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## What's News

### Business & Finance

**F**acebook is meeting with Hollywood content creators with the goal of launching a slate of original TV-quality programming by the end of summer. A1

◆ **Takata** is preparing to seek bankruptcy protection, following the deaths and injuries linked to the company's faulty air bags. B1

◆ **The Federal Reserve** will release the final results of this year's stress tests for U.S. banks, as officials made the tests easier for some. A1

◆ **AGIC** is making its first acquisition in the U.S. by acquiring a pharmaceutical manufacturer from Olympus Partners. B1

◆ **Italian lenders** Veneto Banca and Banca Popolare di Vicenza will close after the European Central Bank decided they are likely to fail. B5

◆ **Fiat Chrysler** suspended production of its well-regarded Pacifica hybrid minivan in recent weeks and has recalled it. B3

◆ **Harley-Davidson** is in talks to buy Ducati Motor Holding from Volkswagen, in a deal that could bring together two of the most storied motorcycle names. B3

◆ **Glencore** said it has submitted an all-cash offer of \$2.68 billion for Rio Tinto's Australian coal assets. B3

◆ **Google** is facing government accusations that it underpays women and is resisting pressure to turn over salary data. B4

### World-Wide

◆ Two failed attacks in Europe in recent days signal a shift to a less organized strain of terrorism that involves more assailants looking to use any means at hand. A1

◆ **Nearly 100 people** remained missing after a deadly landslide in the Sichuan province of China. A3

◆ **Trump** said he expects the passage of the Senate Republicans' health-care bill as negotiations proceed with lawmakers who have withheld support. A1

◆ **Modi** visits the White House Monday, and differences over immigration, climate and trade have the potential to strain U.S.-India relations. A3

◆ **At least 132 people** were killed and nearly 150 others injured after gasoline spilled from an overturned fuel truck caught fire in central Pakistan. A3

◆ **A Chinese activist** who for years has documented worker unrest faced charges of "picking quarrels and provoking trouble." A3

◆ **Trump's firing** of FBI Director Comey is increasingly unpopular, according to a Wall Street Journal/NBC News poll. A5

◆ **Germany's main center-left political party** accused Merkel of failing to stand up to President Trump. A4

◆ **Doha** described demands from Qatar's rivals as unrealistic. WSJ.com

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## Scores Feared Buried After Landslide in Southwestern China



**GRIEF:** Nearly 100 people were missing after a landslide in an area experts considered vulnerable since a 2008 earthquake. Authorities said there was little chance of finding survivors. Above, a woman holds paper offerings, which are burned to venerate the dead. A3

## Terrorism Enters New Phase

Recent European incidents show danger stems from less sophisticated assaults

By JULIAN E. BARNES AND NOEMIE BISSEBE

BRUSSELS—Two botched attacks in Europe in recent days signal that Islamist terror has reached a new phase, security officials say, one that is more disorganized and less sophisticated but risks spawning more assailants eager to

kill with any means at hand.

When an Islamic State sympathizer tried to set off a bomb Tuesday night at a train station here, it failed to detonate with the intended force. Investigators suspect he used a faulty explosives recipe found online. The intended victims were able to flee, and the attacker was shot dead.

On June 19, another would-be terrorist drove a sedan packed with guns, thousands of rounds of ammunition and two canisters of propane gas onto the Champs-Élysées in the heart of Paris. He rammed

the lead vehicle of a police convoy, apparently intent on an attack. Instead, police said he died when he was overcome by fumes after the collision, and no one else was killed or injured.

The lack of direct training and know-how of many of this new breed of attacker means many fail. But their lack of connection to terror networks makes them hard to track, and their often unsophisticated weapons—such as knives or cars—are easy to get. So authorities fear the attacks will grow.

"We may be entering an era not of lone wolf, but stray dog attacks," said one Western security official.

The man who fumbled the attack in Belgium, Oussama Zariouh, attempted to prepare the hydrogen-peroxide-based explosive TATP in his Brussels apartment, the official said. He managed to make a flammable substance, but one lacking serious explosive power, and the initial detonation only started a fire. The explosion then went off, but without the intended force.

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## Bankers Have Less to Fear As U.S. Eases Stress Tests

By RYAN TRACY

WASHINGTON—Stress tests long dreaded by executives at big banks are getting easier.

The Federal Reserve on Wednesday will release the final results of this year's tests, which probe firms' ability to withstand a severe financial shock. Officials made the tests easier for some banks this year, and for the next time around they are preparing to further change the exams in

fundamental ways.

The most significant shift would remove a major risk for banks: failing the tests purely for subjective reasons. The so-called qualitative part of the tests has in past years created embarrassing failures for firms such as Citigroup Inc., Deutsche Bank AG, and Banco Santander SA.

Fed officials now envision a system where firms would generally only fail the test if their capital levels dipped be-

low the level the Fed views as healthy—in other words for quantitative reasons, not qualitative ones.

That likely means fewer test failures. Between 2014 and 2016, the Fed gave banks a failing grade nine times. Only once did a bank fail because of a low capital ratio: Zions Bancorp. in 2014.

The tests will continue to matter to investors. The Fed will still use them to audit

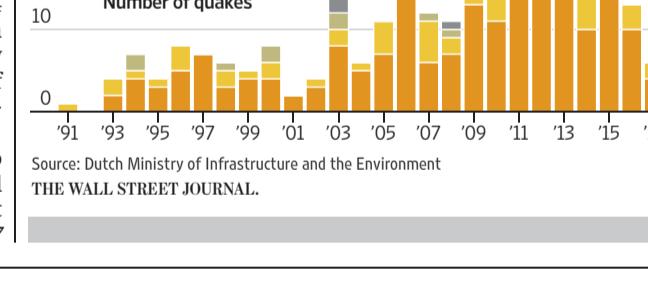
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## Quakes Cause Outcry Over Gas Production

Decades of extraction from Europe's biggest gas field have led to earthquakes and forced production cuts. B1

### Earthquakes in Groningen

Magnitude 1.5-2 2-2.5 2.5-3 3-3.5 3.5-4



Source: Dutch Ministry of Infrastructure and the Environment

THE WALL STREET JOURNAL.

## Insurance Is a Fun Career! Consider the Zombies, Bacon

\* \* \*

Companies go to extremes to lure hires, from ghoulish videos to free beer

By LESLIE SCISM

When Acuity Insurance wanted to liven up its image among prospective recruits, it came time to bring in the zombies.

It's the year 2023, and underwriter Carli Miller trudges through the insurer's Sheboygan, Wis., headquarters in a video Acuity has produced.

She is clearly undead—bloodless gray skin, glazed eyes, ripped clothing—bumping into zombie colleagues who have overtaken the insurer.

The 27-year-old Ms. Miller narrates and rattles off what she considers Acuity's perks—the camaraderie, the "jeans days," the great 401(k) plan. "I guess the bottom line is Acuity truly was a great place to work," the ghouls concludes, "and it's a great place to spend eternity—even if we are undead."

The video, "Zombacuity," ends with a scream—which might be a sign of what insur-

ance-industry recruiters feel these days.

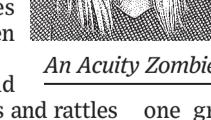
For some reason, a lot of people just don't want to work for insurance companies, and the firms have been scared into taking extreme measures to lure new hires in and keep them.

Acuity posted its video online to attract prospects. It picked zombies, says Acuity communications specialist Kallyn Vandenack, 30, to show "we really like to have fun around here."

Insurers have put in climbing walls, offered free beer and massages, and published at least one graphic novel to entice and retain new hires. At school-recruiting events last autumn, Acuity served mounds of freshly cooked bacon, whose aroma drifted around the grounds.

"All of the college students swarmed around," says Acuity Chief Executive Ben Salzmann, 61.

Americans under 30 gener-



An Acuity Zombie

## Facebook Makes Big Push For TV-Quality Programs

BY JOE FLINT AND DEEPA SEETHARAMAN

Facebook to Hollywood: Let's do lunch.

Social-networking giant Facebook Inc. is moving its ambitions in TV-quality video to the front burner, taking meetings and making deals with an eye toward launching a slate of original programming by the end of summer, people familiar with the situation say.

That's the price range of high-end cable-TV shows.

Facebook is also interested in

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 seeking

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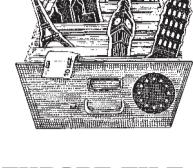
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## WORLD NEWS

# 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.

**B**ut Veneto Banca and Banco Popolare di Vincenza 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 is that the good assets of the banks 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 losses of up to €10 billion.

The EU Commission insists this is not a loophole and that the possibility of using national as opposed to



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

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, this decision has still taken most observers by surprise. The two Italian banks, though smaller than Banco Popular, were large enough to be supervised by the European Central Bank.

It therefore was widely assumed that their resolution would also be handled at the European level. Instead, it now appears that the SRB has discretion as to 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.

It is hard to avoid the

conclusion that the SRB's decision to spare senior bondholders in the two lenders is primarily political.

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 mar-

keted as high-interest savings products. But where does this leave the banking union?

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 to a saga that has cast a shadow on the Italian and eurozone banking system for too long.

**N**onetheless, Berlin wants reassurance that this deal doesn't set a precedent and that the state-aid rules will be rigorously applied to minimize the use of taxpayers' money, 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 via a common backstop to the eurozone's Single Resolution Fund and 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.

## 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.

## TV

Continued from Page One  
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 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 short-form fare 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, or similar to ABC's "Scandal" and reality hit "The Bachelor," people familiar with the matter say.

Among the shows Facebook already has lined up is "Strangers," a relationship drama aimed at millennials that made its debut at the Sundance Film Festival, and the game show "Last State Standing."

Facebook is willing to take another network's castoffs or "distressed assets," as one entertainment executive put it. The company is nearing a deal for the family comedy "Loosely Exactly Nicole," which Viacom's MTV canceled earlier this year after one season. An executive familiar with the show said its budget was in the \$1 million-per-episode range.

"Loosely Exactly Nicole" is

near and dear to Mina Lefevre, who developed it while at MTV and now heads Facebook's development effort, reporting to Ricky Van Veen, founder of the website CollegeHumor who joined Facebook last year.

Facebook has told people it wants to steer clear of shows about children and young teens as well as political dramas, news and shows with nudity and rough language.

**Facebook hopes to target young audiences and avoid politics and nudity.**

Facebook enters a bustling TV scene where old and new players are creating a staggering amount of original programming, making it hard for even good shows to break through. Last year there were more than 455 scripted shows on TV.

Compared with digital

now and have well-stocked pipelines of original programming, Facebook is late to the game. Apple Inc. is also hunting for original TV programming and just hired two top executives from Sony Corp.'s TV studio.

The longer-form scripted shows on Facebook are expected to run no more than 30 minutes and will carry ads. A potential challenge for Facebook is Hollywood's desire to own much of its content. Typically, studios and producers effectively rent their shows to networks through licensing deals, and are reluctant to part with rights to shows in perpetuity.

The entertainment industry is eager to see if Facebook can translate the data it has on tastes and habits of nearly two billion monthly users into insights that make for more popular television.

Facebook is expected to spread out the release of its episodes, in the traditional fashion, rather than dropping an entire season at one time, as Netflix and Amazon do, the people familiar with the matter say. Facebook sees its platform as an in-house water cooler of sorts, ideal for

building a social community around shows.

In another move that will distinguish it from Netflix and Amazon, Facebook is also telling Hollywood it will share viewership data with them.

"Facebook is saying, 'We're going to be completely transparent,'" one agent said. "You'll share in our ad dollars, our profits will be your profits, you will get all the data.' It's a humongously different mind-set."

—Jack Marshall contributed to this article.

## CORRECTIONS & AMPLIFICATIONS

**The "Access Hollywood" tape** in which U.S. President Donald Trump made lewd comments was filmed in 2005. A U.S. News article in the Friday-Sunday edition about Mr. Trump's criticism of the Obama administration incorrectly said it was filmed "some decades ago."

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

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# WORLD NEWS

## India, U.S. Seek to Redefine Relationship

Prime Minister Modi to open talks in Washington with the American 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 Maudlin  
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.

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 meet-

ing 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 nationalistic 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 be granted to the "most-skilled and the highest-paid" applicants to avoid crowding out American workers.

Indian Foreign Secretary Subrahmanyam Jaishankar in March said H-1B visas help the U.S. economy to be more competitive and that India had conveyed its views on the subject to the Trump administration.



PATRICK DE MELO MOREIRA/AGENCE FRANCE PRESSE/GETTY IMAGES

Indian leader Narendra Modi backs the Paris climate agreement.

The White House official said there was no plan to discuss the visas during Mr. Modi's visit, but that issues relating to climate change may arise. Mr. Modi backs the Paris climate agreement Mr. Trump is withdrawing from. Earlier this month, Mr. Trump said India

made its participation in the deal contingent on receiving 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 ad-

dress 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.

