciding vote—a vote they would be required to disclose under securities law—in Elliott's favor. One reason might be that these institutions face a conflict of interest: Challenging management of a company can threaten their ability to retain that company as a client for corporate retirement fund assets.

It may be necessary, therefore, for the law to create incentives for institutional investors to focus more on governance. This could be accomplished by providing a legal cause of action to shareholders that are harmed by uninformed or conflicted voting decisions. But this would be a blunt tool for curbing abuse.

This leads to option three: encouraging passive institutional investors to abstain from voting altogether. The law currently pushes institutional investors to play an active role in governance. But it would be far better if passive investors, who lack the will to make informed choices and suffer from major conflicts of interest, could step out of the process. Their abstention would concentrate the voting power of active investors that have the motive and information to vote intelligently.

By all accounts, if the passive institutional investors hadn't been in the picture, the Arconic proxy battle would have been settled months earlier, saving millions for shareholders.

Reform is clearly needed, as shareholder voting has become heavily stressed by the rise of passive investing. This stress will increase as passive investing continues to surge, leading to serious problems for shareholders, employees, consumers and the economy.

Passive investors should be required to become more informed—using intermediaries or not—or stay out of governance fights.

*Mr. Henderson is a professor and Ms. Lund a teaching fellow at the University of Chicago Law School.*

## THE WALL STREET JOURNAL

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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## LIFE & ARTS

### EXHIBITION REVIEW

# Listening to Reality

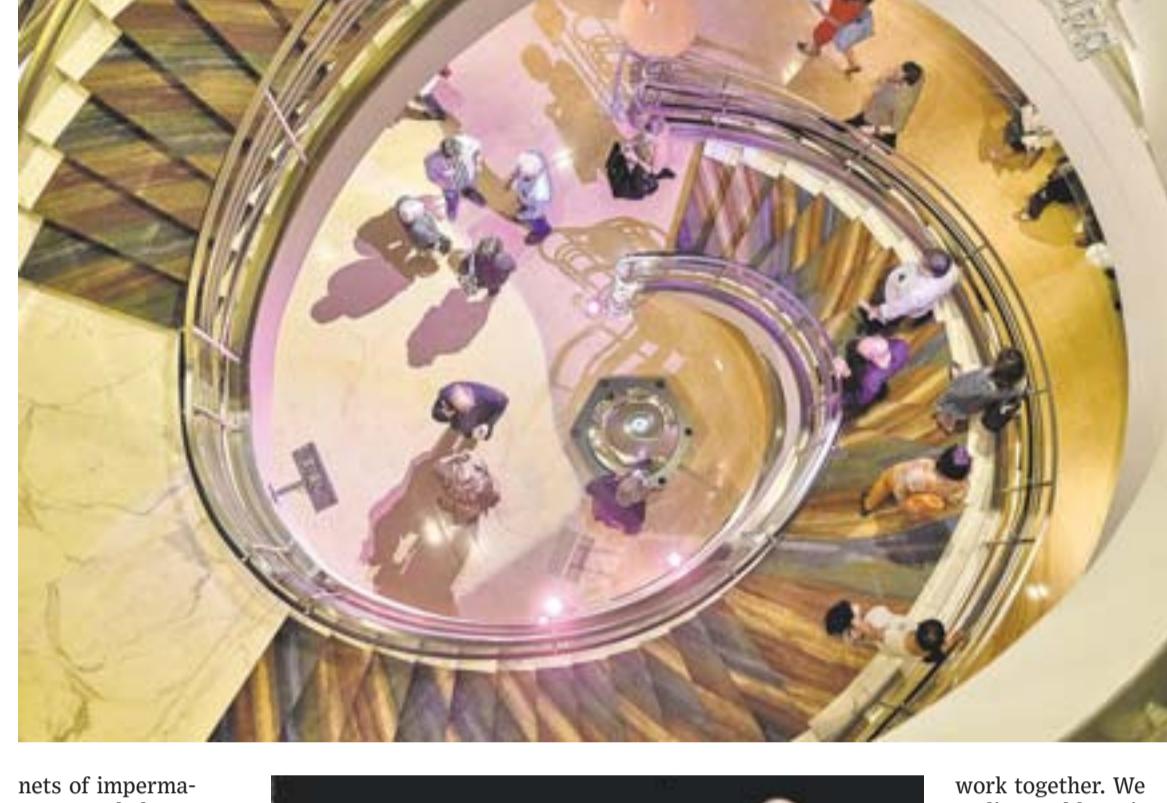
BY LEE LAWRENCE

New York

**WE ALL KNOW** that music is sound and sound is vibration. But unless we're at a rock concert getting our rib cages rattled by the percussion, most of us generally associate listening with the delicate mechanisms in our ears. By the same token, rarely do we engage with a statue or painting with more than our eyes. A bold and engaging show at the Rubin Museum of Art gives us the chance to broaden our understanding and experience of art.

The museum's spiral staircase serves as prelude to "The World Is Sound," which fills the sixth floor. From a concave disk at the base emanates an orchestration of man-made and natural sounds by Laetitia Sonami and Bob Bielecki. As we ascend, this interacts with a succession of tracks from Elaine Radigue's well-known "Labyrinth Sonore." Together, they form "Le Corps Sonore" or "Sound Body," which washes over us in waves and, with the persistent gentleness of mist, fills our minds. (If you opt for the elevator, you might stop at each floor and pause by the railing.) By the time we reach the top, Rubin curator Risha Lee's wall text exhorting us to "listen with your whole body" makes sense.

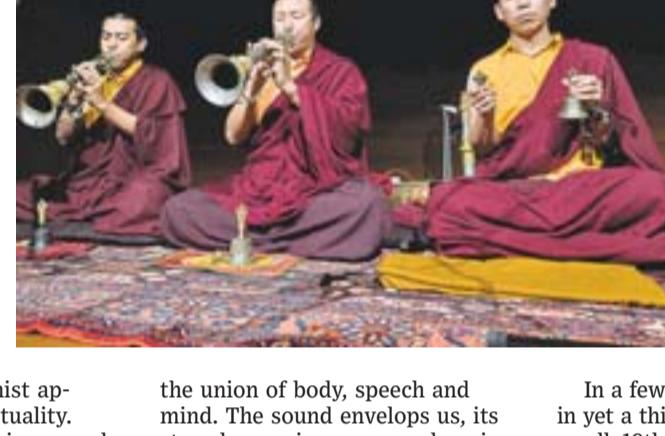
So what has this to do with Himalayan art, the Rubin's stock-in-trade? The answer is just about everything. Whether the painting of a bodhisattva or the statue of a wrathful deity, most objects in the museum's collection serve as aids in a religious practice that involves hearing (bells, horns, mantras), smelling (incense, burning ghee), touch (ritual objects). The underlying premise is that it is through all our senses—Hindu and Buddhist scriptures include the mind as a sixth—that we perceive reality. While most shows at the Rubin focus on the visual, this one underscores sound, which by its very nature embodies Buddhist te-



nets of impermanence and change.

Ms. Lee has created a compelling combination of recorded Tibetan rituals, objects from the collection, and contemporary audio and video installations that respond to fundamental themes of creation, infinity, interconnectedness, death. Not coincidentally, many of the contemporary artists appear to take a Buddhist approach to life and spirituality.

In one room, we are immersed in a vocal drone using the Rubin's recording of 10,000 visitors uttering Om or Aum, a powerful Sanskrit "seed syllable" variously believed to contain all forces at work in the universe and to symbolize

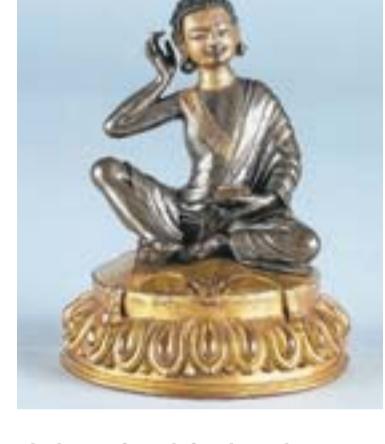


the union of body, speech and mind. The sound envelops us, its strands weaving an ever-changing fabric. Elsewhere, we step up to, say, a statue or painting and experience it as part of a ritual that includes a chant or mantra. We stand before a display of instruments listening to their voices

work together. We recline and hear instructions on how to navigate what Tibetan Buddhists believe are stages, or *bardos*, we journey through after death. The text is a translation from the "Tibetan Book of the Dead," and its words follow us as we contemplate depictions of colors and deities the deceased encounter.

In a few instances, displays bring in yet a third sense. Looking at a small, 19th-century mandala, for example, we listen to a monk and, placing our palm on the wall, feel the vibrations of his voice as our eyes take in red and yellow geometries and the deity at their center.

The Rubin's head of exhibition



Clockwise from left: The Rubin's staircase serves as a prelude to the show; sculpture (15th-16th century) of poet and saint Milarepa; monks being recorded for the exhibition

design, John Monaco, and his team deserve kudos for orchestrating a show whose principal medium is air. Only occasionally do they resort to headphones; mostly they use curved partitions lined with acoustic panels to create eddies of sound. On one visit, this worked perfectly; on another, the volume was sometimes poorly calibrated, probably to account for visitors' voices. It may be impossible to achieve perfection, so a word of advice: Go at quiet times or, if there's too much competing noise, wait it out in one of the other shows. Any sound spilling from the stairwell's installation will only add to that experience.

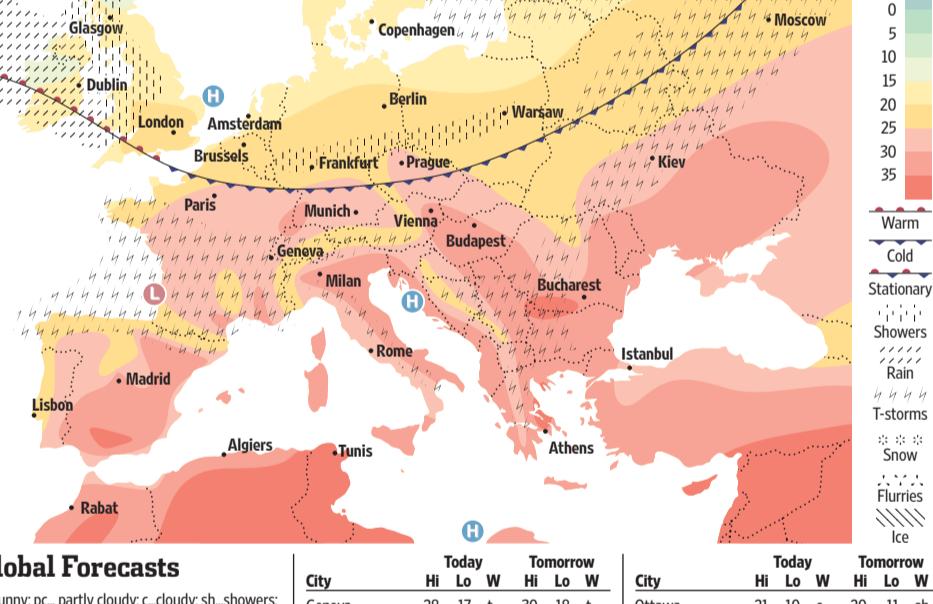
When I ducked into the fourth-floor Shrine Room, the deep-throated chants of monks interacted with the subtleties of "Le Corps Sonore," together creating forms as physical as the rows of gleaming statuary filling the altar.