Mr. Trump is no stranger to India. The Trump Organization has brand-licensing deals involving Indian real-estate development projects.

"I don't know what he's going to do with India," said Rep. Sander Levin, a Michigan Democrat on the House committee that oversees trade. "I do say his investments cast a cloud over anything he does on trade."

The White House didn't respond to a request for comment.

Mr. Trump has said his companies wouldn't do new business deals overseas while he is president. He has handed operations of his business assets to his sons and another executive and said he wouldn't be involved in them, though he still receives the financial benefit of these arrangements.

—Paul Sonne in Washington contributed to this article.

## In Sign of the Times, China Charges Activist

BY CHUN HAN WONG  
AND JOSH CHIN

A Chinese activist who for years has documented worker unrest was charged with "picking quarrels and provoking trouble," in a trial seen as a bellwether of Beijing's approach to containing labor tensions.

A former migrant worker, Lu Yuyu roamed around China with his girlfriend, collecting information about public protests that he then tallied online. The couple's detention last year closed a rare window on social unrest in China by putting a key provider of such data out of commission.

Mr. Lu's one-day trial in the southwestern city of Dali formally concluded Friday, with prosecutors recommending he be sentenced to between three and five years in prison, one of Mr. Lu's lawyers, Xiao Yunyang, told The Wall Street Journal. It wasn't clear when the verdict would be issued.

Prosecutors accused Mr. Lu of spreading rumors. The court is likely to find Mr. Lu guilty and accept the prosecutors' suggestion despite the activist maintaining his innocence in court, Mr. Xiao said.

"The events he wrote about were all real, none of it was fake. He insisted he wasn't guilty," the lawyer said.

"Picking quarrels" is a vague legal term that authorities have used to prosecute dozens of activists and political dissidents since Chinese President Xi Jinping came to power in late 2012. Many of the accused have been released on China's equivalent of bail after confessing. Nearly all who declined to confess have been convicted and sentenced to prison.

Calls to the Dali prosecutors' office weren't answered.

The government tracks the number of so-called "mass incidents," but no longer publicizes it. The Labor Ministry

discloses regular tallies on labor arbitration and mediation cases, but labor groups and other activists largely relied on Mr. Lu to provide them with the broad picture.

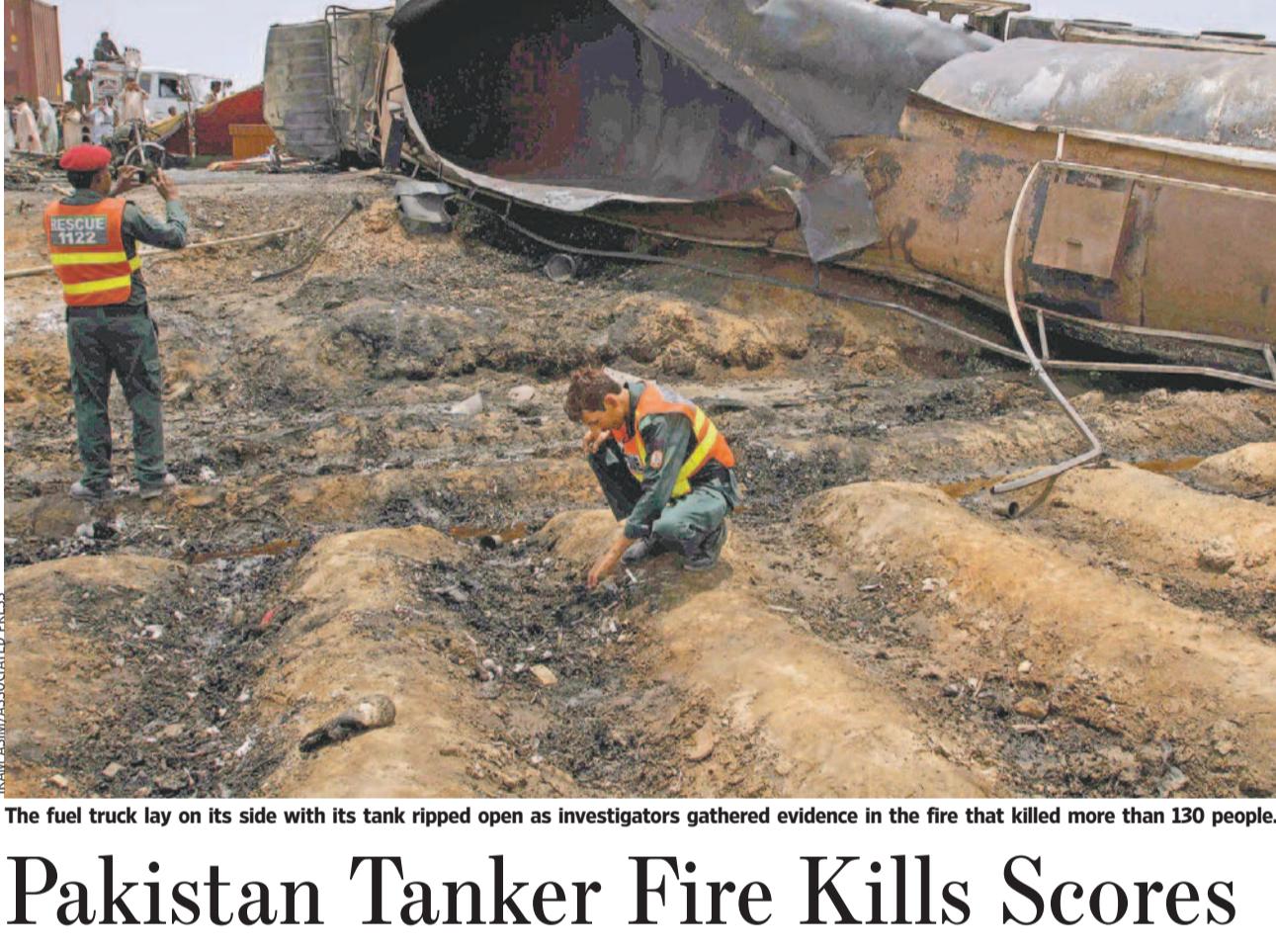
Chinese authorities have struggled with how to address workers' frustration with unpaid wages and the prospect of layoffs in a slowing economy. In May, the Labor Ministry announced overhauls of its workplace-dispute resolution regime that will take effect in July, as labor arbitration and mediation courts struggle to deal with a rise in cases.

Labor activist Lu Yuyu's detention closed a window on social unrest in China.

A harsh sentence for Mr. Lu would send a signal to activists and labor groups that the Communist Party doesn't intend to allow independent advocacy or monitoring of workers' rights. Mr. Xiao, the lawyer, said it wasn't clear when the court would hand down its decision.

"Lu Yuyu's work served as a weather vane on social stability in China," said Wu Qiang, a former Tsinghua University politics lecturer, who studies social movements. "In targeting him, the authorities are trying to shut this window into social trends and send a signal to the activist community."

Journalist advocate group Reporters Without Borders and French television station TV5 Monde jointly awarded Mr. Lu and his girlfriend, Li Tingyu, a press-freedom prize in November, saying they were "paying a high price for their commitment to freely and independently reported information in China."



The fuel truck lay on its side with its tank ripped open as investigators gathered evidence in the fire that killed more than 130 people.

## Pakistan Tanker Fire Kills Scores

BY QASIM NAUMAN

At least 132 people were killed and nearly 150 injured when gasoline spilled from an overturned fuel truck and caught fire in central Pakistan, officials said.

The truck was on a highway outside the town of Bahawalpur, around 300 miles southwest of Islamabad, when it flipped over on Sunday, 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, gath-

ered to try to scoop up the fuel, local officials and police said. Hundreds of people were at the site when the spill ignited, officials said.

Local officials said many of the victims were low-income farm laborers from nearby villages who had brought any container they could find to collect the gasoline, including cooking pots and empty plastic soda bottles.

Buckets and other containers were seen on the ground in footage aired on local TV.

The accident prompted Prime Minister Nawaz Sharif to cut short a private visit to the U.K.

Dozens of motorcyclists had swarmed to the site and were among those gathering spilled

fuel, said Jam Sajjad Hussain, a rescue service spokesman.

"We found a lot of destroyed motorcycles. They were parked and there were no bodies next to them," Mr. Hussain said. The provincial government said 75 motorcycles and three cars were destroyed by the fire.

"At first, we couldn't understand what had happened. There were so many people and so much smoke," said Muhammad Zubair, local head of Edhi Foundation, a private charity that provides emergency services. "Everything was on fire, and it was difficult to get our ambulances in and out because traffic was choked on the highway."

"There were hundreds of people around the tanker. What

could a few [policemen] do other than guide them? They couldn't remove them by force," said Shaukat Hayat, head of the National Highways and Motorway Police.

The accident overwhelmed local hospitals, which officials said weren't equipped to deal with an accident of this scale. Military and government helicopters were deployed to transport the seriously injured to hospitals in other cities with specialized burn treatment units.

"The accident occurred at a short walking distance from the nearby villages," said a local police official. "That's why word of the [fuel] spill spread very quickly and people arrived, despite warnings."

## A Race to Find Survivors And Victims of Landslide

BY TREFOR MOSS

SHANGHAI—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 Sunday that more than 3,000 rescue workers were

combing through the rubble after the landslide swept through the remote mountain village of Xinmo in Maoxian 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 that 10

people were confirmed dead and 93 were missing, downgrading the number of recovered bodies released by state media Saturday. 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 Maoxian has been vulnerable ever since a devastating earthquake struck Sichuan in 2008, killing over 87,000 people and weakening

the mountainous region's geology. Maoxian is 25 miles from Wenchuan, the epicenter of the 2008 quake.

The Maoxian region has long been prone to earthquakes and landslides, but the 2008 disaster left some of Sichuan's mountains dangerously unstable, Tian Tingshan, deputy director of the Center for Geological Disaster Emergency Technical Guidance of the Ministry of Land and Resources, told local media Sunday.

The Chinese government re-

located people from towns and

villages hit hardest by the 2008

earthquake, and has been

known to move residents from

disaster-prone areas.

—Kersten Zhang in Beijing contributed to this article.



Rescue workers searched on Sunday for survivors of a landslide in Xinmo Village in Sichuan province.

NG HAN GUAN/ASSOCIATED PRESS

## WORLD NEWS

# Trump Factors in German Election

The left hits Merkel's vow to raise military spending as the U.S. president demanded

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: We don't know whether or not we can still rely on the United States," Mr. Schulz said after needing 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



Social Democrat chancellor candidate Martin Schulz on Sunday.

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 at 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, del-

egates 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%.

"The chancellor has a natural advantage in her executive position, and she is playing it very skillfully," said Stephan Grüger, a Social Democratic regional lawmaker in the western state of Hesse. "She fills some of the voters with pride—they say, 'Our Angela!'"

The Social Democrats' role in governing Germany alongside Ms. Merkel since 2013 adds to their difficulty as the Sept. 24 election approaches: The Social Democrats have to find ways to criticize Ms. Merkel's record while defending their own moves in her government.

The party promised to lower taxes on low and midlevel earners and not to raise the retirement age. It also criticized Ms. Merkel for failing to engage in policy debates—something Mr. Schulz referred to as "an attack on democracy."

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.

Only the attacker died in Germany's first suicide bombing last July in the Bavarian town of Ansbach. A 2016 machete attack claimed by Islamic State in Charleroi, Belgium, injured but didn't kill a police officer and left the assailant dead. In March, a terrorist at Orly airport in Paris was killed by soldiers on security detail after he threw a bag containing a can of gasoline and tried to take a weapon from a soldier.

In June, three men drove a truck onto London Bridge, then went on a rampage with knives, killing eight people before they were shot dead by police. The attack was claimed by Islamic State.

A number of the recent smaller scale attacks have occurred in high-profile areas, such as the Champs-Élysées or London Bridge. They spread fear and upheaval.

The Western security official, speaking of the Brussels train station bomber, said: "Even though he didn't create the violence he wanted to, it still had a huge disruption."

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

# 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.

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.

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

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%.

These ultraloose monetary policies are somewhat at odds with a global economy that continues to expand, albeit at a slower pace than in previous recoveries. The threat of deflation has receded, with inflation rates getting closer to the 2% level that many central bankers deem optimal. Unemployment is low in many economies.

The BIS, which has for years warned of the potentially dangerous side effects of keeping interest rates too low for too long, also took aim at the recent euphoria in financial markets. It noted that while measures of market volatility are quite low, political uncertainty is elevated.

It said that a "risky trinity" of high debt, low productivity and limited room for policy makers to act—which the BIS warned about one year ago—remains.