#### The World Is Sound

Rubin Museum of Art, through Jan. 8, 2018

Ms. Lawrence writes about Asian and Islamic art for the Journal.

#### Weather



#### Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	19	12	pc	22	16	t
Anchorage	14	10	r	15	11	r
Athens	33	23	s	33	23	s
Atlanta	29	18	s	28	18	s
Bahrain	46	30	s	47	31	s
Baltimore	28	15	s	26	14	pc
Bangkok	33	27	t	33	26	t
Beijing	34	20	pc	34	22	pc
Berlin	21	10	pc	23	16	pc
Bogota	18	10	r	19	10	r
Boise	37	18	s	31	15	s
Boston	26	17	s	26	15	pc
Brussels	22	14	pc	25	16	t
Buenos Aires	23	17	c	21	9	r
Cairo	37	24	s	37	24	s
Calgary	29	11	t	24	10	s
Caracas	31	25	pc	31	25	pc
Charlotte	30	17	s	27	15	pc
Chicago	22	11	pc	25	15	s
Dallas	31	23	pc	31	24	pc
Denver	28	15	s	31	14	t
Detroit	21	11	sh	23	13	pc
Dubai	39	31	s	40	33	t
Dublin	15	11	r	17	11	sh
Edinburgh	17	10	c	17	11	r
Frankfurt	26	16	pc	26	18	t

#### AccuWeather.com

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



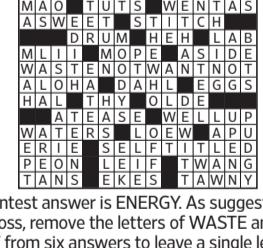
#### H.O.T. STUFF | By Dan Fisher

Across			
1 Like the smell of burning plastic	24 Cabernet Sauvignon or Malbec, e.g.	47 Competed in a bee, in Britain	
6 Book makeup	26 Boorish	48 Favoring neither faction in a dispute	
11 Letter after epsilon	27 Flip decision	52 Spouse's family	
14 Pop singer Mars	31 Hay units	54 Swipe over a checkout laser	
15 Rust or lime, for example	34 "I cannot tell ___"	55 Card worth one or eleven in blackjack	
16 Lend a hand	35 Cattle call	56 Haddock's home	
17 1981 hit for ELO	36 Bunches	57 Blast, so to speak	
19 One, for Juan	37 Tissue layers	60 Chaney of horror films	
20 Have unpaid debts	39 Smorgasbord offering	61 Perfect	
21 Clearasil target, informally	40 The Concorde, for one	62 Alleviated	
22 Prom chaperones, usually	41 Hired bully	63 Come to a close	
23 Flavors	42 Willy with a chocolate factory	64 F. Scott Fitzgerald's wife	
24 Henry VIII's dynasty	43 Henry VIII's dynasty	65 Attire	

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

Down	
1 Really hate	28 Canonized person
2 "Gladiator" star	29 Appearance
3 Occupied the throne	30 Bartender's mixer
4 Alternative to Dem. and Rep.	31 Lively party
5 Humdingers	32 In addition
6 Like most indoor plants	33 Idyllic spot
7 Imaginary line through the Earth	37 Popular sunning spot
8 Combo's engagement	38 Hay storage site
9 Star of TV's "Westworld"	39 Cavalry base
10 Preordained occasion	41 "Gosh!"
11 "Slip Slidin' Away" singer	42 Hurt
12 Suggestion	44 Aromatherapy place
13 Wedding exchange	45 7UP, in bygone ads
18 Ship of 1492	46 Goal of negotiations
23 Nation between Can. and Mex.	49 Lift up
25 Sharpen	50 Crowning points
26 Songwriter Porter	51 City of northern England
	52 Archipelago part
	53 Inert gas
	54 Herring's kin
	58 Toothpaste type
	59 Paver's goo

#### Previous Puzzle's Solution



The contest answer is ENERGY. As suggested by 41-Across, remove the letters of WASTE and WANT from six answers to leave a single letter: N(E)WAT, WE(N)TAS, ASW(E)ET, WATE(R)S, TWANG(G) and TAWN(Y). The remaining letters spell the contest answer.

#### Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	28	17	t	30	18	t
Hanoi	33	27	t	32	26	t
Havana	32	23	pc	32	23	pc
Hong Kong	32	28	sh	32	28	t
Honolulu	29	24	pc	30	23	s
Houston	31	23	t	31	23	t
Istanbul	28	21	s	29	21	t
Jakarta	31	24	c	32	24	t
Johannesburg	17	4	s	16	4	s
Kansas City	23	12	t	27	20	pc
Las Vegas	43	27	s	42	26	s
Lima	22	16	c	21	17	c
London	23	14	pc	23	16	t
Los Angeles	31	17	pc	26	17	s
Manila	34	26	c	34	26	t
Melbourne	14	6	pc	13	7	pc
Mexico City	22	15	t	21	13	t
Miami	32	26	pc	32	26	t
Milan	30	20	pc	29	20	t
Minneapolis	22	12	pc	26	17	pc
Monterey	32	21	pc	32	21	pc
Montreal	21	13	c	21	12	sh
Sydney	17	8	s	17	10	c
Taipei	36	26	pc	33	26	pc
Tehran	36	22	s	36	23	s
Tel Aviv	32					

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, June 26, 2017 | B1

Euro vs. Dollar 1.1198 ▲ 0.40%

FTSE 100 7424.13 ▼ 0.20%

Gold 1256.20 ▲ 0.69%

WTI crude 43.01 ▲ 0.63%

German Bund yield 0.258%

10-Year Treasury yield 2.146%

## Italy Plans 'Rescue' of Two Banks

BY DEBORAH BALL

ROME—Italian authorities said Sunday they were prepared to spend as much as €17 billion (\$19 billion) as part of the shutdown of two regional banks, in a deal that will transfer the lenders' best assets to **Intesa Sanpaolo** SpA for a nominal sum.

**Veneto Banca** and **Banca Popolare di Vicenza** are mid-size lenders in the Veneto, Italy's prosperous north east. Both have been flailing for several years despite efforts to shore up their capital and restore their health.

Friday, the European Central Bank declared the pair were set to fail, having "repeatedly breached supervisory capital requirements."

That set the stage for the government intervention over the weekend, which will involve splitting Veneto Banca and Banca Popolare di Vicenza into good and bad assets.

The government passed a decree Sunday that will effectively sell the good part of the two banks to Intesa, Italy's second-largest and best-capitalized bank. Intesa said last week it would be willing to buy the best assets for a token

price of €1 as long as the government assumed responsibility for liquidating the banks' large portfolio of sour loans.

Billions of euros Italy is prepared to spend on the shutdown

The €17 billion includes the cost of Rome's responsibility for the bad loans, along with items such as covering legal

exposure, restructuring of the remaining bank and paying for the expense of personnel issues associated with splitting the two banks into a good one and a bad one.

Sunday, Prime Minister Paolo Gentiloni said that the two banks will open for business regularly on Monday. The banks' situation "reached a point that required a rescue in order to avoid the risk of a disorderly failure," he said.

Italy obtained European Union permission to deal with the Veneto banks using national insolvency laws, thus avoiding inflicting losses on

senior bondholders.

The case of the Veneto banks is yet another example of Italy wriggling out of strict EU rules built after the financial crisis to prevent taxpayers from footing the bill in the event of the collapse of such institutions as banks.

When the EU authority in charge of winding down the bloc's failing banks—the Single Resolution Board—decided it wouldn't take the case, it handed all power over to Italian authorities.

The SRB said Friday night it wouldn't take action because

Please see BANKS page B2

## Facebook Aims for TV-Quality Programs

BY JOE FLINT AND DEEPA SEETHARAMAN

**Facebook** Inc. to Hollywood: Let's do lunch.

The social-networking giant is talking to Hollywood studios and agencies about producing TV-quality shows with an eye toward launching original programming by late summer, people familiar with the matter said.

In meetings with major talent agencies including **Creative Artists Agency**, **United Talent Agency**, **William Morris Endeavor** and **International Creative Management** Partners, Facebook has indicated it is willing to commit to production budgets as high as \$3 million per episode, people familiar with the situation say.

That's the price range of high-end cable-TV shows. Facebook is also interested in more moderate-cost scripted shows in the mid-to-high six-figure-per-episode range, these people say. The company will be aggressive about trying to own as much of that content as possible.

The push for TV shows is part of a two-track effort at Facebook to up its game in video and target the tens of billions of ad dollars spent on television.

Facebook also is seeking short-form content, primarily unscripted, that could run for 10 minutes in the Spotlight section for videos, the people familiar with the matter say.

The social network is guaranteeing creators of short-form fare a minimum \$5,000 to \$20,000 share of ad revenue per episode, a person familiar with the company's strategy said. Companies working on such content for Facebook include BuzzFeed, ATTN and Refinery 29, according to people familiar with the situation.

Facebook declined to comment on specifics of its content plans. In a statement, Vice President of Media Partnerships Nick Grudin said, "We're supporting a small group of partners and creators as they experiment with the kinds of shows you can build a community around—from sports to comedy to reality to gaming. We're focused on episodic shows and helping all our partners understand what works across different verticals and topics."

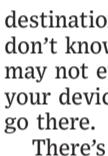
Facebook has told people in the industry that late summer is a bit of a moving target for launch. It hopes to target audiences from ages 13 to 34, with a particular focus on the 17-to-30 range. It appears to be seeking shows along the lines of the drama "Pretty Little Liars" on Freeform, the cable channel formerly known as ABC Family,

Please see TV page B2

## KEYWORDS

By Christopher Mims

## In 10 Years, Your iPhone Won't Be A 'Phone'

  
It's 2027, and you're walking down the street, confident you'll arrive at your destination even though you don't know where it is. You may not even remember why your device is telling you to go there.

There's a voice in your ear giving you turn-by-turn directions and, in between, prepping you for this meeting. Oh, right, you're supposed to be interviewing a dog whisperer for your pet-psychiatry business. You arrive at the coffee shop, look around quizzically, and a woman you don't recognize approaches. A display only you can see highlights her face and prints her name next to it in crisp block lettering, Terminator-style. Afterward, you'll get an automatically generated transcript of everything the two of you said.

As the iPhone this week marks the 10th anniversary of its first sale, it remains one of the most successful consumer products in history. But by the time it celebrates its 20th anniversary, the "phone" concept will be entirely uprooted: That dog-whisperer scenario will be brought to you even if you don't have an iPhone in your pocket.

Sure, **Apple** may still sell a glossy rectangle. (At that point, iPhones may also be thin and foldable, or roll up into scrolls like ancient papyri.) But the suite of apps and services that is today centered around the physical iPhone will have migrated to other, more convenient and equally capable devices—a "body area network" of computers, batteries and sensors residing on our wrists, in our ears, on our faces and who knows where else. We'll find ourselves leaving the iPhone behind more and more often.

Trying to predict where technology will be in a decade may be a fool's errand, but how often do we get to tie up so many emerging trends in a neat package?

Apple is busy putting ever more powerful microprocessors, and more wireless radios, in every one of its devices. Siri is getting smarter and popping up in more places. Meanwhile, Apple is going deep on augmented reality, giving developers the ability to create apps in which our physical world is filled with everything from Pokémons to whatever IKEA furniture we want to try in our living rooms. All these technologies—interfacing with our smart homes, smartcars, even smart cities—will constitute not just a new way to interact with computers but a new way of life. And, of course, wor-

Please see MIMS page B4



MARIEKE VAN DER VELDEN FOR THE WALL STREET JOURNAL

Struts prop up a house in a Dutch village, which has sustained damage from quakes linked to production at the nearby Groningen field.

## Dutch Quakes Rattle Exxon, Shell

Big gas field is causing tremors, exposing the energy companies to criminal probe and rising bills

BY SARAH KENT

**GRONINGEN**, Netherlands—For decades, the giant Groningen gas field beneath the flat, green farmland in the north of this country counted among the greatest prizes for **Exxon Mobil** Corp. and **Royal Dutch Shell** PLC.

Then the earthquakes started.

The exploitation of Groningen—the biggest gas field in Europe—has been causing tremors for over two decades, rattling a bucolic province with no previous history of quakes and exposing two of the world's biggest energy companies to a criminal probe and rising reconstruction bills.

Amid a public outcry, the Dutch government has imposed strict limits that have more than halved Groningen's gas production since 2013. Now, authorities are proposing another 10% cut in hopes of further reducing earthquakes. And a Dutch public prosecutor

is preparing to open a criminal investigation into responsibility for the earthquakes.

Shell and Exxon are pushing back through their joint venture, **Nederlandse Aardolie Maatschappij** BV, or NAM. The venture says cutting output even more is "out of proportion and not effective," and would create uncertainty about the legal framework for its operations. It warns that changes to the production level might threaten the business's profitability.

NAM said it is considering formally contesting the government's decision. It also expressed surprise at the Dutch court order to the prosecutor to open a criminal investigation this year, because the authorities had previously found no grounds for such action. The state will make a decision on whether to prosecute once the investigation is complete.

Groningen was expected to be one of the world's largest gas producers for decades to

### Shaken

Output at the Groningen gas field, where earthquakes have led to forced production cuts

60 billion cubic meters

come. Last year, it made up almost 10% of both Exxon and Shell's total gas production globally and its reserves are among the companies' largest undeveloped resources.

Moreover, the field's profits have been lucrative for the Dutch government, which not only collects taxes from NAM

but is also a 40% stakeholder in the field. Since production began, the field has generated almost €300 billion (\$336 billion) for Dutch coffers.

Exxon named restrictions on Groningen as a factor contributing to a nearly 4% decline last year in its global natural-

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## Takata Approaches Bankruptcy Filings

By MIKE SPECTOR

Takata Corp., the supplier of rupture-prone air bags linked to numerous deaths and injuries, was preparing to seek bankruptcy protection as soon as Sunday with a tentative deal to sell operations to a rival, people familiar with the matter said.

The twin bankruptcy filings were expected to occur around the same time, though technically on separate days given the differing time zones involved, the people said. Takata's board was expected to convene over the weekend to review and approve the plan, the people said.

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Takata has an agreement in principle to sell the bulk of its assets for roughly \$1.6 billion to Key Safety Systems Inc., a rival Michigan supplier owned by a Chinese company, Ningbo Joyson Electronic Corp., the people said.

The deal, expected to be consummated through U.S. bankruptcy proceedings, would essentially carve Takata in two. Key Safety would assume Takata's main operations while leaving behind liabilities tied to the Japanese company's air bags.

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## BUSINESS NEWS

# Hollywood Scores Overseas

Americans lose interest in big sequels, though, cutting into studios' bottom lines

BY BEN FRITZ  
AND ERICH SCHWARTZEL

LOS ANGELES—Hollywood's most important movies are posting big numbers this summer—in all the wrong places.

American moviegoers are losing interest in some of Hollywood's biggest franchises, depriving studios of their most profitable ticket sales even as international audiences in some foreign markets keep showing up.

ies, which regularly cost more than \$200 million to produce and are expected to serve as studios' biggest moneymakers. A poor showing in the U.S. no longer necessarily discourages studio executives from approving yet another installment in a long-running series, if enthusiasm from overseas moviegoers is high enough.

But where grosses originate can have a major impact on studios' bottom line.

Studios keep about 60% of every dollar spent on movie tickets for major hits in the U.S., compared with less than half in many foreign countries and just 25% in China. In addition, China and other developing nations have far smaller

leased "Transformers." The movie's dismal domestic opening is 31% below the last installment of the series, released in 2014 over four days. Its global gross stands at \$265 million.

"Fast" grossed less domestically than the previous two movies in the auto-adventure series, while the new "Pirates" and "Mummy" were the worst performers yet in their franchises.

Together, the three movies have grossed a disappointing \$454 million in the U.S. and Canada but a total of \$1.79 billion overseas, with \$654 million coming from China alone. Previous films in each franchise earned a higher

Asia and Latin America.

Lower profits from ticket sales are partially offset by cheaper marketing expenses in other countries, said Ms. Colligan.

Studios often have only a few weeks to market a movie in China, as opposed to many months in the U.S. China also offers digital promotions that cost millions less than state-side campaigns.

Studios are rethinking their creative approaches to future sequels in hopes of reviving interest among Americans in light of the recent box-office flops. In addition, some fear that audiences in foreign countries such as China will soon grow as weary of these long-running franchises as Westerners have.

For American audiences, many of these franchises are too familiar, as are stars like Mr. Cruise of "The Mummy" and Johnny Depp of "Pirates," say studio executives.

"Sequels are greeted with a little bit of cynicism in this country," said Ms. Colligan. "People are looking for something that really reimagines what they're expecting and yet they want the things that are very familiar to them."

In China, it might help that only about 34 foreign films, most of them from Hollywood, play each year.

"There is a real bubbling enthusiasm for American films, in part because they only get a small slice of them," said Mr. Clark.

"Fate of the Furious" is only the third movie in the long-running series to play in China, as is "Pirates of the Caribbean: Dead Men Tell No Tales."

A few big movies this year, including remakes, sequels, and comic book adaptations, have performed well everywhere and bucked the trend. "Beauty and the Beast," "Guardians of the Galaxy Vol. 2" and "Wonder Woman" are all major hits domestically while also earning robust revenue internationally.



Ducati is renowned for its prizewinning racing motorbikes.

## Harley in Talks to Buy Volkswagen's Ducati

BY WILLIAM BOSTON

BERLIN—**Harley-Davidson** Inc. is in talks to buy **Ducati Motor Holding** SpA from Germany's **Volkswagen** AG in a deal that could bring together two of the most storied motorcycle names and pave the way for further divestments by the German car maker.

The talks are still in very early stages and aren't exclusive, people familiar with the situation said. Audi, the luxury Volkswagen brand that owns Ducati, commissioned investment bank **Evercore** to begin floating a potential sale of the boutique motorcycle maker to investors in March, according to the people, and is seeking as much as €1.5 billion (\$1.68 billion).

Harley-Davidson, an iconic symbol of U.S. postwar culture, appears to be seriously considering a bid, these sources said. They said the company had engaged **Goldman Sachs Group** Inc. and visited Ducati's plant and management in Bologna, Italy, in early May.

A spokeswoman for Harley-Davidson said the company never comments on market speculation.

Volkswagen declined to comment. Goldman Sachs didn't respond to requests for

comment.

One of the most technically advanced motorcycle makers in the industry, Ducati is renowned for its prizewinning high-performance racing motorbikes.

Harley-Davidson, whose bikes are known as hogs, faces an aging baby-boomer customer base and is eager to expand its business.

Ducati sold 55,451 motorcycles in 2016, an increase of 1.2% from the previous year. Audi doesn't publish Ducati sales or earnings.

The Italian brand is a small part of the Volkswagen empire, but analysts say a sale could generate momentum for further streamlining, including the much-awaited public offering of the company's truck business that includes the MAN and Scania brands.

Arndt Ellinghorst, an analyst at Evercore ISI, a London-based brokerage, said "a deal would serve to increase our conviction that VW will carve out its trucks business, a much larger piece of the pie."

Andreas Renschler, head of the truck business, has said repeatedly that spinning off the business was an option but that no decision had been made.

—Andrew Tangel in Chicago contributed to this article.



'Transformers: The Last Knight' stumbled in the U.S., with a franchise-low debut of \$69 million.

"Transformers: The Last Knight" became the latest example of the lopsided performance this weekend, disappointing stateside with a five-day, franchise-low debut of \$69 million while collecting a franchise-best \$123.4 million in China. Its box-office sales follow a pattern set this year by the eighth "Fast and Furious," fifth "Pirates of the Caribbean" and Tom Cruise's reboot of "The Mummy," all of which performed similarly at the box office.

Such results have become the norm for some of Hollywood's so-called tentpole mov-

DVD, digital and television businesses that can generate ancillary revenue.

"The amount that comes back to the studio changes dramatically, so while the global number can look pretty good, the math of it isn't the same," said an executive at one studio experiencing the phenomenon.

"There's real impact to what that [international] business brings to the overall profitability of a movie," said Megan Colligan, president of world-wide marketing and distribution at Viacom Inc.'s Paramount Pictures, which re-

portion of their global box office from domestic ticket sales.

"The franchise fatigue we're seeing in some other markets isn't so prominent in China," said Duncan Clark, president of international distribution for Comcast Corp.'s Universal Pictures, which released "Fast" and "The Mummy." China is the world's second-largest box-office market.

The mix of foreign ticket sales is changing too, with grosses typically falling in more mature markets like Europe and Australia but staying strong, or growing, in East

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A few big movies this year, including remakes, sequels, and comic book adaptations, have performed well everywhere and bucked the trend. "Beauty and the Beast," "Guardians of the Galaxy Vol. 2" and "Wonder Woman" are all major hits domestically while also earning robust revenue internationally.

## Glencore Lifts Rio Coal Offer

BY TAPAN PANCHAL

LONDON—**Glencore** PLC said Friday it has submitted a sweetened all-cash offer of \$2.68 billion for **Rio Tinto** PLC's Australian coal assets, days after its previous attempt to scotch an acquisition by a Chinese suitor was rejected.

The Anglo-Swiss mining-and-commodities trading giant said its bid for **Coal & Allied Industries** Ltd., which includes a royalty linked to coal prices, is fully funded and is at least \$225 million greater than an offer made by **Yancoal Australia** Ltd., a unit of China's **Yanzhou Coal Mining** Co.

Anglo-Australian mining company Rio Tinto last Tuesday rebuffed a \$2.5 billion offer Glencore made earlier this month and recommended that shareholders approve Yancoal's \$2.45 billion bid, in part because it expects to complete the deal faster than one with Glencore.

Glencore also offered Rio Tinto a \$225 million deposit to be forfeited if the transaction proves unable to obtain regu-

latory approval.

Rio Tinto said Friday its board will consider Glencore's proposal and provide an update ahead of its general meeting on Tuesday.

Friday's raised offer from Glencore further demonstrates the renewed appetite for deal-making by Chief Executive Ivan Glasenberg almost two

Rio Tinto rebuffed an earlier Glencore offer and backed a rival bid from Yancoal.

years after the Switzerland-based commodity giant experienced a downward spiral in share price.

Since the company's stock recovered, Mr. Glasenberg has engineered the purchase of a stake in Russian state oil company PAO **Rosneft**, taken full control of a Congolese mine and made an offer to take over agricultural trader **Bunge** Ltd.