"The hard data have improved, but not as much as sentiment has," Mr. Borio said. "One may legitimately ask whether sentiment has swung too far."

# 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



Soldiers patrol the Brussels city center train station, where a man tried to set off a bomb Tuesday.

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.

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—Qasim Nauman and Safdar Dawayar

UNITED KINGDOM

## High-Rises Fail Safety Checks

U.K. authorities said that 34 high-rises across England have failed fire-safety checks triggered by the lethal fire in a London residential tower earlier this month, as concerns grow over the safety of residents in social housing.

Buildings in 17 areas, including north London, Manchester and Plymouth, failed the checks, Sajid Javid, communities and local government minister, said Saturday.

Last week, the government said about 600 properties owned

In the U.S., a Canadian man, Amor Ftouhi, was charged in an assault on a police officer Wednesday at the Flint, Mich., airport. Authorities said Mr. Ftouhi, 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



BLAZING FOREST: A forest fire in Spain forced the evacuation of at least 1,000 people and is threatening Donana Nature Reserve, a national park famous for its biodiversity and endangered species.

by local authorities and nonprofit housing associations had installed some form of cladding. The exterior facade is suspected of having contributed to the quick spread of a fire that killed at least 79 in London's Grenfell Tower on June 14.

—Wiktor Szary

INDONESIA

## Suspected Militants Attack Police Station

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

Police shot one assailant dead and critically wounded the other in the attack on a police post, while an officer died of stabbing injuries, national police spokesman Setyo Wasisto said.

Police found an Islamic State flag and a book about the terrorist group, Mr. Wasisto said.

In recent years, counterterrorism police have arrested or killed dozens of militants and disrupted their operations. The militants have generally been unable to acquire sophisticated weaponry or build powerful explosives, preventing mass-casualty attacks.

—I Made Sentana

PAKISTAN

## Weekend of Terror Leaves Dozens Dead

The death toll from multiple terror attacks across Pakistan on Friday rose to 72 on Saturday,

## Parliament Is Hit By Cyberattack

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.

—Michael Wright

EGYPT

## President Cedes Two Islands to Saudi

President Abdel Fattah Al Sisi ratified a disputed 2016 agreement under which his country would transfer control of two strategic Red Sea islands to Saudi Arabia, following through on his assertion last week that the matter was closed. The surrender of the islands, has prompted street protests.

—Associated Press

# 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 Democratic think tank.



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.

"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 of-

ten 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 an-

nounced 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 Senate 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 politics, I'm all for it."

## HEALTH

Continued from Page One  
servative members of the party.

Republicans have 52 votes in the Senate. All Democrats are expected to oppose the health-care bill, so Majority Leader Mitch McConnell (R., Ky.) can lose no more than two GOP votes to pass it.

Conservatives have said they would like to roll back some regulations established by the ACA to help lower costs, but those changes could be resisted by other Republicans. Some centrist Republicans, meanwhile, say they have concerns over elements in the current bill such as a one-year stripping of funding from women's health organization Planned Parenthood and cuts to Medicaid funding to the states.

Mr. Trump said Democrats had adopted a "theme of resist" that was an obstruction to the bill's passage. However, he said former President Barack Obama wasn't leading that resistance, instead pointing to Democrats Chuck Schumer of New York and Sen. Elizabeth Warren of



A health-care activist held a sign protesting the Republican health-care bill last week in New York.

Massachusetts.

"It would be so great if the Democrats and Republicans could get together, wrap their arms around it and come up

with something that everybody's happy with," he said. "But we won't get one Democrat vote, not one...and it's a terrible thing."

Under that law, local Texas law-enforcement officials and sheriffs can face criminal penalties—including jail sentences—if they don't comply with requests from federal authorities to detain suspected illegal immigrants until they can be transferred to Immigration and Customs Enforcement custody. The Justice Department argues the Texas statute doesn't improperly pre-empt federal law or violate the Constitution. It plans to make those points in oral arguments in federal court in San Antonio on Monday.

—Laura Meckler

ECONOMY

### Buyers Fuel Market For New Homes

New-home sales rose in May and prices hit a record level, more evidence of a housing market characterized by strong demand and tight inventories.

Purchases of new, single-family homes—a narrow slice of all U.S. home sales—rose 2.9% to a seasonally adjusted annual rate of 610,000 in May, the Commerce Department said Friday.

From a year earlier, new-home sales rose 8.9% in May and so far this year have climbed 12.2%, indicating the market for new homes appears to be picking up. "The name of the housing-market game over the past few years has been low supply, not low demand," said Ralph McLaughlin, chief economist at Trulia.

The median sale price for a new home sold in May was \$345,800, the highest recorded for data dating back to 1963.

The average sale price also came in the highest on record at \$406,400. Home prices for new homes have climbed steeply since dipping during the recession.

Several factors are converging to help strengthen buyer demand. The national unemployment rate in May was 4.3%, a 16-year low, and the economy continued to expand and add jobs in the first half of 2017.

—Sarah Chaney and Jeffrey Sparshott

## 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.

## U.S. WATCH

JUSTICE DEPARTMENT

### Challenge Explored To Sanctuary Cities

The Justice Department is quietly exploring new legal theories to take on so-called sanctuary cities in court, working to force them to aid the Trump administration's aggressive deportation effort, people familiar with the discussion said.

Such a case, if filed, would significantly escalate the Trump administration's pressure campaign against recalcitrant cities and counties.

The administration has already threatened to cut off federal funding to cities and counties that refuse to facilitate deportations, and it has sought to "shame" jurisdictions that don't cooperate. If successful, the new court actions would compel local authorities to assist federal immigration officers whether they want to or not.

Separately, on Friday the Justice Department filed papers in support of the state of Texas' defense in federal court of one of the toughest anti-illegal immigra-

tion laws in the nation. The statute, which is set to take effect in September, prohibits Texas cities and police departments from limiting their cooperation with federal immigration authorities.

Under that law, local Texas law-enforcement officials and sheriffs can face criminal penalties—including jail sentences—if they don't comply with requests from federal authorities to detain suspected illegal immigrants until they can be transferred to Immigration and Customs Enforcement custody.

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—Sarah Chaney and Jeffrey Sparshott

ECONOMY

### Buyers Fuel Market For New Homes

New-home sales rose in May and prices hit a record level, more evidence of a housing market characterized by strong demand and tight inventories.

### 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.



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

## IN DEPTH

# Hangover Plagues Diageo's India Move

Deal between world's largest liquor company and Indian tycoon brings booming market, legal mess

BY DANIEL STACEY

MUMBAI—India's liquor market was for years a thorn in the side of **Diageo PLC**, the world's largest spirits maker. Then it met the "King of Good Times."

Vijay Mallya, a billionaire fond of mullet haircuts, diamond earrings, sports and lavish parties, invited Diageo executives to his Mumbai residence in early 2012 and offered them a deal for a majority stake in India's largest liquor maker, which he controlled.

Diageo was desperate to break into India and had long coveted **United Spirits Ltd.** As the two sides began discussions, the challenge of absorbing the company and its free-wheeling founder became obvious. The liquor company was intricately, and confusingly, intertwined with Mr. Mallya's wider business empire, which was crumbling.

His airline company was low on cash. To prop it up, he had advanced money from his liquor business, recording the payments on a handwritten ledger he showed the Diageo executives gathered in his home, according to two people familiar with the meeting and the ledger itself, which was reviewed by The Wall Street Journal. The Diageo executives also learned payments were being made to political figures in some key Indian states where United Spirits operated, the two people say.

Diageo subsequently bought a 55% stake in United Spirits for \$3.2 billion, the largest food-and-beverage transaction in Indian history. Five years later, its gamble on Mr. Mallya's business has made India the second-largest market for its brands, which include Johnnie Walker whisky and Smirnoff vodka. The man who orchestrated the deal for Diageo, then-Chief Operating Officer Ivan Menezes, has become chief executive.

Yet the commercial success has been accompanied by trouble. Diageo is in the crosshairs of Indian authorities and entangled in legal proceedings stemming from the deal. The authorities are looking into whether Mr. Mallya used the deal to launder money, and Mr. Mallya's creditors have sought the return of shares purchased by Diageo.

Mr. Mallya, who Diageo alleges diverted nearly \$500 million from United Spirits and didn't pay it back, said in an email to the Journal that Diageo had "complete knowledge" of the money he had taken out of the company to support his other businesses. Diageo was "happy with the transactions happening at United Spirits" and "analysed all the underlying documents" before signing a deal, he said.

Diageo spokesman Dominic Redfearn disputed Mr. Mallya's version of events. "At no time were we made aware of the diversions of funds that Dr. Mallya now suggests Diageo was 'happy with,'" Mr. Redfearn said in an email. "His claims that we 'analysed



Vijay Mallya left Westminster Magistrates' Court in London earlier this month. He was arrested in April and faces extradition to India.

CHRIS RATCLIFFE/BLOOMBERG NEWS

all the underlying documents' and were therefore 'happy with the transactions happening at USL' are false." He said "evidence of diversion of funds only became clear after the closing of the transaction."

### Unpaid debts

London-based Diageo cut ties with Mr. Mallya last year, and he left India amid criminal investigations of unpaid debts and possible money laundering and tax evasion. He resurfaced in a London townhouse. India sought extradition, and bank creditors who claim they are owed \$1.6 billion say they hope to see him imprisoned. In April, he was arrested in

London and released on £650,000 bail, pending an extradition hearing. Mr. Mallya has said he did nothing illegal.

Other Western firms also have run into trouble in India. Last year, **BP PLC** was hit with a \$1.55 billion fine in connection with a gas-drilling joint venture. **Vodafone PLC**, after buying India's largest telecommunications company for \$16.4 billion, received a \$2.2 billion tax bill when India changed its tax laws in 2012. BP and Vodafone say they are contesting the findings.

Diageo's spokesman said the United Spirits transaction, despite its complexity, "was a fantastic opportunity in a key market." He said Diageo "knew from the start there were aspects of governance and controls that would need to be brought into line with international best practice." Since Diageo took control, he said, United Spirits has strengthened its corporate governance, compliance practices and controls systems, and its board has ordered two forensic audits, sharing the results with Indian authorities.

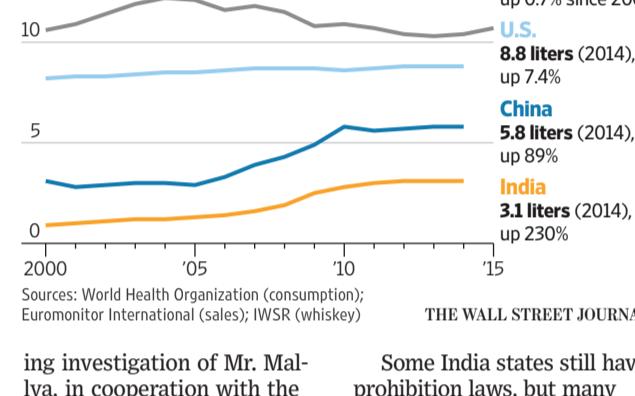
One Indian court handling claims by Mr. Mallya's creditors has ruled Diageo's deal to buy United Spirits was designed by Mr. Mallya's holding company to "keep creditors in the dark." In February another court paved the way for a group of state banks to demand at least \$350 million worth of shares Mr. Mallya sold to Diageo.

An Indian money-launder-

### Intoxicating Growth

India's increasing appetite for alcohol has made it an alluring market for international drinks brands.

#### Per-capita alcohol consumption



THE WALL STREET JOURNAL.

ing investigation of Mr. Mallya, in cooperation with the U.K.'s Serious Fraud Office, is broadening to look at whether Diageo helped him shift assets offshore through side deals connected to the United Spirits takeover, according to an official at **India's Enforcement Directorate**.

In January, India's securities regulator said it had ordered Diageo to compensate United Spirits shareholders for a \$140 million payment it made last year to pay off one of Mr. Mallya's overseas debts. Diageo is appealing.

Mr. Mallya said he had become "a political football."

United Spirits' shares are 25% lower than when Diageo bought its last tranche of stock in July 2014. Annual profits are below where they were before Diageo agreed the deal in 2012. Diageo said United Spirits' revenue rose last year and it is "confident for the future."

In late 2012, before the deal was struck, Paul Walsh, then Diageo's chief executive, met with United Spirits executives over drinks at their company's Bangalore headquarters and was adamant about getting into the booming India market, says a former United Spirits' executive who was there.

Diageo had long had its eye on United Spirits, according to executives from both companies, but it wasn't until 2012 that Mr. Mallya looked to Diageo as a potential savior. Mr. Walsh assigned Mr. Menezes, an Indian-born, U.S.-educated Diageo veteran, to seal the deal.