Mr. Glasenberg has long coveted Rio Tinto's coal assets because they sit near some of Glencore's Australian coal operations, offering opportunities for cost savings were they to merge.

"The probability of Glencore gaining these assets has increased in our view," RBC Capital Markets said in a note on Friday.

A Glencore takeover of Rio's coal assets would hand more control to a company that is already one of the biggest coal traders in the world. Rio has touted Yancoal's approval from regulators in China, a voracious consumer of coal.

In its news release announcing its higher offer, Glencore suggested that Rio's concerns about Chinese regulatory approvals—which Yancoal already has—are overblown. Chinese antitrust regulators have flexed their muscles on mining deals in recent years but Glencore said it is "reasonably confident" the Rio assets up for sale represent less than 1% of China's seaborne imports.

## BUSINESS WATCH

SAMSUNG BIOEPIS

### Version of Humira Is Near Green Light

A Samsung group arm is on track to win European regulatory approval for a near-replica version of the world's top-selling drug, **AbbVie** Inc.'s rheumatoid-arthritis treatment **Humira**, as the South Korean conglomerate tries to shake up the pharmaceutical market.

**Samsung Bioepis** Co., the group's new biotechnology company, said in a written statement Friday that it had received a positive opinion from the European Medicines Agency for its treatment, known as Imraldi. That decision clears the way for approval from the European Commission, whose judgment typically mirrors that of the EMA.

If it gets the green light, Imraldi would represent the third Samsung-developed medication to win government approval in

PAUL BARRENA/BLOOMBERG NEWS

BlackBerry's revenue fell 41% in the firm's fiscal first quarter.

Europe and the U.S.—an unusually fast start for a five-year-old company, industry analysts say.

All three Samsung treatments are close imitations of rheumatoid-arthritis drugs that rank among the world's biggest sellers.

—Timothy W. Martin  
and Jonathan D. Rockoff

BLACKBERRY

### Revenue Tumbles; Stock Price Slides

**BlackBerry** Ltd. stock plunged 11% on Friday after the company posted a steep drop in quarterly revenue as it seeks to shift focus to its software business.

The Canadian software and device company posted a net profit of \$671 million, or \$1.23 a share, for its fiscal quarter ended May 31. On an adjusted basis, excluding certain items, BlackBerry posted earnings of 2 cents a share. A year earlier, the company incurred a loss of \$670 million, or \$1.28 a share.

Overall first-quarter revenue fell 41%, to \$235 million, from \$400 million a year earlier. Revenue for the fiscal fourth quarter totaled \$286 million. BlackBerry said it generated \$160 million in software and services revenue, compared with \$142 million a year earlier.

—David George-Cosh

5,000  
delegates

500  
CEOs

50  
ministers

650 EXPERT SPEAKERS  
INCLUDING



H.E. Berat  
ALBAYRAK

Minister of Energy  
and Natural  
Resources, Turkey



H.E.  
Mohammad  
Sanusi  
BARKINDO

Secretary General,  
OPEC



Ben van  
BEURDEN

CEO, Shell, the  
Netherlands



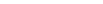
Fatih Birol

Executive Director,  
International  
Energy Agency  
(IEA)



Bob DUDLEY

CEO, BP, United  
Kingdom



Amin H.  
NASSER

President and Chief  
Executive Officer,  
Saudi Aramco,  
Saudi Arabia



Rex TILLERSON

Secretary of State  
for the USA



H.E.  
Alexander  
Valentinovich  
NOVAK

Minister of Energy  
of The Russian  
Federation



Patrick  
POUYANNÉ

CEO, TOTAL,  
France



H.E. Shri  
Dharmendra  
PRADHAN

Minister of  
Petroleum and  
Natural Gas of India



Dr Jozef  
TÓTH

President, World  
Petroleum Council



Darren W.  
WOODS

Chairman & CEO,  
ExxonMobil, USA



Daniel  
YERGIN

Chairman, IHS  
Cambridge  
Energy  
Research  
Associates, USA

See All Speakers at [WWW.22WPC.COM](http://WWW.22WPC.COM)



## TECHNOLOGY

WSJ.com/Tech

# SpaceX Aims for Back-to-Back Launches

By ANDY PASZTOR

Elon Musk's SpaceX on Sunday was seeking to complete a two-day, bicoastal demonstration of launch capability, finishing its second unmanned mission since Friday in what would be the high-water mark for the company's operational prowess.

After using previously flown main engines to blast a Bulgarian telecommunications satellite into orbit Friday from a Florida launchpad, the closely held company was slated Sunday afternoon to use a California Air Force base to

send a batch of 10 smaller satellites into space for **Iridium Communications Inc.** Iridium is SpaceX's largest commercial customer.

If successful, Sunday's blastoff would mark the shortest time between launches in SpaceX's history.

As the ninth launch of 2017, it also would represent a record for annual launches by the company, officially called **Space Exploration Technologies Corp.** It launched successfully eight times in 2016, before an explosion during routine ground testing temporarily grounded the Falcon 9 fleet.

SpaceX has rebounded strongly since that accident, alleviating many of the reliability concerns expressed privately by government and industry officials.

But perhaps more than any previous benchmark, the weekend's activities were expected to provide the strongest sign yet that SpaceX is on track to overcome years of nagging schedule slips by continuing to ramp up its launch tempo.

The main portion of the rocket that flew Friday made a successful vertical landing on a floating platform, a once-unimagined feat that is increas-

ingly becoming a routine ending for SpaceX launches. Sunday's mission also was slated to feature such a return.

With an aggressive summer and fall launch schedule, SpaceX officials are looking to rack up a total of roughly two dozen launches by the end of the year. Previous internal projections showed as many as 27 launches for all of 2017, nearly doubling to a total of 52 in 2019.

But the financial results of flying used boosters remain uncertain. Mr. Musk and some of his top lieutenants initially projected huge price cuts. Then SpaceX officials talked about

price reductions of slightly more than one-tenth of the \$62 million official Falcon 9 launch price tag. Internal financial documents prepared more than a year ago projected that the combination of reduced prices and refurbishment costs would trim the company's net income by roughly 20% between 2016 and 2020.

More recently, discussions about how SpaceX adjusts its launch schedule priorities—and how customers move up or down that list—have roiled rivals and industry officials tracking the company's prices and activities. Some of these offi-

cials have said that the willingness or desire to fly satellites on refurbished boosters sometimes can help selected customers speed up dates for blastoff. But other factors include contract price details, which in some cases provide an incentive for SpaceX itself to accelerate launch dates, according to one person familiar with the details.

A SpaceX spokesman on Sunday said "we determine when we launch our customers based on the dates included in their respective contracts and the availability of launch vehicles suited to their specific mission requirements."

## Troubled Uber Hurries To Prevent a Staff Exodus

By GREG BENSINGER  
AND KELSEY GEE

In the days after Travis Kalanick stunned **Uber Technologies Inc.**'s more than 15,000 employees by resigning as chief executive, the company's senior leaders made impassioned pleas reassuring them it is worth sticking around.

Managers including Uber's chief technology officer, Thuan Pham, and the company's first CEO, Ryan Graves, now a senior vice president and board member, praised Mr. Kalanick and urged employees to carry on his legacy—tarnished as it may be—and to turn their focus back to work, according to emails reviewed by The Wall Street Journal.

"I don't know what tomorrow will bring, but whatever it is, we will be able to figure it out together as a team and as a company," Mr. Pham wrote in a note to engineering staff of the San Francisco-based ride-hailing company. "Our company mission and impact is too important to let it falter."

Uber's employees are at a crossroads after half a year of scandal, the exit of more than one dozen top executives and their pugnacious leader's abrupt surrender Tuesday.

Thousands of engineers, data scientists, marketers and others had stood by the brash

Mr. Kalanick over the years as Uber battled with city regulators globally on its way to becoming the world's most valuable startup, with a \$68 billion valuation. Now they have to decide whether to remain with a seemingly rudderless company in urgent need of leadership or to break loose and, for some, risk losing stock options potentially worth millions of dollars.

Months of unflattering headlines and a continuing investigation into allegations of sexual harassment and sexism at Uber have taken a toll. In interviews, some employees expressed sadness over the company's now-tainted reputation, while others said they were upset with management for allowing its dirty laundry to be aired. Some said they were hopeful Uber could restore its reputation after adopting nearly 50 changes to improve workplace culture that resulted from an internal investigation into workplace conduct by former U.S. Attorney General Eric Holder's law firm.

Some employees are standing by Mr. Kalanick. More than 1,000 signed an internal petition demanding that the board reinstate him.

"We're focused on rebuilding trust with our employees and the communities we serve,

and building a company and culture that we can be proud of," an Uber spokesman said.

Mr. Kalanick stepped down as CEO last Tuesday after two venture capitalists at Benchmark confronted him with a signed letter from the firm and four other shareholders demanding his ouster, according to people familiar with the matter. After several hours of deliberation, Mr. Kalanick relinquished his post.

His exit followed the removal or resignation in recent months of more than a half-dozen direct reports and a number of other managers, including the heads of finance, operations, business, marketing and communications. A committee of 14 executives now runs Uber—an unwieldy structure for a company that centralized power and encouraged a confrontational management approach called "toe-stepping." Uber plans to revise its core values.

On Thursday, the board met for the first time with three new directors and discussed the CEO search, an Uber spokesman told the Journal. Underscoring the urgency, the board has discussed a time frame of about six weeks for finding a new CEO, according to people familiar with the matter.

Some employees said the



A passenger getting into an Uber vehicle at LaGuardia Airport in New York City this past March.

uncertainty has made it hard to work, especially as they have watched co-workers pack up their belongings. Others said they are considering leaving, fearful that Uber could struggle to raise new funds. On the other hand, some worry about missing out on a big payday if they leave before their stock options fully vest, which takes four years, or before a reinvention of the company culture.

"People are leaving because they feel like it's on fire," said Nora Hamada, a recruiter with Mirus Search, who said she has helped a handful of Uber

employees find work at other startups.

Uber employees once were considered almost unpoachable because of hefty equity stakes and Uber's rocketing growth, tech recruiters said. Now, some employers are wary of hiring Uber employees out of concern they could bring the culture with them, recruiters said. One executive at a startup that has hired from Uber said the firm has deliberately recruited junior employees and not managers.

"There's a lot of peer pressure to quit Uber to work at a more ethical company," Ms.

Hamada said. Female employees she has spoken with in particular feel pressured by friends and peers at other tech firms to leave, she said.

"I've heard many of you mention that you're grappling with mixed emotions this week," Ann Bordetsky, an Uber business-development executive, wrote in an email Thursday to "the women of Uber." "Whatever you're feeling—surprised, nostalgic, optimistic, sad or unphased [sic] (maybe all that and more)—we're here with you."

—Maureen Farrell contributed to this article.



## MIMS

Continued from page B1  
some levels of privacy invasion.

Apple's acquisitions—it buys a company every three to four weeks, Chief Executive Tim Cook has said—tend to be highly predictive of its future moves. Since it first bought Siri in 2010, Apple has continued to make acquisitions in artificial intelligence—Lattice Data, Turi and Perceptio among them, all of which specialize in some form of machine learning. The company is reportedly working on its own chips for AI.

Apple's preview of iOS 11, with deeper integration of Siri than ever, suggests it hopes to make Siri capable of doing nearly everything on an iPhone that we currently do through its touch interface.

Apple has also made many acquisitions related to augmented reality—the overlay of computer interfaces and three-dimensional objects on a person's view of the real world—including PrimeSense and Metaio. Mr. Cook has said he is so excited about

AR he wants to "scream."

By 2027, the problem of bulky AR headsets like Microsoft's HoloLens should be solved, which means Apple and others are likely to release some sort of smart eyeglasses. With their ability to convincingly supplement our visual and auditory reality, delivering information at the time and place most appropriate, they'll occasion a cultural change as big as the introduction of the smartphone itself.

Augmented reality and artificial intelligence will also benefit from the Internet of Things trend: everyday gadgets get sensors, actuators and a wireless internet connection. Apple controls smart-home products with HomeKit. It aggregates health information with HealthKit, and ties in the car (CarPlay), cash register (Apple Pay) and even the StairMaster (GymKit).

With our every action mapped to every outdoor and indoor space we inhabit—combined with the predictive power of AI and distributed across a suite of devices for which Siri has become the default interface—the result could be a life directed by our gadgets.

## Google Pay Ruling Draws Near

By JACK NICAS  
AND YOREE KOH

Google, which has long portrayed itself as one of the world's best workplaces, faces government accusations that it underpays women and is resisting pressure to turn over salary data to disprove them.

The U.S. Labor Department sued Google in January after the company refused to submit 19 years of pay data for more than 21,000 employees for a routine audit into its pay practices. The department needs more Google salary data because an initial review of 2015 figures "found systemic compensation disparities against women pretty much across the entire workforce," according to testimony from a Labor Department official in April.

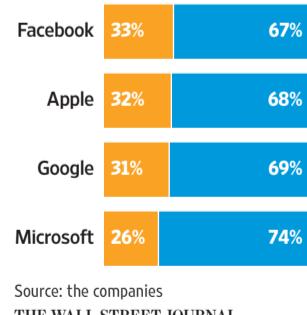
Google, a unit of **Alphabet Inc.**, says its annual salary analyses show no gender pay gap among its 74,000 employees. "So we were quite surprised" by the Labor Department's accusations, "which came without any supporting data or methodology," Google said in an April blog post. Google has declined to release

the numbers behind the company's analyses.

Google argued the Labor Department's request was overly broad, a violation of its employees' privacy and costly to comply with. An administrative law judge at the Labor Department is expected to rule soon. The department can investigate Google because the company provides advertising and cloud services for the federal government.

### Gender Divide

Gender breakdown at top technology companies



Source: the companies  
THE WALL STREET JOURNAL.

Generous compensation and perks have made Google one of the world's top places to work. But the company's resistance to release more pay data has further ensnared it in a larger debate about whether women and some minorities have the same shot at success in tech as the white and Asian men who dominate the industry.

Google says "Trust us, there is no gender pay gap. We've got everything under control," said Natasha Lamb, managing partner at Arjuna Capital, a boutique investment firm that has pressed technology companies to release salary information.

"A trust-us approach is no longer helpful or useful when other companies are disclosing the data," she said. "It makes it look like they have something to hide."

Google said it has provided the Labor Department with two years of data among 740,000 pages of documents. The department hasn't filed formal charges of pay discrimination against Google, and it is unclear if it will. The Labor Department didn't respond to a request for comment.

## Google to Quit Mining User Emails

By JACK NICAS

Google said its computers will soon stop reading the emails of its Gmail users to personalize their ads, a move that addresses a longstanding privacy concern about a product that is central to its growing corporate-services business.

The core unit of **Alphabet Inc.** has mined users' emails for personal data to serve them more relevant ads since it launched Gmail in 2004, which almost immediately sparked privacy concerns.

On Friday, the company said it would stop the practice later this year to align its free Gmail service with its corporate offer-

ing. Corporate Gmail already doesn't mine emails for information, but Google's business model of collecting user data generally has added to concerns about privacy that complicate its effort to sell more technology to corporations.

Google says that unlike with its free, advertising-supported services for consumers, it doesn't mine corporate clients' data for advertising. "Google's [corporate] customers own their data, not Google," the company said in an online post. Google is betting that selling online services, including Gmail, to other companies and hosting firms' data and systems on its computers can

one day surpass the revenue of its advertising business.

Google doesn't report revenue for its cloud business, but the nonadvertising segment that it is part of grew 41% to \$10 billion last year. Google is increasing its sales push in that cloud industry to catch up to market leaders **Amazon.com Inc.** and **Microsoft Corp.**

Google's practice of scanning emails for user data also is the subject of a U.S. federal lawsuit that accuses the company of violating privacy laws by scanning emails of non-Gmail users. A federal judge rejected a proposed class-action settlement in the case in March, saying it didn't go far enough.

## FINANCE & MARKETS

# Surviving a Gas Bust and Making a Billion

Family behind Rice Energy's founding a decade ago set for big payoff in sale to EQT

BY RYAN DEZEMBER  
AND TIMOTHY PUZO

Eighteen months ago, the Rice family was pressured to sell shares in their family gas company at all-time-low prices as the natural-gas market tanked.

Now the Rice family is selling again. But this time, it is the entire company, and under much more favorable circumstances.

Last week, rival Appalachian gas producer EQT Corp. said it would buy Rice Energy Inc. for \$6.7 billion in a deal that is poised to deliver more than \$1 billion to the family, whose members make up much of Rice's management and control roughly 18% of the company's shares, according to securities filings.

The merger, which will create one of the U.S.'s largest natural-gas producers, shows how the shale boom continues to mint great fortunes even after the bounty of oil and gas around the world has depressed energy prices.

With gas in particular, timing is everything. Prices for the fuel, which is used in heating and to generate electricity, are prone to wild swings as unpredictable as the weather.

In late 2015, the warmest



Traders on the NYSE floor awaited the IPO of Rice Energy in 2014.

winter on record pulled down gas futures to all-time, inflation-adjusted lows, dragging down Rice's stock. To avoid a margin call, the family sold shares they had borrowed against. Had they been able to hang on to those five million shares, the family would now be nearly \$100 million richer.

Under terms of the EQT deal, Rice shareholders are due \$5.30 in cash and about one-third of an EQT share. Based on EQT's closing stock price the day before the deal was announced, that equates to about \$27.05 for every Rice share.

Still, the family is likely one of the gas boom's biggest winners just a decade after Daniel Rice III and his sons created the company from scratch.

Their expertise in oil and coal helped them scout for land in the early days of the shale-gas boom in Pennsylvania.

Mr. Rice honed his expertise at BlackRock Inc., where he was a mutual-fund manager specializing in energy, when his family started the gas company. One early move was a deal to drill in areas controlled by a coal company that Mr. Rice's BlackRock fund invested in.

After the arrangement was brought to light by The Wall Street Journal, Mr. Rice resigned. Rice executives declined to comment and Mr. Rice, who is now a Rice board member and a portfolio manager for Boston money manager GRT Capital Partners LLC., didn't respond to requests for comment.

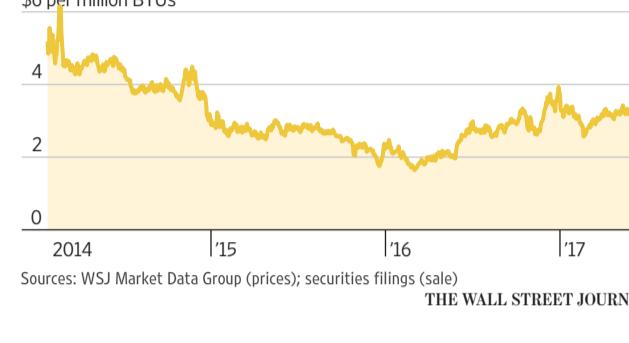
### Reversal of Fortune

Rice Energy's founding family is poised to reap more than \$1 billion in its sale to rival EQT, after the gas producer's shares rebounded from depths that forced the family to sell stock at an all-time low.

#### RICE ENERGY SHARE PRICE



#### NATURAL-GAS FUTURES PRICE



Sources: WSJ Market Data Group (prices); securities filings (sale)

THE WALL STREET JOURNAL.

"While there were no actual conflicts of interest, BlackRock and I both understand the desire to avoid even the appearance of one," he said at the time.

Although Mr. Rice played a large role in funding and founding the company, he largely left management to three of his sons, who are in their 30s. Daniel Rice IV is its chief executive. Toby is operations chief, and

Derek is executive vice president of exploration.

Their younger brother Ryan works there as a petroleum engineer, according to the company's proxy. Toby's wife, Aileen, is vice president of land.

Toby was the first to move to Pittsburgh, while he was still in his 20s. He started the company from a downtown apartment working with a former classmate from Texas A&M

University who was an early partner.

One early success came from the deal with coal miner Alpha Natural Resources Inc. Then expansion into Ohio accelerated the company's growth. Drilling rights it scooped up there turned out to be in the heart of the Utica Shale, another gas-rich formation under the more popular Marcellus.

The company did an initial public offering in 2014, debuting with a 4% gain over its IPO price of \$21 a share. The family owned a third of the company's shares at the time, and the offering valued them at \$900 million. Those shares ran up another 50% in gains by that summer when Rice announced a historic find.

It drilled a Utica well called Bigfoot 9H that by one measure ranks among the most successful in U.S. history. It hit an initial production of 41.7 million cubic feet a day, enough to power every home in Pittsburgh for 36 hours.

When coal miner Alpha Natural filed for bankruptcy protection and sold some assets at an auction, the Rice brothers showed up wearing Mickey Mouse T-shirts and shorts underneath blazers. It was a classic example of how the brothers challenged an often-staid industry, said Kevin Crutchfield, former chief executive at Alpha Natural. "It was a very millennial outfit," he said. "They worked, when needed, insanely hard, but they were also very playful."

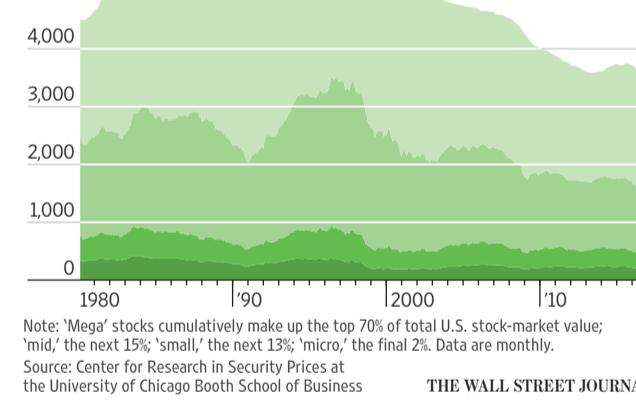
INTELLIGENT INVESTOR | By Jason Zweig

## As Stocks Evaporate, Strategies Must Shift

### Where Have All the Stocks Gone?

Since 1980, and especially since the late 1990s, the total number of U.S. stocks has fallen. The count has declined the most among the smallest stocks.

#### Number of U.S. stock listings, by market capitalization



Note: 'Mega' stocks cumulatively make up the top 70% of total U.S. stock-market value; 'mid,' the next 15%; 'small,' the next 13%; 'micro,' the final 2%. Data are monthly.

Source: Center for Research in Security Prices at the University of Chicago Booth School of Business

in his view, values become attractive again. He doesn't expect recent conditions to be permanent.

The evaporation of thousands of companies may have one enduring result, however, and it could catch many investors by surprise.