An Indian money-launder-

Some India states still have prohibition laws, but many eliminated them relatively recently. Mr. Mallya embodied India's new spirit. Parties at his villa in Goa drew business and political luminaries and featured performers such as Enrique Iglesias and Bollywood's Sonu Nigam.

He owned more than 200 luxury and vintage cars, a 311-foot yacht, a French castle and a Formula One team, Sahara Force India. He personally selected each air hostess at his airline company, Kingfisher Airlines, according to local news reports.

Kingfisher Airlines, however, was in financial trouble. Crippled by high fuel costs and a slump in the Indian economy, it was on the brink of bankruptcy in 2012, court documents indicate, forcing Mr. Mallya to consider a sale of United Spirits.

In United Spirits' Bangalore headquarters, Diageo's finance team pored over the liquor company's accounts, while Mr. Menezes listened to presentations there and at Mr. Mallya's Goan villa, says a former United Spirits executive. Mr. Menezes peppered United Spirits senior managers with questions.

Seeking to comply with the U.S. Foreign Corrupt Practices Act, a Diageo in-house lawyer requested sales records from distributors and interviews with individual distillers, according to internal emails reviewed by the Journal. A year earlier, Diageo had been fined \$16 mil-

lion for breaching that U.S. law after being caught paying bribes in India and elsewhere.

India's liquor trade is rife with unorthodox practices and corruption allegations. Political figures in states with monopoly retailing laws often have sought payments to allow drinks brands to sell there, court records show.

At the meeting in Mumbai in early 2012, Mr. Mallya pulled out a handwritten document that two people in attendance say outlined diversions of money aimed at propping up non-liquor businesses of Mr. Mallya's that were struggling. It also outlined some payments to people in India's political system that Mr. Mallya said were to secure distribution rights, according to those two people and a document reviewed by the Journal.

Mr. Menezes looked at the document, the two people say, and left it with Mr. Mallya. One person with close knowledge of the meeting says the Diageo executives didn't want to get into the details of the payments at that time.

Before the deal closed in May 2013, Diageo received a spreadsheet listing transactions that didn't conform to standard accounting. The spreadsheet, which was reviewed by the Journal, showed that a range of manufacturing and distributing partners, from a bottling plant in the northern state of Uttar Pradesh to a sugar factory in the southern state of Karnataka, had received advances from United Spirits and then lent the money to Mr. Mallya's other businesses.

The spreadsheet indicated that **Utkal Distilleries Ltd.**, a rum maker in India's south, had advanced \$8 million from United Spirits to another company controlled by Mr. Mallya. Internal forensic audits ordered by the Diageo-appointed CEO later concluded that most of the money had been used to pay jet-fuel bills. A bottling plant had borrowed \$7 million to upgrade its facilities, then advanced the money to Mr. Mallya's holding company, the spreadsheet and other company documents showed. Auditors later concluded the cash had been sent to Kingfisher Airlines.

In February, Mr. Mallya's other creditors won the right to liquidate one of Mr. Mallya's firms that sold shares to Diageo, and are seeking to have 7% of United Spirits' shares returned to them, or to strike a cash settlement with Diageo, says a person familiar with the situation. In its 2016 annual report, Diageo said it believes it will remain in control of United Spirits regardless of the outcome of the litigation.

Overall, United Spirits advanced \$340 million to Mr. Mallya's other firms and creditors, the spreadsheet showed.

Mr. Mallya said Diageo received this spreadsheet "periodically during due diligence." The Diageo spokesman said the firm hadn't received it until later, after agreeing to the terms of a deal in November 2012. Diageo bought its first tranche of shares in May 2013.

Diageo offered Mr. Mallya a range of sweeteners to get the deal done. The two companies agreed to a deal in November 2012 that called for Diageo to buy shares in United Spirits. Diageo bought one tranche of shares from another company of Mr. Mallya's. Court documents from a subsequent judicial action by creditors show that Diageo knew the creditors considered those shares collateral against their unpaid loans, and that Diageo might have to give the shares back to those creditors later.

### Strategy conflicts

Conflicts soon erupted over the strategic direction of United Spirits. The Diageo-appointed CEO and board hired forensic auditors to comb through accounts. They confiscated hard drives of United Spirits' top executives and, using Mr. Mallya's emails, began piecing together a picture of his collapsing empire, according to documents reviewed by the Journal.

The emails appeared to show that Mr. Mallya pressured his management team to divert money from United Spirits to save his other ventures, even as he was wrapping up a deal with Diageo.

Mr. Mallya said in his email to the Journal that forensic auditors "didn't understand the underlying business principles of United Spirits and so jumped to wild conclusions."

After its first forensic audit in 2015, United Spirits' board asked Mr. Mallya to step down as chairman. When he refused, the CEO wrote to the chief of Bangalore's police department, alleging money had been "wrongfully diverted" as part of a "criminal breach of trust." Diageo never filed an official complaint with the court. Mr. Mallya resigned as chairman in February 2016, after agreeing to a \$75 million severance package.

Forensic auditors brought in by United Spirits after the deal alleged at least about \$500 million was advanced from United Spirits to Mr. Mallya's other companies and never paid back.

In February, Mr. Mallya's other creditors won the right to liquidate one of Mr. Mallya's firms that sold shares to Diageo, and are seeking to have 7% of United Spirits' shares returned to them, or to strike a cash settlement with Diageo, says a person familiar with the situation. In its 2016 annual report, Diageo said it believes it will remain in control of United Spirits regardless of the outcome of the litigation.

—Saabira Chaudhuri contributed to this article.

# HIRE

Continued from Page One

ally aren't enthusiastic about the industry, according to Insurance Careers Movement, an industry group that seeks to inspire young people to pursue insurance careers. "When I think of insurance," one millennial said in recent research conducted for Liberty Mutual Insurance, "it is a sharp poke in the eye."

The industry needs more brains, and soon. It employs about 2.6 million but calculates it must hire 500,000 newcomers over the next several years as a wave of retirements hits, says Robert Hartwig, an insurance professor at University of South Carolina's business school.

Some insurers are taking a page from Silicon Valley's hip offices. Allstate Corp. has a "happiness guru" in a building where it locates many data scientists.

Acuity has in recent years installed ping-pong tables, a working 65-foot Ferris wheel, a 45-foot climbing wall and a 27,000-square-foot fitness cen-

ter. It has twice-monthly happy hours. Years ago, it dropped its clean-desk policy banning plants, family photographs and food, Mr. Salzmann says.

A graphic novel is Dan Epstein's millennial lure. The CEO of ReSource Pro LLC, which provides processing and advisory services to the insurance industry, co-wrote what is essentially a fancy comic book, "Tomorrow's Insurance," to engage young people in his company and clients about a transformation in the industry around data analytics and machine learning.

At the novel's futuristic agency, Sigma 6 Insurance, the female owner walks among high-tech gear, escorting a mysterious guest who is assessing if the agency can insure a "Mars Colony One Project." The guest leaves definitely impressed.

"We wanted to step out," says Mr. Epstein, 46, "and envision what the industry could be like in 10 years."

Other businesses, too, face labor shortages, says Professor Hartwig, 53, but "it's without question more difficult to attract a worker into the insurance industry."

At a February Rutgers Uni-

versity event, lines of students waiting to meet recruiters from some tech firms ran 25 or more deep. Insurers' booths generally had trickles of guests.

In a queue for the consultancy Accenture, finance major Nicholas Appaluccio, 23, said he wasn't interested in insurers because he considered much of the work there "cut and dried."

Graduate student Shivani Sethi, 24, approached Liberty Mutual's booth upon seeing no line. "I'm open to trying new

things," she said, but ultimately took an internship at an online brokerage. Liberty Mutual says it collected 78 résumés and offered interviews to four; two were offered jobs and took them.

Videos are the enticement at firms such as ICW Group Insurance Cos., which last autumn rounded up employees to freeze in position—at a time when "mannequin challenges" were an internet craze.

In a video, a camera pans the

firm's San Diego offices capturing the poses: someone about to sip a drink, another pushing an elevator button, one in mid-step. The video, says Trisha Rule, 34, an ICW senior marketing employee, tackles "this misconception about the insurance industry."

Among viewers was Leslee Edwards, 22, who researched ICW on Facebook and "thought it looked like a fun place to work." In May, she started in the workers'-compensation department.

Interns at MMG Insurance in Presque Isle, Maine, helped create a seven-minute video modeled after "The Office" television sitcom.

In it, Melissa McKenney plays an underwriter who uses clairvoyance to size up risks. To dispel conceptions that insurance is "boring or stale," she says, "we wanted to weave in a little bit of humor."

Ms. McKenney, now 23 and an MMG full-timer, says she previously figured insurance was monotonous but has learned it can be "very high-action, very fast-paced."

To keep some new hires away from the rest of the company, Allstate, Liberty Mutual

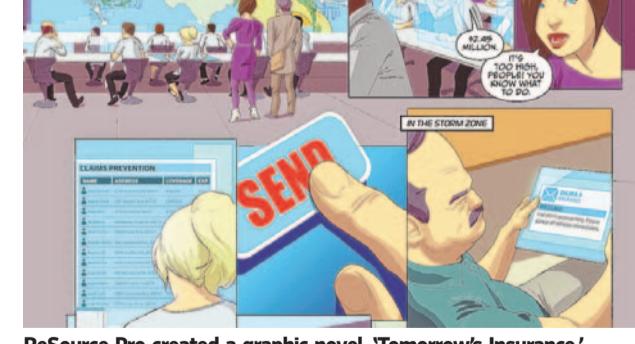
and Massachusetts Mutual Life Insurance Co. have put some data scientists, app developers and other innovation specialists in digs in neighborhoods popular with startups and given the operations catchy names.

Allstate's Arity operation in Chicago's Merchandise Mart has a full-time "creative culture leader" who helps in recruiting talent. "We're doing everything we can," says Allstate spokesman Justin Herndon, 36, "minus throwing out the red carpet to try to get them in the door."

At Liberty Mutual's Solaria Labs, says spokeswoman Adrienne Kaufmann, 49, there was "a deliberate decision to give it a distinct personality that was more entrepreneurial in feeling."

MassMutual opened a location it calls Haven Life in New York City where it wants "spaces that feel start-uppy" and "whimsical," says Gareth Ross, 41, who has responsibility for data analytics at the 166-year-old insurer.

The location has free beer anytime and some conference rooms named after "contributors to mortality": "Fallen Coconut," "Asteroid Impact," "Insect Attack," "Snake Bite."



ReSource Pro created a graphic novel, 'Tomorrow's Insurance,' featuring a mysterious character seeking insurance for a Mars colony.

RESOURCE PRO

## U.S. NEWS

THE OUTLOOK | By Richard Rubin

# Debt Finance Now Appears Vulnerable



**R**epublicans 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.

**T**hat 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. 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 as a normal cost of doing business. 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.

Without repealing the interest deduction, Republicans' hopes of providing full and immediate deductions for capital investment are dim. They probably wouldn't have enough money to offset the upfront fiscal cost of accelerating all those deductions.

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 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 funding and inspection staffing are considered inadequate, the civil engineers' report said. An estimated \$64 billion is needed to upgrade those dams, including \$22 billion for those posing the highest hazard, according to the Association of State Dam Safety Officials, a nonprofit 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 fail-proof.

"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 last week as trucks moved rock and other material around freshly excavated earth. 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 potential risk of failure.

## 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' 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.

### 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%

3.0%

Source: Federal Reserve

THE WALL STREET JOURNAL.

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 April.

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.

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.