Most research on historical returns, points out Mr. Mauboussin, is based on the days when the stock market had twice as many companies as it does today. "Was the population of companies so different then," he asks, "that the inferences we draw from it might no longer be valid?"

"Factor investing," also known as systematic or smart-beta investing, picks hundreds or thousands of stocks at a time based on common sources of risk and return. Among them: how big companies are, how much their shares fluctuate, how expensive their shares are relative to asset value and so on.

But the historical outperformance of many such factors may have been driven largely by the tiniest companies—exactly those that have disappeared from the market in droves.

Before concluding that small stocks or cheap "value" stocks will outpace the market as impressively as they did in the past, investors should pause to consider how they will perform without the tailwinds from thousands of tiny stocks that no longer exist.

The stock market has more than tripled in the past eight years, so the eclipse of so many companies hasn't been a catastrophe.

But it does imply that investing in some of the market's trendiest strategies might be less profitable in the future than they looked in the past.

## A 'Flash Crash' Takes The Air Out of Ether

By PAUL VIGNA

The flash crash has come to cryptocurrencies.

Ether, the digital currency used on the Ethereum platform, experienced a surge in trading last week that led to bottlenecks and at one point a "flash crash," with one exchange reporting trades as low as 10 cents for an asset that was trading above \$300 just minutes before.

While the price recovered after Wednesday's mishap, it was a reminder that Ethereum and other cryptocurrencies are still effectively under construction, and don't feature all of the protections stock and bond investors are used to.

Both Ethereum, which started in 2013, and its eight-year-old cousin, bitcoin, have garnered enthusiasm among technology buffs who see the currencies as a way to transact without middlemen like banks.

This year through Friday, bitcoin was up 185%, while Ether had skyrocketed from \$8 to \$340.

On Friday, the exchange operator at the center of the issue, Coinbase's GDAX platform, said it would credit some customers hurt by the volatility, but said it wouldn't reverse trades.

"We will establish a process to credit customer accounts which experienced a margin call or stop loss order," the company noted in a blog post late Friday.

Trading in Ethereum has been on the rise since this spring. The most recent surge in activity was driven by investor demand for an initial coin offering that overwhelmed several exchanges that trade Ethereum.

The offerings, which resemble a crowdfunding effort for digital services, have proliferated in recent months.

Some exchanges, unable to process the backlog, froze trading, and one, the GDAX platform, saw a crash sparked

by one large sell order.

Tuesday, there were a record 308,000 transactions, according to the research site Etherscan, about 10 times the volume from the start of the year.

The flash crash in Ethereum happened on Wednesday, at 3:30 p.m. EDT, when one "multimillion-dollar market sell" order was placed on GDAX, according to Coinbase's Adam White in an earlier blog post. That order sparked a cascade of about 800 automatic stop-loss orders and margin-funding liquidations, Mr. White noted.

At the end of that cascading wave, the currency briefly traded at 10 cents. Before the flash crash, it had been trading at about \$335.

There wasn't any indication that the trades were caused by any wrongdoing or fraud, Mr. White noted, and the exchange's matching engine worked as designed, even if the trades were extreme. In other words, the trades were legitimate.

"It is important to note that these trades are final in accordance with our GDAX trading rules," Mr. White wrote. "Honoring properly executed orders is critical to maintaining the integrity of an exchange."

After the 2010 flash crash in the stock market, in which the Dow Jones Industrial Average fell by nearly 1,000 points, many of the most extreme trades were reversed.

The flash crash isn't Ethereum's first bump along its road.

One year ago, a startup called the DAO raised more than \$100 million worth of ether but suffered a hack that allowed a malicious actor to direct some of the funds to a personal account.

Etherum's core founders and developers controversially unwound the DAO's entire trading history, and the currency essentially split into two, one altered and one left alone.

New York.

That's because the surviving companies tend to be "fewer, bigger, older, more profitable and easier to analyze," he says.

Consider small-stock funds. Often, they compare themselves with the Russell 2000, an index of the U.S. stocks ranked 1,001 through 3,000 by total market value.

"Twenty years ago, there were over 4,000 stocks smaller than the inclusion cutoff for the Russell 2000," says Lubos Pastor, a finance professor at the University of Chicago. "That number is down to less than 1,000 today."

So fund managers have far fewer stocks to choose from if they venture outside the index, the very area in which the best bargains might be found. More money chasing fewer stocks could

lead some fund managers to buy indiscriminately, regardless of value.

Eric Cinnamond is a veteran portfolio manager with a solid record of investing in small stocks. Last year, he took the drastic step of shutting down his roughly \$400 million mutual fund, Aston/River Road Independent Value, and giving his investors their money back.

"Prices got so crazy in small-caps, I fired myself," he says. "My portfolio was 90% in cash at the end, because I couldn't find anything to buy. If I'd kept investing, I was sure I'd lose people their money."

He adds, "It was the hardest thing I've ever done professionally, but I didn't feel I had a choice. I knew my companies were overvalued."

Mr. Cinnamond hopes to return to the market when,

it had lodged a request with EU authorities for changes to its statute that would allow it to exercise "a clear legal competence in the area of central clearing."

The move, a year after the Brexit vote, underlines the ECB's eagerness to supervise a vast business centered beyond the eurozone's borders.

London-based clearinghouses clear about 90% of the euro-denominated interest-rate swaps of euro-area banks and 40% of their euro-denominated credit-default swaps, according to ECB estimates.

Those figures "should give

ain's departure from the EU has lent fresh impetus to its efforts.

Britain is expected to push back hard during Brexit negotiations, which began last week in Brussels.

Responding to the EU's proposals, Mark Carney, governor of the Bank of England, warned last week against fragmenting Europe's clearing market.

"Fragmentation is in no one's economic interest," Mr. Carney said. "Nor is it necessary for financial stability. Indeed it can damage it."

—Paul Hannon in London and Emre Peker in Brussels contributed to this article.

BY TOM FAIRLESS

FRANKFURT—The European Central Bank lodged a formal request for greater powers to supervise euro-denominated clearing, stepping up a tug of war between European Union authorities and Britain over the future of the lucrative business line after Brexit.

Britain's looming departure from the EU has rekindled a debate about whether big U.K.-based clearinghouses should decamp within the bloc, given the importance of their activities for the stability of eurozone financial markets.

The ECB said on Friday that

these [clearinghouses] are for the stability of the euro," Benoit Coeuré, who sits on the ECB's six-member executive board, said in a speech last week. He argued Britain's departure from the EU made it urgent to review supervisory arrangements.

The European Commission, the EU's executive arm, proposed a plan this month that would force parts of London's clearing business to relocate within the EU.

The ECB has long pushed for a greater role in overseeing euro-denominated trades. It lost a legal battle over the issue two years ago in the EU's second-highest court, but Brit-

ain's departure from the EU has lent fresh impetus to its efforts.

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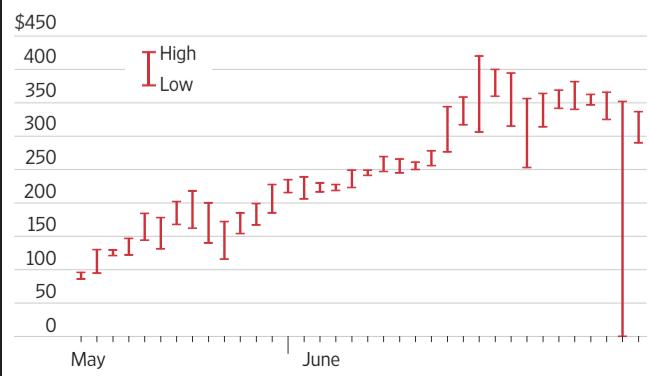
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### Sudden Shift

Ether prices, daily range\*



THE WALL STREET JOURNAL.

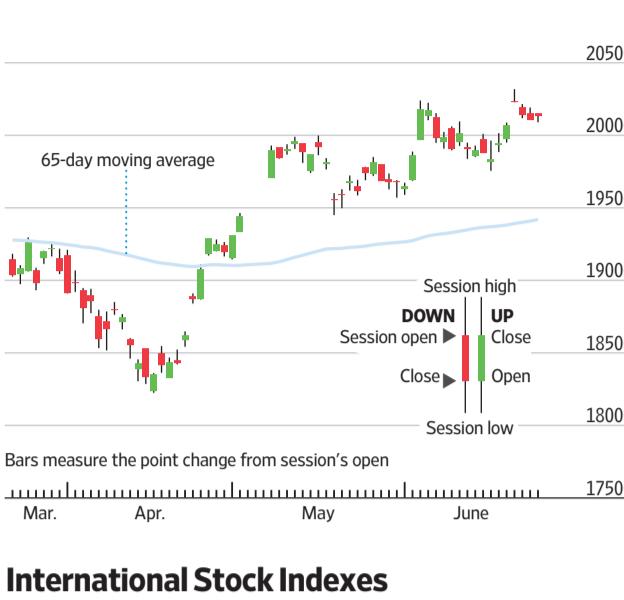
## MARKETS DIGEST

Data as of Friday, June 23, 2017

### Nikkei 225 Index

**20132.67** ▲ 22.16, or 0.11%

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

**387.62** ▼ 0.91, or 0.23%

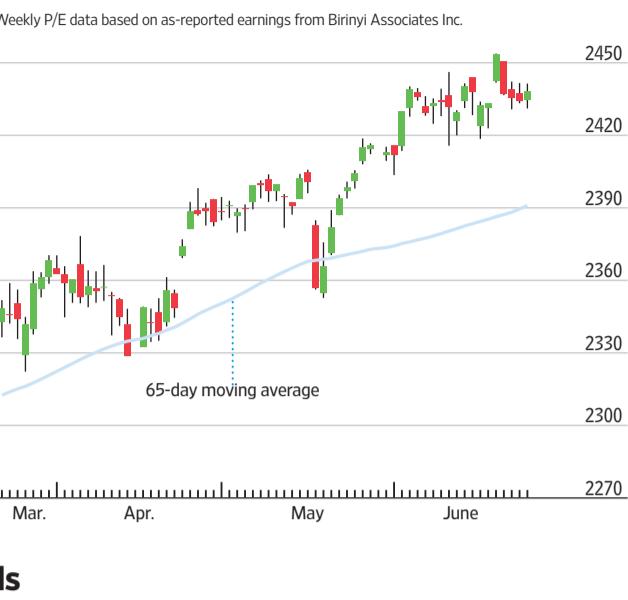
High, low, open and close for each trading day of the past three months.



### S&P 500 Index

**2438.30** ▲ 3.80, or 0.16%

High, low, open and close for each trading day of the past three months.