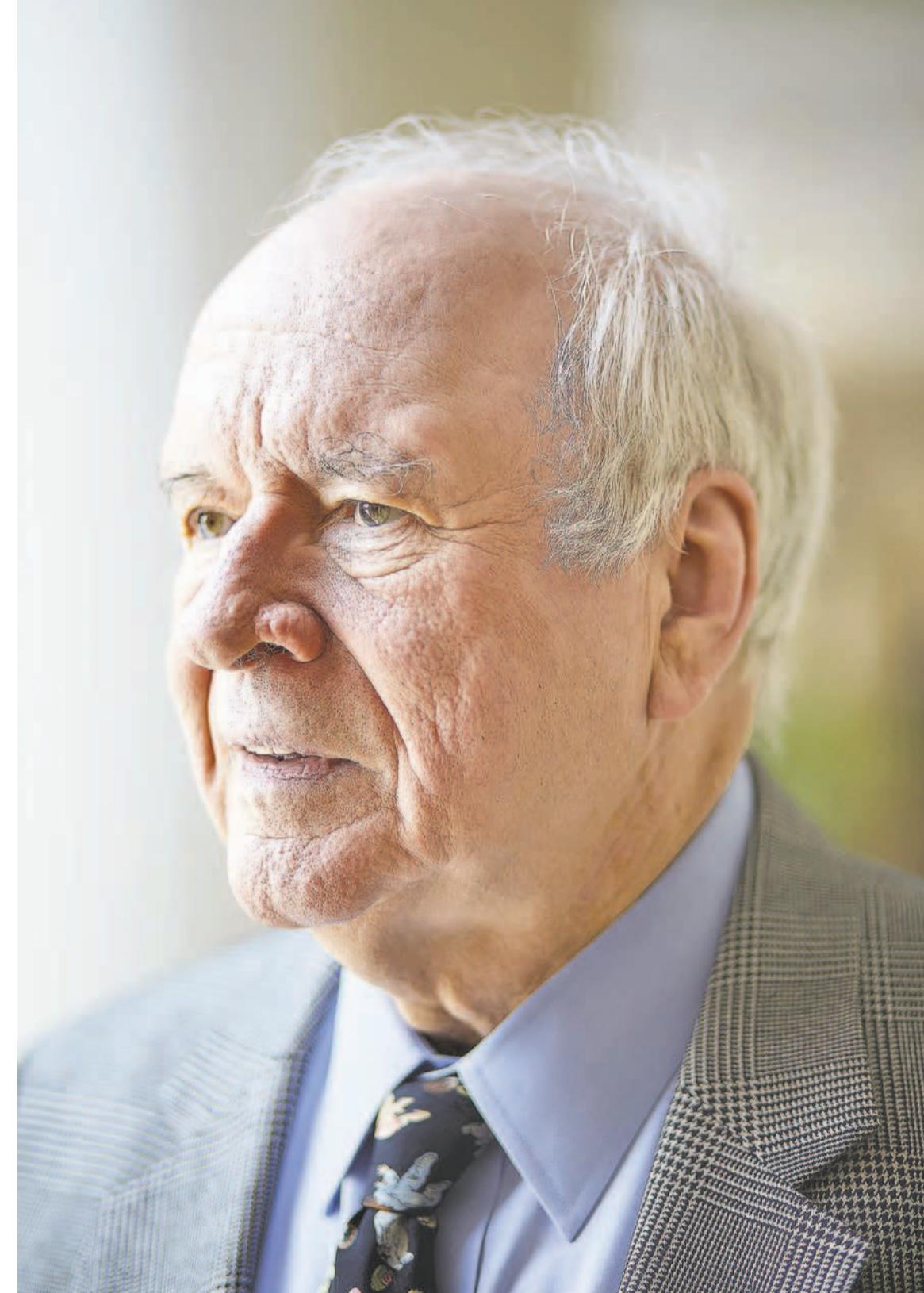
Now, as more institutions like Cooper embrace the measures, they are roiling some older doctors and raising questions of fairness, scientific validity—and ageism.

"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 inpatient hospital units—found that patients treated by older hospitalists 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.

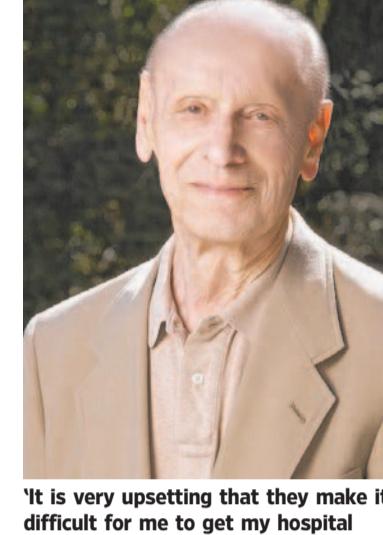
Yet even the study's senior author, Anupam Jena, a 38-year-old associate professor of health-care policy at Harvard Medical School, calls age a "crude" measure of performance. He argues that hospitals should be analyzing outcomes of all doctors.

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."

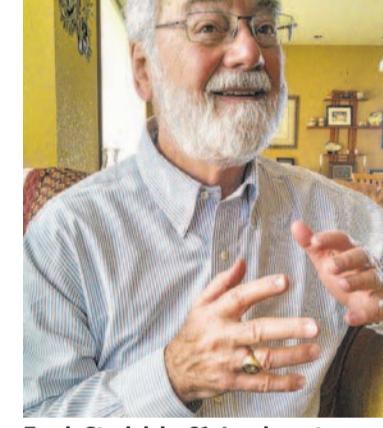
At Cooper University Health Care, Anthony Mazzarelli, a physician and senior executive vice president, said the new policy requiring



'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.

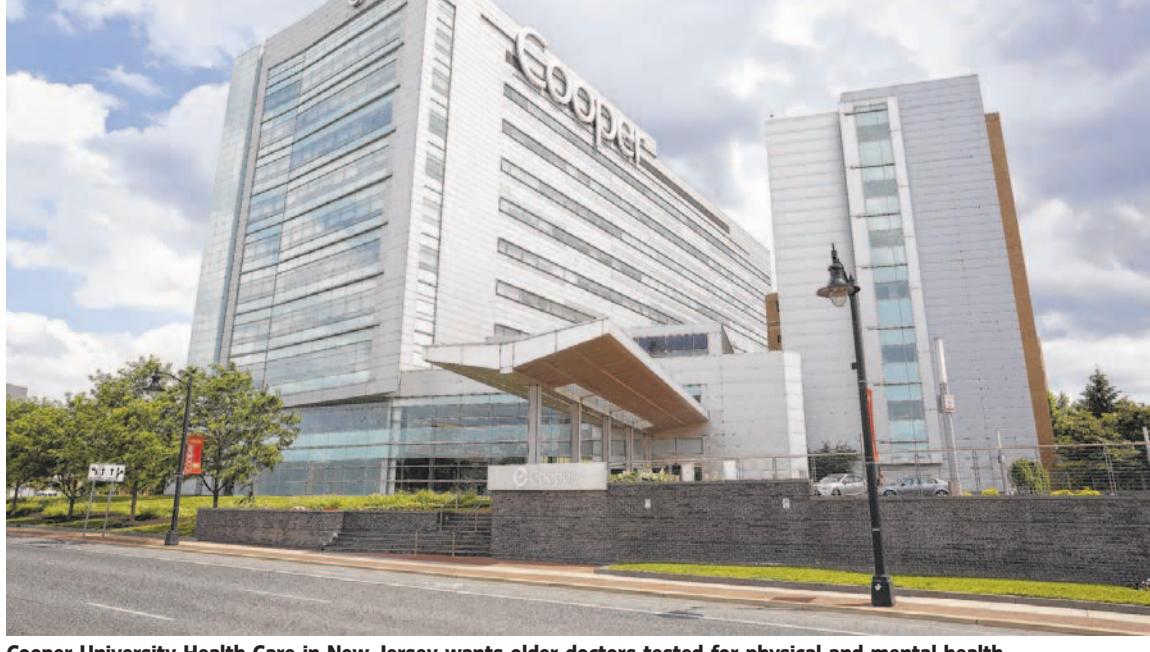
That is exactly what William Sharrar, a pediatrician, is hoping. "I am 76 years old, so I could retire, but I don't want to retire because I really love what I do," Dr. Sharrar said. He wasn't particularly worried about the competency test, he said; he looked at it as a challenge, like the puzzles and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



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

in 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.

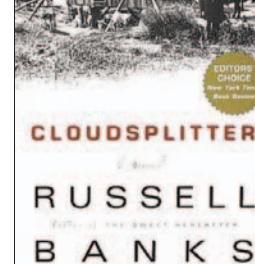
Brown was a white anti-slavery crusader who in 1859 led an attack on a federal arsenal in Harpers Ferry, W.Va., with the larger aim of sparking a slave rebellion. He was

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 portrays Brown as not exactly crazy but as emotionally stupid. His son comments repeatedly that there are things that [his father] does not understand emotionally. 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.



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 Wednesday for our May 29 editorial ("The Ivanka Entitlement") 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.

But our point wasn't to oppose family

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

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.

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.

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

## 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 congressmen 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.

## 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.

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.

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**By Thomas Campbell**

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market to raise money for arms.

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.*



## LIFE & ARTS

### EXHIBITION REVIEW

# Listening to Reality

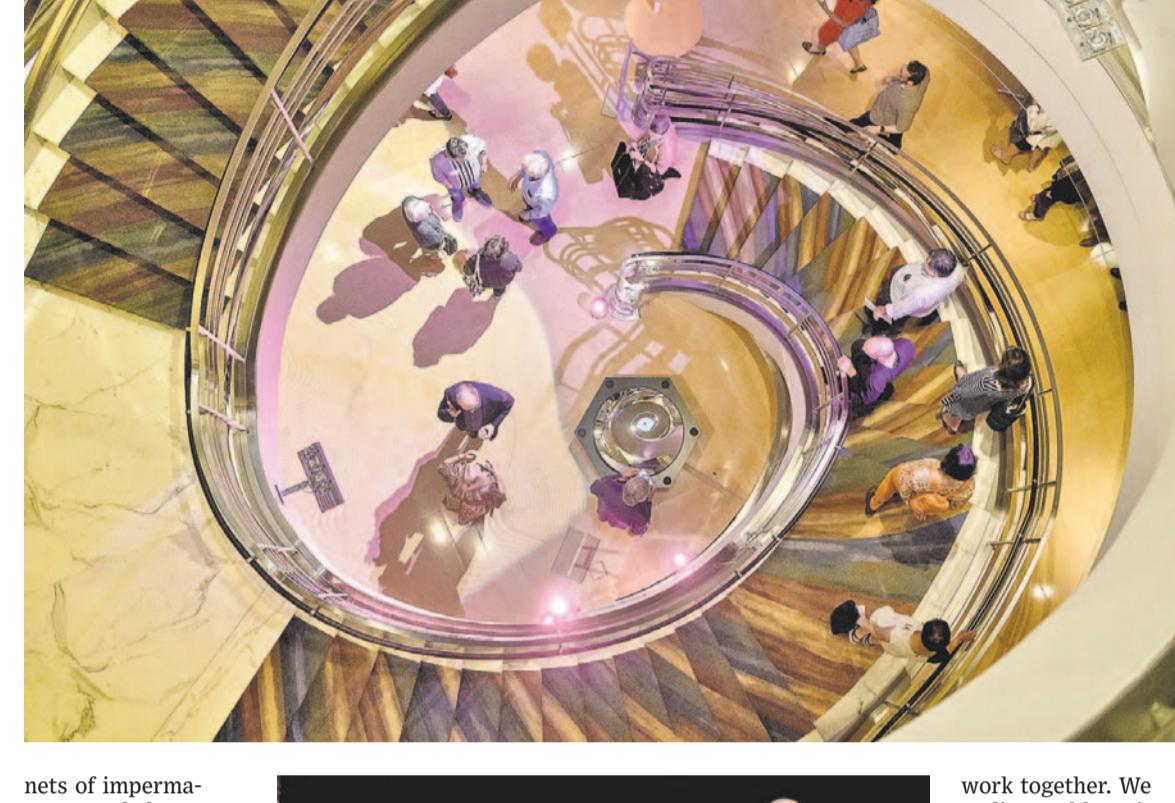
BY LEE LAWRENCE

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.

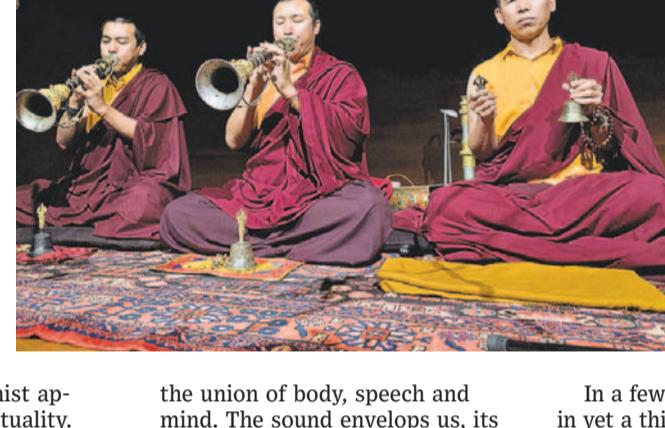
So what has this to do with Himalayan art, the Rubin's stock-in-trade? The answer is just about everything. Whether the painting of a bodhisattva or the statue of a wrathful deity, most objects in the museum's collection serve as aids in a religious practice that involves hearing (bells, horns, mantras), 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.

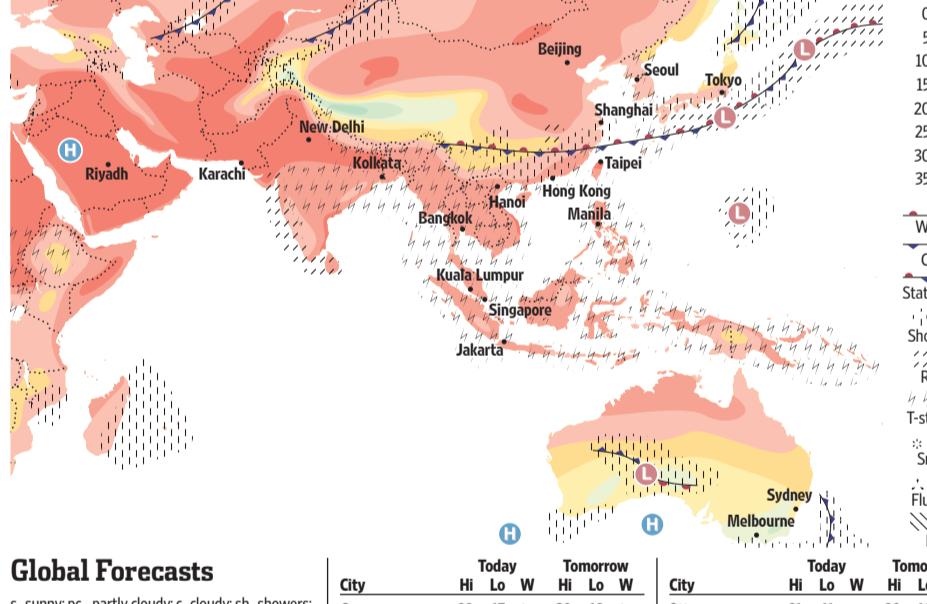
When I ducked into the fourth-floor Shrine Room, the deep-throated chants of monks interacted with the subtleties of "Le Corps Sonore," together creating forms as physical as the rows of gleaming statuary filling the altar.

#### The World Is Sound

Rubin Museum of Art, through Jan. 8, 2018

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

#### Weather

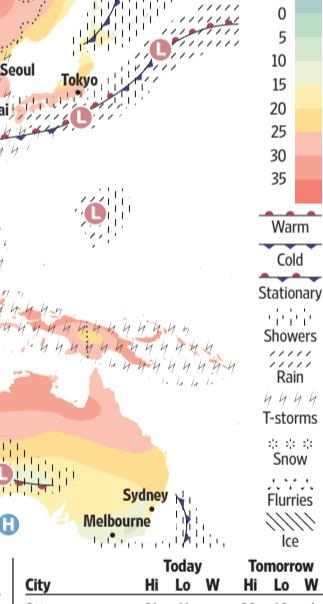


#### Global Forecasts

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

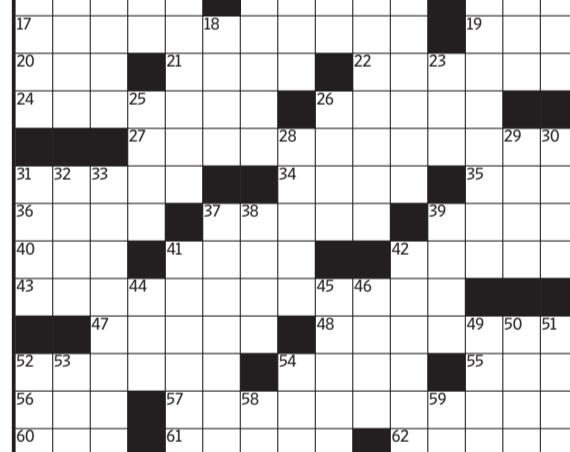
City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	19	12	pc	22	16	t
Anchorage	14	10	r	15	11	r
Athens	33	23	s	33	23	s
Atlanta	29	18	s	29	18	s
Bahrain	46	30	s	47	32	s
Baltimore	28	15	s	25	14	pc
Bangkok	33	27	t	33	26	t
Beijing	34	20	pc	34	22	pc
Berlin	21	10	pc	23	16	pc
Bogota	18	10	r	19	9	r
Boise	37	18	s	31	15	s
Boston	26	17	s	26	16	pc
Brussels	22	14	pc	25	16	t
Buenos Aires	23	17	pc	20	10	r
Cairo	37	24	s	37	24	s
Calgary	30	11	c	25	10	s
Caracas	31	25	pc	31	25	pc
Charlotte	30	16	s	28	14	pc
Chicago	22	11	pc	25	15	s
Dallas	31	22	pc	32	24	pc
Denver	29	15	s	31	14	t
Detroit	22	11	sh	23	12	pc
Dubai	39	31	s	39	33	s
Dublin	15	11	r	17	11	sh
Edinburgh	17	10	c	17	11	r
Frankfurt	26	16	pc	26	18	t

#### AccuWeather.com



City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Ottawa	21	11	c	20	10	sh
Paris	27	19	pc	27	16	t
Philadelphia	28	17	s	25	15	sh
Phoenix	45	30	s	43	28	s
Pittsburgh	22	12	pc	21	9	pc
Port-au-Prince	35	24	t	35	23	pc
Portland, Ore.	27	13	pc	25	13	s
Rio de Janeiro	25	18	pc	24	18	s
Riyadh	42	25	s	42	27	s
Rome	29	20	s	31	21	s
Salt Lake City	39	22	s	34	18	s
San Diego	27	18	pc	23	17	pc
San Francisco	21	14	pc	20	13	pc
San Juan	31	26	sh	31	25	pc
Santiago	11	5	r	14	3	pc
Santo Domingo	32	24	t	33	23	pc
Sao Paulo	22	13	s	23	13	s
Seattle	25	12	pc	24	13	s
Seoul	28	19	pc	27	20	pc
Shanghai	28	22	c	28	23	sh
Singapore	30	25	pc	30	25	pc
Stockholm	17	9	t	18	8	pc
Sydney	17	8	s	17	10	c
Taipei	36	26	pc	33	26	pc
Tehran	36	22	s	36	23	s
Tel Aviv	31	24	s	31	23	s
Tokyo	25	22	sh	26	22	c
Toronto	19	10	c	21	12	pc
Vancouver	21	12	s	20	12	s
Washington, D.C.	28	18	s	25	16	r
Zurich	29	17	pc	29	16	t

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



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

Across	Down
1 Like the smell of burning plastic	47 Competed in a bee, in Britain
6 Book makeup	48 Favoring neither faction in a dispute
11 Letter after epsilon	52 Spouse's family
14 Pop singer Mars	54 Swipe over a checkout laser
15 Rust or lime, for example	55 Card worth one or eleven in blackjack
17 1981 hit for ELO	56 Haddock's home
20 Have unpaid debts	57 Blast, so to speak
21 Clearasil target, informally	60 Chaney of horror films
22 Prom chaperones, usually	61 Perfect
24 Cabernet Sauvignon or Malbec, e.g.	62 Alleviated
26 Boorish	63 Come to a close
27 Flip decision	64 F. Scott Fitzgerald's wife
31 Hay units	65 Attire

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

#### Previous Puzzle's Solution

NEW AT NABS FEED  
OLIVE EMIT RAMA  
RIDE SAWAVE ARMY  
MAO TUTS WENT AS  
ASWEET STITCH  
DRUM HEH LAB  
MLI MOPE ASIDE  
WASTENOT WANTNOT  
ALOHA DAHL EGGS  
HAL THY OLDE  
ATE

# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Monday, June 26, 2017 | B1

Yen vs. Dollar 111.2540 ▼ 0.07%

Hang Seng 25670.05 ▼ 0.02%

Gold 1256.20 ▲ 0.69%

WTI crude 43.01 ▲ 0.63%

10-Year JGB yield 0.056%

10-Year Treasury yield 2.146%

## Takata Nears 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 Japanese automotive supplier, in a long-expected move to address mounting liabilities from an unprecedented safety recall, was putting the finishing touches on a bankruptcy petition expected to be filed in a Delaware federal

court and another filing in Japan, the people said.

Under the current plan, Takata's Michigan-based subsidiary planned to seek chapter 11 protection from creditors in the U.S. Sunday evening while the parent company pursues a bankruptcy filing in Japan on Monday, the people 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 this weekend to re-

view and approve the plan, the people said.

Takata has an agreement in principle to sell the bulk of its

### \$1.6B

Amount of assets that Takata plans to sell to a rival supplier

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.

Proceeds from the sale would help pay \$850 million to a compensation fund for auto makers shouldering recall costs, a requirement of Takata's agreement earlier to plead guilty to criminal wrongdoing in the U.S. for providing

misleading testing reports on the air bags, the people said.

**Sumitomo Mitsui Banking Corp.** was expected to provide Takata with a loan as part of the bankruptcy proceedings, one of the people said.

Takata's restructuring plans have been delayed before, and the timing of the expected bankruptcy filings could slip. But Takata's advisers were racing to complete the bankruptcy filings over the weekend, the people familiar with the matter said.

Takata's long-simmering bankruptcy preparations follow:

Please see TAKATA page B2

## An Asian Fund Does First Deal In the U.S.

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 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 valued at between \$600 million and \$800 million, including debt.

Chinese pharmaceutical company **Humanwell Healthcare (Group) Co.** will take a minority position, AGIC said.

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. 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 help 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 this month asked commercial banks to review loans made to a handful of particularly aggressive conglomerates.

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 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 "is a market leader in the U.S. and hasn't done much in Asia at all," Mr. Sun said. "We feel this is the right point that they can expand their presence."

♦ Bankers brace for slowdown in China deals abroad ..... B7



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 increasingly 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 crimi-

nal 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 continuous changes to the production level might ultimately threaten the business's profitability.

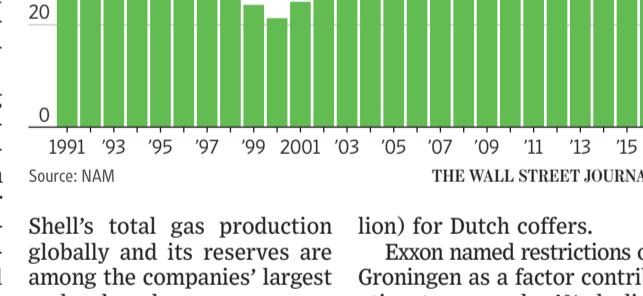
NAM said it is considering formally contesting the government's decision. It also expressed surprise at the Dutch court order to the prosecutor to open a criminal investigation this year, because the authorities had previously found no grounds for such action. The state will make a decision on whether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

Groningen was expected to be one of the world's largest gas producers for decades to come. Last year, it made up almost 10% of both Exxon and

### Shaken

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

60 billion cubic meters



Source: NAM

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 bil-

lion) for Dutch coffers.

Exxon named restrictions on Groningen as a factor contributing to a nearly 4% decline last year in its global natural-gas output. Shell said Groningen issues were largely responsible for a decline of 636 billion cubic feet in proven reserve estimates for its European joint ventures, equivalent to nearly

Please see QUAKES page B2

## Traders Are Blue as Era Ends for Cheese Auction



By ALEXANDER OSIPOVICH  
AND BENJAMIN PARKIN

People wearing colored jackets in Chicago were shouting at each other about cheese for the final time on Friday.

A daily 10-minute auction in Chicago that helps set the U.S. price of cheese will go electronic on Monday, after being held in a traditional open-outcry format for decades. **CME Group Inc.**, the exchange operator that oversees the auction, ran it Friday in its old form for the last time.

"We're all going to miss the yelling and the screaming," said Dean Kinnas, a dairy options trader at the CME-owned **Chicago Board of Trade**, or CBOT, exchange.

The "spot call" cheese auc-

tion is among the more obscure markets in CME's empire. Until Friday, it was held in a corner of the CBOT trading floor in downtown Chicago each weekday at 10:45 a.m. Central time. There are often only a handful of trades—each representing a "carload" of 40,000 to 44,000 pounds of cheddar—executed each day by a small group of brokers.

CME hopes the electronic platform will boost participation, with companies able to access the auction and monitor prices from anywhere in the world.

Earlier this year, CME shifted similar auctions for butter and nonfat dry milk to the new format, and it said participation has increased.

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Please see MIMS page B4

Please see TAKATA page B2

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## CHEESE

Continued from the prior page

Increasing volumes could also bolster confidence in the benchmark cheese price that is determined by the auction. The cheese benchmark has been dogged by allegations of market manipulation over its centurylong history.

Last year, around 50 million pounds of cheese were traded in the auction, less than 1% of total U.S. cheese production, dairy-market observers say. Despite the relatively small volumes, the price from the auction is widely used in the U.S. cheese business.

More than 80% of the wholesale cheese transactions in the U.S. are priced off the CME spot cheddar price, said Dave Kurzawski, a senior dairy broker at INTL FCStone Inc.

Other types of cheese are typically bought and sold at a premium or discount to cheddar. For instance, a dairy operator might sell mozzarella for 10 cents a pound above the average price of CME spot cheddar from the previous week.

**'Cheddar is kind of the lowest common denominator of cheeses.'**

"Cheddar is kind of the lowest common denominator of cheeses," Mr. Kurzawski said.