Data as of 4 p.m. New York time

Last

Year ago

Trailing P/E ratio

24.09

24.22

P/E estimate \*

18.76

17.93

Dividend yield

1.95

2.17

All-time high:

2453.46, 06/19/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

### International Stock Indexes

Region/Country	Index	Data as of 4 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	Close	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2769.26	4.75	<span style="color: green;">+0.17</span>	2197.91	2790.26	9.4
	<b>MSCI EAFE</b>	1889.23	3.20	<span style="color: green;">+0.17</span>	1520.94	1916.37	12.2
	<b>MSCI EM USD</b>	1011.67	2.86	<span style="color: green;">+0.28</span>	794.56	1019.06	17.3
<b>Americas</b>	<b>DJ Americas</b>	584.97	1.33	<span style="color: green;">+0.23</span>	480.83	588.47	8.3
Brazil	<b>Sao Paulo Bovespa</b>	61087.14	-185.08	<span style="color: red;">-0.30</span>	49245.53	69052.03	1.4
Canada	<b>S&amp;P/TSX Comp</b>	15319.56	99.66	<span style="color: green;">+0.65</span>	13689.79	15922.37	0.2
Mexico	<b>IPC All-Share</b>	48980.78	-36.65	<span style="color: red;">-0.07</span>	44282.03	49939.47	7.3
Chile	<b>Santiago IPSA</b>	3621.19	7.03	<span style="color: green;">+0.19</span>	3067.58	3782.66	12.3
<b>U.S.</b>	<b>DJIA</b>	21394.76	-2.53	<span style="color: red;">-0.01</span>	17140.24	21528.99	8.3
	<b>Nasdaq Composite</b>	6265.25	28.56	<span style="color: green;">+0.46</span>	4594.44	6321.76	16.4
	<b>S&amp;P 500</b>	2438.30	3.80	<span style="color: green;">+0.16</span>	2000.54	2453.46	8.9
	<b>CBOE Volatility</b>	10.02	-0.46	<span style="color: red;">-4.39</span>	9.75	25.76	-28.6
<b>EMEA</b>	<b>Stoxx Europe 600</b>	387.62	-0.91	<span style="color: red;">-0.23</span>	308.75	396.45	7.2
	<b>Stoxx Europe 50</b>	3191.74	-8.42	<span style="color: red;">-0.26</span>	2636.71	3276.11	6.0
Austria	<b>ATX</b>	3058.09	-21.75	<span style="color: red;">-0.71</span>	1988.40	3209.58	16.8
Belgium	<b>Bel-20</b>	3843.76	-9.59	<span style="color: red;">-0.25</span>	3141.13	4041.03	6.6
France	<b>CAC 40</b>	5266.12	-15.81	<span style="color: red;">-0.30</span>	3984.72	5432.40	8.3
Germany	<b>DAX</b>	12733.41	-60.59	<span style="color: red;">-0.47</span>	9268.66	12888.95	10.9
Greece	<b>ATG</b>	820.52	5.71	<span style="color: green;">+0.70</span>	519.33	827.01	27.5
Hungary	<b>BUX</b>	35599.51	-179.76	<span style="color: red;">-0.50</span>	25390.23	35989.69	11.2
Israel	<b>Tel Aviv</b>	1438.22	...	<b>Closed</b>	1378.66	1478.96	-2.2
Italy	<b>FTSE MIB</b>	20833.88	-96.38	<span style="color: red;">-0.46</span>	15103.58	21787.90	8.3
Netherlands	<b>AEX</b>	519.50	0.11	<span style="color: green;">+0.02</span>	411.62	536.26	7.5
Poland	<b>WIG</b>	60982.19	-5.14	<span style="color: red;">-0.01</span>	43549.58	62336.39	17.8
Russia	<b>RTS Index</b>	988.93	10.48	<span style="color: green;">+1.07</span>	888.78	1195.61	-14.2
Spain	<b>IBEX 35</b>	10630.80	-79.10	<span style="color: red;">-0.74</span>	7645.50	11135.40	13.7
Sweden	<b>SX All Share</b>	594.26	...	<b>Closed</b>	445.00	596.72	11.2
Switzerland	<b>Swiss Market</b>	9032.89	-18.38	<span style="color: red;">-0.20</span>	7593.20	9127.61	9.9
South Africa	<b>Johannesburg All Share</b>	51503.52	430.66	<span style="color: green;">+0.84</span>	48935.90	54548.91	1.7
Turkey	<b>BIST 100</b>	99638.65	-435.30	<span style="color: red;">-0.43</span>	71594.98	10072.15	27.5
U.K.	<b>FTSE 100</b>	7242.13	-15.16	<span style="color: red;">-0.20</span>	5982.20	7547.63	3.9
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1630.44	2.38	<span style="color: green;">+0.15</span>	1324.15	1640.63	14.6
Australia	<b>S&amp;P/ASX 200</b>	5715.90	9.90	<span style="color: green;">+0.17</span>	5103.30	5956.50	0.9
China	<b>Shanghai Composite</b>	3157.87	10.42	<span style="color: green;">+0.33</span>	2854.29	3288.97	1.7
Hong Kong	<b>Hang Seng</b>	25670.05	-4.48	<span style="color: red;">-0.02</span>	20172.46	26063.06	16.7
India	<b>S&amp;P BSE Sensex</b>	31138.21	-152.53	<span style="color: red;">-0.49</span>	25765.14	31311.57	16.9
Japan	<b>Nikkei Stock Avg</b>	20312.67	22.16	<span style="color: green;">+0.11</span>	14952.02	20230.41	5.3
Singapore	<b>Straits Times</b>	3209.47	-6.08	<span style="color: red;">-0.19</span>	2729.85	3271.11	11.4
South Korea	<b>Kospi</b>	2378.60	8.23	<span style="color: green;">+0.35</span>	1925.24	2381.69	17.4
Taiwan	<b>Weighted</b>	10377.70	-21.36	<span style="color: red;">-0.21</span>	8458.87	10399.06	12.1

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on June 23

US\$ vs. Country/currency Fri YTD chg

Country/currency in US\$ per US\$ (%)

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## FINANCE & MARKETS

# Chill in China Deal-Making

Global bankers get ready for slowdown in a lucrative business as Beijing cracks down

BY JULIE STEINBERG

Global bankers are bracing for a further chill in what had been one of their juiciest businesses—helping Chinese companies make acquisitions overseas—following news that China's banking regulator is probing some of the country's biggest deal makers.

The regulator has told domestic lenders to examine the debt levels of several highly-levered Chinese conglomerates that data tracker Dealogic estimates have made around \$60 billion in acquisitions overseas during the past few years, people with knowledge of the matter said Thursday. The list includes **Anbang Insurance Group** Co., which bought New York's Waldorf Astoria for nearly \$2 billion; **HNA Group** Co., which invested \$6.5 billion in the Hilton hotel chain; and **Dalian Wanda Group**, which bought Hollywood producer Legendary Entertainment for \$3.5 billion.

Many bankers said the probe could further dampen Chinese companies' appetite for investments abroad, which had already taken a hit after regulators, worried about capital flight, tightened oversight of big deals at the end of last year.

Some bankers said they fear the investigation will discourage cross-border deals done by companies of all sizes, and that some clients have already put deals on hold while they assess the situation. Deals that have been announced but haven't closed yet may run into trouble with regulators, one banker said.

Another concern is that if Chinese banks, which account for a large proportion of the financing for Chinese companies' overseas deals, slow or curb their lending, that will



Companies under review by Beijing include Anbang Insurance, owner of New York's Waldorf Astoria.

KATHY WILLENS/ASSOCIATED PRESS

hurt investment activity as well, said people who work in the deals world in Hong Kong.

The recent probe follows a crackdown on excessive leverage by Chinese regulators, who are concerned that ballooning debt levels could slow the economy and threaten the financial system. Because many big Chinese conglomerates

sound financial and operational situation" and fully complies with regulators in all the countries in which it operates.

"Many have been surprised at the amount of debt these conglomerates have been able to take on and the willingness of Chinese banks to lend," said Michael DeSombre, a Hong-Kong based partner at Sullivan & Cromwell LLP. The regulator's actions are a "natural follow-on in terms of things getting out of hand with large-scale leverage and willingness to go buy things."

China's outbound deal volume, which hit a record last year, has already slumped following the tightened capital controls implemented at the end of 2016. Chinese deal makers have announced overseas investments of \$69.77 billion so far this year, versus \$128.8 billion a year earlier, according to data from Dealogic. Bankers say some of the more outlandish deals, or those that don't align with the buyer's core businesses, haven't been coming to market since December.

Some bankers applauded

the move to investigate the prominent Chinese deal makers, saying such scrutiny would help overhaul a debt-ridden system that could be exposing banks to trouble. One banker said he was surprised regulators hadn't acted earlier, and that the current exercise is a "sanity check" for companies with complicated and opaque balance sheets.

Others say they hope to offset any loss of revenue from slowing Chinese deal-making by focusing on other business opportunities, such as helping Chinese companies go public in the U.S., or expanding M&A work elsewhere in the region.

# Asian Fund Does Its First U.S. Purchase

BY JULIE STEINBERG

A Hong Kong-based private-equity fund co-founded by one of China's best-known investment bankers is making its first acquisition in the U.S., in a deal that shows China's continued appetite for overseas assets despite recent hurdles.

**AGIC Capital**, a \$1 billion fund co-founded in 2015 by veteran China banker Henry Cai, said it would acquire **Ritedose Corp.**, a Columbia, S.C.-based pharmaceutical manufacturer, from U.S. private-equity firm **Olympus Partners** in a deal worth between \$600 million and \$800 million, including debt. Chinese pharmaceutical company **Humanwell Healthcare (Group) Co.** will take a minority position, AGIC said.

The deal could be announced as soon as Monday.

The deal marks an expansion to the U.S. in investments for AGIC, whose chairman, Mr. Cai, became known for arranging some of the first listings of private Chinese companies in Hong Kong, including Tsingtao Brewery Co. in 1993. Mr. Cai previously worked at Deutsche Bank AG and UBS Group AG and founded AGIC with partners in Germany. He initially aimed the fund at investments in European companies. AGIC looks for smaller or midsize companies with technology that could be helpful for Chinese industry.

AGIC, which counts Chinese sovereign-wealth fund **China**

**Investment Corp.** as an investor, was part of a consortium including China National Chemical Corp. that agreed last year to buy Germany's Krauss-Maffei Group, a maker of equipment that processes plastics and rubber, for \$1 billion.

AGIC's planned purchase of Ritedose follows stricter scrutiny of China's overseas deals by regulators, who are trying to curb runaway debt levels and keep money from flowing out of the mainland. Chinese regulators late last year tightened rules on the sorts of deals that can get done, and earlier this month asked commercial banks to review loans made to a handful of particularly aggressive conglomerates, The Wall Street Journal reported last week.

Chinese outbound acquisitions have fallen this year from last year's record levels.

Sam Sun, AGIC's head of greater China, said he believes the Ritedose purchase will get Chinese regulatory approval because it is strategic and the amount of onshore cash involved "is not that significant."

The deal will be funded by a mixture of debt and equity, with debt financing from a U.S. lender and equity largely in U.S. dollars, with a small portion from cash from mainland China, Mr. Sun said.

Ritedose specializes in a manufacturing process for liquid-filled containers that is known for lessening the likelihood of contamination.

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# MARKETS

THE DAILY SHOT | By Lev Borodovsky

## A Turning Point for Commercial Property

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Commercial real-estate prices are starting to roll over after reaching record highs, capping a long postcrisis rally. While there is no sign that a decline would mean imminent danger for the economy, Federal Reserve Bank of Boston President Eric Rosengren recently warned that valuations represent a risk he

"will continue to watch carefully."

So far, prices have proven resilient, reflecting in part the unexpected 2017 decline of interest rates and the rising capital flows from diverse sources such as U.S. pensions and overseas investors.

Even so, capitalization rates, reflecting the expected

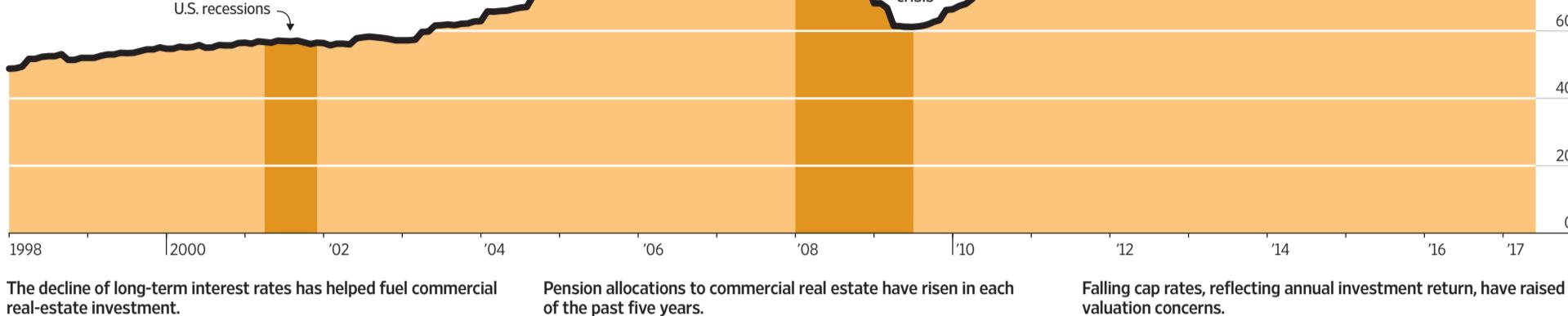
annual income generated by a property as a share of its purchase price, have fallen substantially in recent years, squeezing landlords and potentially increasing the sector's vulnerability to a market shock or economic downturn.

Some analysts expect prices to decline further, as

sales activity slows and banks pull back on lending. Those concerns, together with the headlong retreat this year of many retail firms, have helped pressure shares of real estate firms and related investment trusts. The question for investors is how fully these risks are appreciated now.

Prices have receded after a plateau

Commercial Property Price Index,  
major sectors (2007=100)



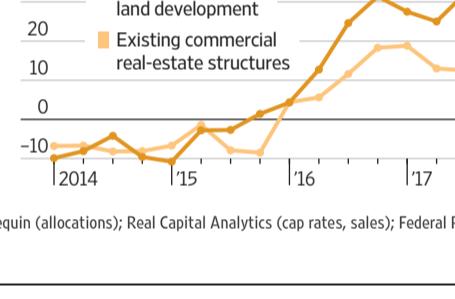
The decline of long-term interest rates has helped fuel commercial real-estate investment.



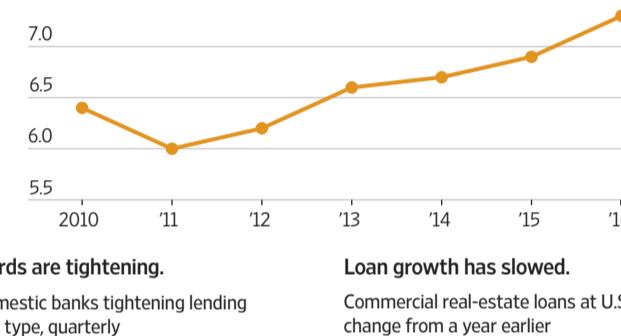
Sales are softening.



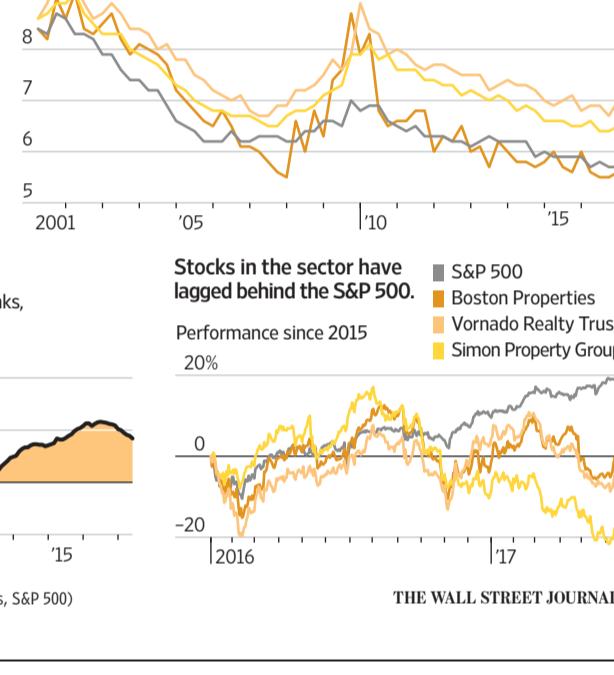
Lending standards are tightening.



Pension allocations to commercial real estate have risen in each of the past five years.



Falling cap rates, reflecting annual investment return, have raised valuation concerns.



Sources: Green Street Advisors (price index); Tullett Prebon (yield); Prequin (allocations); Real Capital Analytics (cap rates, sales); Federal Reserve (lending standards and growth); FactSet (stocks, S&P 500)

THE WALL STREET JOURNAL.

## HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

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## Sometimes It Pays Not to Invest

In a world where many markets look expensive, putting cash to work is hard. Simply hanging on to more of it might be a good idea.

That is particularly the case after the first half of 2017 has delivered good results across the board. Most strikingly, both bonds and stocks are up. The MSCI World index of developed-market stocks is up 9.7% so far this year, while long-dated bonds are also partying, with the 30-year Treasury yield falling around 0.25 percentage point to just 2.73%, boosting prices. Corporate-bond yield spreads are back to their tightest levels since the global financial crisis.

Yet falling bond yields and rising equity markets are sending conflicting signals. The former reflects the lackluster picture for inflation, the latter hopes for growth. Bond yields are still ultralow, while equity valuations are high, with the S&P 500, for instance, trading for 17.6 times forward earnings. This disconnect only can hold if

these need re-examining.

There are several ways to measure how banking capacity has changed. The number of licensed banks has fallen in both the U.S. and European Union since 2007—by almost 30% in the former but by just 16% to the end of 2015 in the latter, according to the latest data.

This hasn't necessarily reduced capacity. The number of branches per 100,000 people has barely changed in the U.S., Japan and much of Europe, according to The World Bank. Spain has had a big decline, but still has far more branches than Italy and twice the number per head of the U.S.

Support measures and regulations to protect the financial system that have been put in place since the financial crisis are propping up banks that in normal times would shrink, close down or get bought. Some of

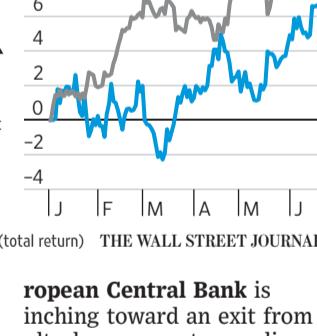
these need re-examining.

### Slim Pickings

Output gap as a share of potential gross domestic product



### Total return



the path of global growth and inflation don't change markedly. The jury is out on what happens from here. Hopes of a fiscal bump to growth led by the U.S. have faded, while the recent fall in oil prices may cause worries about headline inflation.

More significantly, perhaps, the flood of global central-bank liquidity that has supported markets is past its peak. The Federal Reserve is raising rates, and the Eu-

ropean Central Bank is inching toward an exit from ultraloose monetary policy.

While policy makers don't want to shock markets,

global output gaps are closing.

The need for monetary largesse is therefore no longer as clear-cut as it was.

In this environment, faced with unappetizing initial valuations, not investing might be a valid strategy.

Building up cash doesn't reflect a particular fear that

a big shock, like a new recession, is about to hit. And there are still pockets in

markets where the picture is fundamentally brighter, such as in European equities or in emerging markets. Instead, it is a tactical play—selling some assets and raising cash here is about locking in profits and creating room for maneuver. There have been big opportunities even as markets have continued their broad upward journey. Think of the U.S. high-yield-bond selloff that started in 2015, and the swoon in stocks in early 2016, as oil cratered.

Or think of when bond yields rose in the wake of Donald Trump's election. Those turned out to offer attractive buying opportunities as markets rebounded—if investors had cash to exploit them.

Different types of investors vary in their ability to keep dry powder, of course.

The catalyst for deploying it isn't clear either. But after a strong first half, raising cash to invest at higher yields or lower prices appears wise.

—Richard Barley

## OVERHEARD

## Change Afoot For Markets In the U.K.

One year on from the Brexit vote, discerning the U.K.'s future outside the European Union is still difficult.

Markets distilled things into a more straightforward proposition: For much of the past year, Brexit has been bad for sterling but good for the FTSE 100 stock index. That might be changing.

Sterling has been the key barometer of the U.K.'s fortunes. The more disruptive the prospect of Brexit appeared to be, the more the pound fell. But that was good news for the FTSE 100, home to multinational companies whose foreign earnings are inflated by a weaker pound.

Sterling and stocks, which were uncorrelated before the vote, became negatively correlated. Sterling has made a big difference to returns: In local-currency terms, the FTSE 100 is up 17% since the vote; in dollar terms, it is little changed.

But things might not be so simple now. Sterling is up 3% against the dollar this year.

Last week saw a new underpinning emerge for the currency with a surprising shift toward tighter monetary policy from a number of Bank of England rate-setting officials.

Uncertainty around Brexit means sterling faces challenges in marching higher from here, but the currency tailwind for the FTSE 100 has faded.

Eurozone stocks have fared better as political risks on the Continent have declined and growth has accelerated. International investors may bypass the U.K. if they are coming to Europe.

The clock is now ticking on the Brexit talks, and the hard yards lie ahead. For U.K. stocks and sterling, it may not be such a simple equation.

—Richard Barley

## Why Failure Would Be a Virtue in Europe's Banking System

Profitability is still a struggle for many banks, especially outside the U.S.

It isn't just about high capital requirements, low interest rates or poor investment activity. It is also about overcapacity: There are simply too many banks.

One big reason is that policy makers, perhaps unwittingly, have created barriers to exit, according to the Bank for International Settlements.

Support measures and regulations to protect the financial system that have been put in place since the financial crisis are propping up banks that in normal times would shrink, close down or get bought. Some of

these need re-examining.

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So what is the issue?

First, bank mergers and takeovers collapsed after the crisis and haven't really recovered. In Europe, Mario Draghi, president of the European Central Bank, and Danièle Nouy, Europe's chief bank regulator, have called for more consolidation. But executives aren't biting. They are afraid of how regulators will treat them. Any big bank that grows in size and complexity is likely to face higher capital demands. That could hurt returns and limit dividend-paying capacity.

Another way of cutting capacity would be allowing banks to fail. In Europe, that still seems difficult, despite

regulatory efforts to make it less so. This is down to political queasiness over enforcing the rules, especially in the weakest markets where failures are most

likely, such as Italy.

Spain has just forced through the resolution and sale of a failing bank, but Italy is still struggling to find a way around the rules and deal with several stuttering lenders large and small.

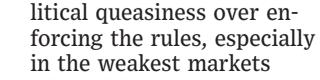
Oversupply is a problem across Europe, more so than the U.S. Regulators can point out this problem. It would be better to start coming up with solutions, too.

Widespread deregulation isn't the answer, but Europe should move faster to create a true single market for banking—like that in the U.S. That would help consolidation the most.

—Paul J. Davies

### Deal Drought

Mergers and acquisitions among banks by location of target



\*Through June 22. Source: Dealogic

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