The number of open-outcry trading floors has dwindled amid the inexorable shift to electronic markets. In December, CME shut down the trading floor of the New York Mercantile Exchange in Manhattan, the longtime home of pits for oil and gold futures, following a long decline in open-outcry volumes.

At the spot cheese auction on Thursday, some 20 brokers barked and haggled, phones pressed to their ears as they relayed orders from customers such as food processors.

Cheese at the auction is traded in both barrels and



A cheese contest in Green Bay

blocks at different prices. Both have fallen this year. A barrel of cheddar, used primarily for processing, rose 2.2% to \$1.37 a pound on Friday but was down 14% for the year. A block of cheddar, used for cutting, fell 0.3% to \$1.54 a pound, down 7% for the year so far.

The auction traces its history back to the founding of the Wisconsin Cheese Exchange in 1918. Later renamed the National Cheese Exchange, it was based for decades in Green Bay, Wis. In 1997, it closed down, and the market shifted to Chicago.

Rumors of market manipulation tarnished the reputation of the National Cheese Exchange, with dairy farmers accusing Kraft Foods Inc. and other big food companies of using it to keep prices artificially low. Multiple lawsuits filed by farmers against Kraft in the late 1990s were all eventually thrown out, and regulators never filed charges against the food company, which denied the accusations.

Moving the market to Chicago put the auction under CME's surveillance and regulation, but that didn't end concerns about possible manipulation. In 2008, the Dairy Farmers of America Inc. and two of its former executives paid \$12 million to settle allegations by the Commodity Futures Trading Commission that they had attempted to manipulate milk futures by repeatedly buying cheddar in the auction. DFA, a farmers' cooperative, neither admitted nor denied wrongdoing.

deal required Takata to pay \$125 million to a compensation fund for consumers.

In the U.S. alone, 19 auto makers are in the process of eventually recalling 42 million vehicles with up to nearly 70 million Takata air bags, the largest automotive safety campaign in American history.

The exploding air bags sparked U.S. congressional hearings, widespread litigation and hammered Takata's finances, forcing it to weigh a bankruptcy filing and seek a financial backer.

In May, Takata reported a roughly \$718 million loss for the full year ending in March. The company's stock price has been plunging in recent days amid reports of its bankruptcy preparations.

Residents have filed nearly 80,000 compensation claims

## BUSINESS & FINANCE

# Racing Toward Next Drug Frontier

BY ANNE STEELE

The next frontier for multi-billion-dollar drug therapies is a silent disease many people don't know they have.

Dozens of pharmaceutical companies including **Gilead Sciences Inc.**, **Allergan PLC** and **Intercept Pharmaceuticals Inc.** have joined the fray to bring a treatment for nonalcoholic steatohepatitis—a common but often undetected fatty-liver disease—to market. Interest in the disease, known as NASH, has spurred at least six deals over two years valued at \$3.52 billion or more.

Overall, more than 40 drugs in mid- and late-stage trials are targeting various aspects of the complex metabolic disorder.

NASH is the progressive form of nonalcoholic fatty-liver disease. Fat buildup causes inflammation, cell damage and eventually fibrosis, or scarring of the liver.

The companies are lured by the prospect of a large and growing pool of patients for whom there is currently no treatment. As much as 12% of the U.S. population is believed to have the disease, which is linked with other metabolic conditions on the rise including obesity and Type 2 diabetes, according to the National Institute of Diabetes and Digestive and Kidney Diseases.

NASH generally has no symptoms early on but can lead to cirrhosis and liver cancer.

SunTrust Robinson Humphrey analyst Edward Nash, who has called NASH "one of the last untapped multibillion-dollar therapeutic areas," forecasts the market to grow to more than \$5 billion in the U.S. alone by 2028. Research and consulting firm GlobalData estimates the NASH market across seven major coun-



ROBIN A. ROTHMAN WAS DIAGNOSED WITH NASH AFTER GETTING HIVES.

tries—the U.S., France, Germany, Italy, Spain, the U.K. and Japan—is set to rise to \$25.3 billion by 2026.

As markets to treat diseases such as diabetes and hepatitis C become crowded, companies are looking to NASH for their next big break.

Companies say it is likely different treatments will be used in combination to treat patients in different stages of the disease. Some drugs attempt to reduce fat in the liver while others aim at symptoms such as inflammation and fibrosis. Some drugs address combinations of these.

Drug-company interest got a boost in January 2014, when the National Institutes of Health halted a clinical trial of Intercept's drug obeticholic acid in NASH patients because the drug significantly improved measures of liver health versus a placebo. That disclosure nearly quadrupled Intercept's market value, though it ebbed amid reports of the drug's effects on cholesterol levels. Results from a study released later that year eased concerns over cholesterol and the company's stock surged again.

In September, Allergan snapped up Tobira Therapeutics Inc. and Akarna Therapeutics Ltd. for \$1.7 billion and \$50 million, respectively, adding a trio of NASH therapies to its pipeline. It also is collaborating to combine one of its drugs with one of Novartis AG's liver treatments, which is in phase 2 trials.

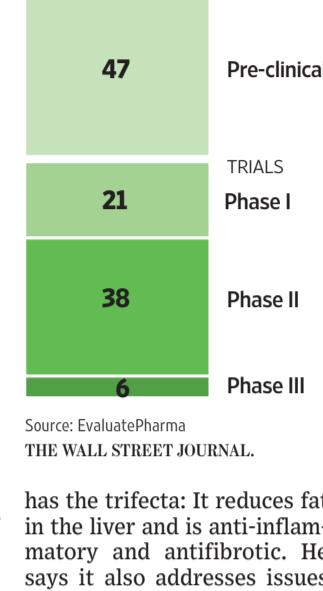
Gilead last year bought Nimbus Therapeutics LLC's liver-drug program and now also has three NASH candidates in its pipeline.

Mike Burgess, Bristol-Myers Squibb Co.'s head of cardiovascular, fibrosis and immunoscience development, said the company's phase 2 candidate

## Drugs in the Pipeline

Companies are spending billions of dollars to develop treatments for NASH.

Drug count at various stages



Source: EvaluatePharma  
THE WALL STREET JOURNAL.

has the trifecta: It reduces fat in the liver and is anti-inflammatory and antifibrotic. He says it also addresses issues outside of NASH, such as increasing insulin sensitivity in patients who are diabetic.

Much will depend on identifying patients with the disease. Right now, diagnosis is often by chance.

Robin A. Rothman was diagnosed with NASH after an episode with hives, and her doctors initially suspected hepatitis C because her partner had the virus. The 45-year-old Brooklyn, N.Y., resident joined Intercept's latest clinical trial. The day-to-day regimen is simple: one pill. But Ms. Rothman also volunteers to do regular blood draws and provide stool samples. "I want them to have as much information as possible to do as much good as possible," she said.

Delta, the No. 2 U.S. airline by traffic, owns 49% of London-based Virgin Atlantic Airways Ltd. and 49% of Grupo Aeromexico SAB, and has smaller stakes in Brazil's Gol Linhas Aéreas Inteligentes SA and Shanghai-based China Eastern Airlines Corp.

Korean, which carried 27 million passengers last year, flies to a dozen U.S. cities nonstop from its hub at Incheon International Airport near Seoul and serves many Asian destinations including more than two dozen in China.

## Delta, Korean Air Expand Partnership

BY SUSAN CAREY

**Delta Air Lines Inc.** said it would create a trans-Pacific joint venture with **Korean Air Lines Co.**, as the U.S. carrier rapidly builds out its international route network.

The two airlines already code-share on some routes. Both are founding members of the SkyTeam marketing alliance and received U.S. Transportation Department antitrust authority to more closely cooperate in 2002. They didn't act on that regulatory green light until now.

It isn't the first time seismic activity has caused controversy in the energy industry. A U.S. debate has raged for years over whether water injection related to drilling has caused earthquakes in Oklahoma and Texas. Earthquakes like the ones in Groningen are less known.

Groningen's quakes were first officially linked to gas production in the 1990s, nearly 30 years after work on the field began.

In anticipation of the expanded partnership, Delta recently launched nonstop service to Seoul from its big Atlanta hub, complementing Korean Air's existing flight. "Now is the right time for this JV," said Korean Air Chairman Y.H. Cho.

Delta and Korean said the enhanced agreement would expand code-sharing, more closely link frequent-flier awards and bring the carriers' gates closer together at key airports. They also would share costs and revenue on flights operated within the

region's homes and infrastructure weren't designed to withstand even such low seismic instability. The tremors occur where Groningen's gas lies—roughly 3 kilometers below ground level. That relatively shallow depth, and more significantly the soft, clay-like topsoil in much of the region, make for stronger ground movements than expected from earthquakes of such magnitude, according to the Netherlands State Supervision of Mines, which regulates gas extraction.

The tremors have caused widespread damage, though no deaths, in a province of nearly 600,000 people.

A large majority of the tremors registered low magnitudes of between 1.5 and 2. But the public and authorities snapped to attention in 2012, when an earthquake of magnitude 3.6 hit.

The region's homes and infrastructure weren't designed to withstand even such low seismic instability. The tremors occur where Groningen's gas lies—roughly 3 kilometers below ground level. That relatively shallow depth, and more significantly the soft, clay-like topsoil in much of the region, make for stronger ground movements than expected from earthquakes of such magnitude, according to the Netherlands State Supervision of Mines, which regulates gas extraction.

## Earthquakes Scar Agricultural Region

Residents have filed nearly 80,000 compensation claims



ONE FAMILY PUSHED THE GOVERNMENT FOR HELP TO REINFORCE THEIR HOME.

The quakes have led to nearly 80,000 damage claims by residents here.

The quakes have disrupted life in this once wealthy agricultural region, which spools across the north of the Netherlands to the sea in a verdant land punctuated by country villages, brick farmhouses and medieval churches.

Many of those historic structures are now scarred with cracks and ugly supportive struts; some have been torn down entirely. Property values have plummeted. Buildings here are sturdy, but they weren't made to withstand earthquakes, which were virtually unheard of in this part of the world until the early 1990s, when the gas quakes were first acknowledged.

In early 2013, after another quake shook her house, Ms. de Joode noticed serious structural damage to her home, a historic 19th-century farmhouse.

She and her family put in a claim for compensation from Shell and Exxon's joint venture and pressured government officials for help to reinforce the building.

The process has taken five years of constant work, Ms. de Joode said, and disrupted the family's life.

Shell and Exxon's joint venture, Nederlandse Aardolie Maatschappij BV, or NAM, has vowed to pay for any earthquake-induced damage.

Some residents see the benefits. Cees de Vries received financing through the economic fund that NAM helped establish to boost his business—a landmark hotel in the village of Loppersum.

"People don't like that I say this," Mr. de Vries said. "I think without the earthquakes this whole region would have been going downhill anyway, and now there's a lot of activity."

—Sarah Kent

The government said it has recognized that mistakes have been made and has implemented the report's recommendations.

NAM hasn't disputed the findings and has made several public apologies. It has acknowledged liability for earthquake-related damage and paid out hundreds of thousands of euros in compensation, poured millions more into a fund to stimulate the region's flagging economy and put aside more than €1 billion, mostly for a program to strengthen and repair buildings in the area. The bill is expected to grow.

NAM said while it would meet

## BUSINESS NEWS

# Setback for Hybrid Minivan

Fiat Chrysler has suspended production of the fuel-efficient vehicle amid glitches

BY CHESTER DAWSON

Criticized for lacking efficient vehicles in its lineup, Fiat Chrysler Automobiles NV has taken steps to introduce some of the industry's most fuel-efficient cars. The problem is that few of them are for sale or even being built.

The centerpiece of Fiat Chrysler's efforts is the new 84-miles-per-gallon hybrid gas-

closed the suspension publicly. The delay has irked buyers, who have high hopes for the well-regarded vehicle. Among them is Google's parent company—the single biggest buyer so far—whose engineers use it to test self-driving systems.

The flawed product rollout is a "black eye," said Bill Bernhard, general manager of a Chrysler dealership in Fredonia, N.Y. "Chrysler does a very poor job of launching new products."

The setback comes as the company stockpiles the "Eco-Diesel" versions of its 2017 Ram pickup trucks and Jeep Grand Cherokee SUVs after the govern-

and officials say Pacifica hybrid production will resume in time to meet outstanding orders. The EcoDiesels, it says, will be certified by regulators once their concerns are addressed.

The company's lineup now emphasizes horsepower over green as it boosts production of higher-profit-margin SUVs and pickup trucks. It says current consumer demand for fully electric vehicles doesn't now warrant greater production and marketing of such autos.

Prior to releasing EcoDiesels and the hybrid minivan, the auto maker's most visible

ated for safety," said David Pittman of Silver Spring, Md., who ordered a hybrid Pacifica in April and is waiting for it to be delivered.

The growing backlog of such buyers could weigh on the company's reputation and bottom line. Fiat Chrysler has handed out \$500 prepaid credit cards or high-speed electric chargers to compensate. Some of its dealers have lent vehicles to owners who have received the car, as they wait for the recall issue to be fixed.

Fiat Chrysler hasn't said when the flaw would be fixed or when production would resume. In a letter to dealers viewed by The Wall Street Journal, Fiat Chrysler said a sudden loss of power from defective inverter diodes "could cause a crash without a warning." A recall isn't expected to begin, however, until the third quarter.

"It's been radio silence," said Chris Filkins, 40 years old, who lives outside of Buffalo, N.Y., and awaits a Pacifica hybrid he ordered in March. "If you have a lease coming due or your car is about to die, I wouldn't put your eggs in this basket."

Among those taking notice was Alphabet Inc.'s Google car team, which is now named Waymo. The Pacifica hybrid is spacious and runs on a high-powered battery with a backup gasoline engine if juice runs out—a combination Google sees as ideal for autonomous-vehicle testing.

The Silicon Valley tech giant has about 100 hybrid Pacificas in its fleet and has ordered 500 more. Neither Waymo or Fiat Chrysler would say if any of those additional vehicles have been delivered.

Dealers also are in a jam.

"I need about 20 of them," said Brad Davis, vice president of Glenn E. Thomas Dodge Chrysler Jeep near Long Beach, Calif. "We sold the only four we received the day they arrived," he said. The dealership said it has a waiting list of more than 30 prospects for the van.



Ducati is renowned for its prizewinning racing motorbikes.

TOBIAS SCHWARZ/REUTERS



The Chrysler Pacifica on display in January in Detroit. A recall is said to be planned for Pacifica hybrids.

electric Pacifica minivan. But for many potential customers, the vehicle has been as hard to find as the flying pigs, blue moons and two-headed dogs featured in ads for the industry's first hybrid minivan.

The auto maker, which created the minivan segment in the 1980s, has suspended production of Pacifica hybrids in recent weeks amid a planned recall of the vehicle due to technical glitches, people familiar with the matter said. Fiat Chrysler hasn't dis-

closed the suspension publicly. The delay has irked buyers, who have high hopes for the well-regarded vehicle. Among them is Google's parent company—the single biggest buyer so far—whose engineers use it to test self-driving systems.

The glitches cast doubt on the company's ability to boost its fuel-economy ranking, the second worst after Porsche among global auto makers. It also raises questions about its readiness to meet increasingly stringent emissions standards hitting the American auto industry in coming years.

Fiat Chrysler sees the issues as temporary setbacks,

fuel-efficiency play was the Fiat 500e. However, the pricey city car is available in only two states, and the company loses money on each sale.

The hybrid Pacifica, built in Windsor, Ontario, made its debut earlier this year but has been plagued by launch delays, including the major recall this month for a defect that could potentially shut down engines on the nearly 2,000 models sold so far.

"The most information I can get is that it is being au-

tomatics 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-

## Glencore Sweetens Rio Unit Bid

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-

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

making by Chief Executive Ivan Glasenberg almost two 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



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

PAUL BARRENA/BLOOMBERG NEWS

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## TECHNOLOGY

WSJ.com/Tech

# SpaceX Seeks to Complete Dual Launches

By ANDY PASZTOR

Elon Musk's SpaceX on Sunday will seek 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 is 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, this weekend's activities are 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 increasingly becoming a routine ending for SpaceX launches. Sunday's mission also is 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, according to rivals and industry officials tracking the company's launch prices, SpaceX officials aren't

offering any discounts to entice some customers to put their satellites on top of refurbished boosters. Instead, the company is offering to move them up in the packed schedule for getting a ride to space, these officials said.

A SpaceX spokesman couldn't immediately be reached for comment.

Matt Desch, Iridium's CEO, has made no secret of his willingness to accept refurbished boosters if that would speed up deployment of his 70-plus satellite constellation, which is currently expected to be completed by mid-2018.

## 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 a 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 around the world 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 reinstall 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 got into an Uber vehicle at LaGuardia Airport in New York City in March.

SETH WENIG/ASSOCIATED PRESS

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 say. Now, some employers are wary of hiring Uber employees out of concern they could bring the culture with them, recruiters note. 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

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 "yell out and scream."

By 2027, the problem of bulky AR headsets like Micro-

soft'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 getting 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). Apple clearly wants its devices to connect to everything on Earth.

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, a sort of "Choose Your Own Adventure" for our

daily routines.

"You might be walking by someplace and it might tell you, 'Hey, you should go in here, they make a great cup of coffee and there's also this person you really would like, too,'" says Jonathan Badeen, co-founder and chief strategy officer of dating app Tinder, where he leads teams that think about how to incorporate Apple's latest technology into apps.

By 2027, Apple and its competitors will also have cemented a world of trade-offs: If you want your life enhanced by AI and all the rest of this tech, you're going to have to submit to constant surveillance—by your devices or, in many cases, by the tech giants themselves. Apple's bet is that you will trust it to do this: The company's privacy stance is that it isn't going to look at or share your data, and it will be encrypted so others can't look at it, either.

Getting used to that won't be easy. Just as getting in a stranger's car or sleeping in a stranger's home seemed crazy before Uber and Airbnb, the 2027 iPhone's most important differentiator may be our willingness to accept things we can't even fathom today.

## Google Pay Ruling Approaches

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.

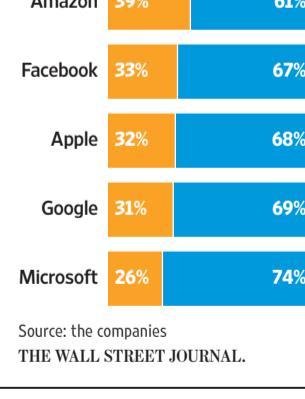
Google, a unit of **Alphabet** Inc., says its annual salary analyses show no gender pay gap among its 74,000 employees. "So we were quite surprised" by the Labor Department's accusations, "which came without any supporting data or methodology," Google said in an April blog post. Google has declined to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

Large tech companies are under pressure to balance their workforces. In their struggle to attract more women and underrepresented minorities, many have highlighted that their internal analyses show they pay men and women equally—but many don't make the data public.

## 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 federal lawsuit that accuses the firm 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

# A Star ETF Strategist Makes a Switch

ETF issuer Global X is counting on Jon Maier to repeat the success he had at Merrill Lynch

By ASJLYN LODER

Jon Maier may not rank among Wall Street's biggest money managers, but he is as close to royalty as the \$3 trillion exchange-traded-fund industry gets.

Mr. Maier was, until May, the man who picked the ETFs that go into the prepackaged investment portfolios sold by Merrill Lynch. During his eight years in the role, assets ballooned from less than \$1 billion to more than \$40 billion. He became so well known as the head of the firm's ETF models that the portfolios acquired the nickname "the Maier models," much to the dismay of Merrill Lynch.

Now he has walked away to become the first chief investment officer of **Global X Management Co.**, a privately held ETF issuer that just crossed \$5 billion in assets.

Global X is banking on Mr. Maier's name to help boost growth and plans to launch ETF portfolios of its own.

Hiring Mr. Maier "will help them open doors," said Joe Zidle, portfolio strategist at Richard Bernstein Advisors and a former colleague of Mr. Maier's.

ETFs are growing at a record pace, with the number of U.S. funds topping 2,000. There are ETFs investing in municipal bonds, African equities and complex derivatives,

all bought and sold on exchanges just like company stocks.

To navigate the thicket of competing products, investors are turning to off-the-shelf ETF portfolios. That makes model managers some of the most influential investors in the business. Mr. Maier's picks for Merrill Lynch could make or break a fund's success.

"They're increasingly causing these huge swings in assets," said Dave Nadig, chief executive of ETF.com, an industry news website owned by CBOE Holdings Inc., an exchange company.

Market insiders saw Mr. Maier's handiwork in a series of enormous trades that rolled through popular ETFs in late January. The Vanguard Short-Term Bond ETF drew \$1.27 billion in new cash, its biggest single-day gain. Investors yanked \$900 million from the Vanguard Growth ETF, the most since January 2008. The iShares Core MSCI EAFE ETF, which buys European stocks, took in \$540 million, at the time its third-largest inflow.

Merrill Lynch declined to comment.

That Mr. Maier, 48 years old, became an industry hot shot is something of a joke to those who know him. One described him as a "cool nerd." His partner, Peter Fletcher, is a computer-science teacher. They have a 6-year-old son and a rescue mutt named Rufus.

A New Jersey native, Mr. Maier began his Wall Street career after graduating from Emory University and serving a stint in the Peace Corps, where



Jon Maier says he began to feel hemmed in at Merrill Lynch by the very success he helped create.

he helped newly privatized Ukrainian companies adjust to a market economy. He joined PaineWebber & Co. in 1996 as a fund analyst, and stayed after the company was bought by UBS Group AG in 2000. Merrill, now part of Bank of America Corp., hired him in 2007 and put him in charge of ETF portfolios two years later.

The models had been largely neglected until Mr. Maier took over, said Mr. Zidle, who was deputy director of Merrill's research investment committee. The committee decided which sectors and industries to buy and sell, and Mr. Maier's job was to pick the ETFs that fit.

Mr. Maier visited thousands of advisers to pitch the models. Instead of buying dozens of ETFs, investors simply picked a portfolio, leaving the behind-the-scenes trading and rebalancing to the home office in New York.

Along the way, if advisers had a question, they knew Mr. Maier would answer his own phone. His approachability earned him a following, and the "Maier models" moniker stuck.

"The models will keep growing without me, but they grew initially because of me," said Mr. Maier.

For the sales staff at ETF issuers such as BlackRock Inc.

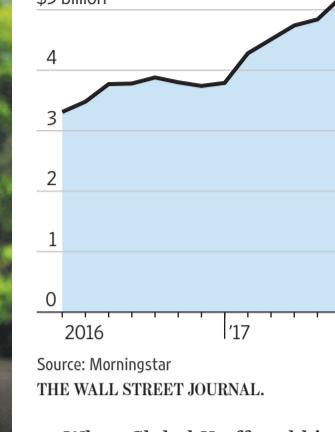
or State Street Corp., getting added to the Maier models was reason to pop Champagne and start mentally spending next year's bonus, according to people who have dealt with him.

As the models gained assets, Merrill Lynch executives became uncomfortable that the "Maier model" sobriquet placed too much emphasis on one employee, according to people familiar with the matter.

Mr. Maier said he began to feel hemmed in by the very success he helped create. The bigger the models became, the less say he had on the direction of the business.

### X Factor

Global X exchange-traded funds are gaining new assets.



Source: Morningstar  
THE WALL STREET JOURNAL.

When Global X offered him a chance to build something new, he took it. Morningstar Inc. ranks the eight-year-old firm 11th in ETF inflows this year.

Last year, J.P. Morgan Chase & Co. bought a 10% stake for an undisclosed sum. Mr. Nadig estimated the firm's value at \$150 million to \$250 million.

At Global X's Manhattan offices, Chief Executive Bruno del Ama outlines what he calls his "stretch goal" for the 40-person firm: 1% of the ETF market within five years—or about \$30 billion, six times current assets.

The Global X sales staff is already using Mr. Maier's weekly talking points to gain traction with advisers. New ETF portfolios may not be far behind.

They have already decided on a name: The Global X Maier Models.

## INTELLIGENT INVESTOR | By Jason Zweig

# As Stocks Evaporate, Strategies Must Shift



In less than two decades, more than half of all publicly traded companies have disappeared. There were 7,355 U.S. stocks in November 1997, according to the Center for Research in Security Prices at the University of Chicago's Booth School of Business. Nowadays, there are fewer than 3,600.

A look at the data helps explain why stock pickers have been underperforming. And the shrinking number of companies should make all investors more skeptical about the market-beating claims of recently trendy strategies.

Back in November 1997, there were more than 2,500 small stocks and nearly 4,000 "microcap" stocks, according to the Center for Research in Security Prices. At the end of 2016, fewer than 1,200 small and just under 1,900 microcap stocks were left.

Most of those companies melted away between 2000 and 2012, but the numbers show no signs of recovering.

Several factors explain the shrinking number of stocks, analysts say, including the regulatory red tape that discourages smaller companies from going and staying public; the flood of venture-capital funding that enables young companies to stay private longer; and the rise of private-equity funds, whose buyouts take shares off the public market.

For stock pickers, differentiating among the remaining choices is "an even harder game" than it was when the market consisted of twice as many companies, says Michael Mauboussin, an investment strategist at **Credit Suisse Group AG** in New York who wrote a report this spring titled "The Incredible Shrinking Universe of Stocks."

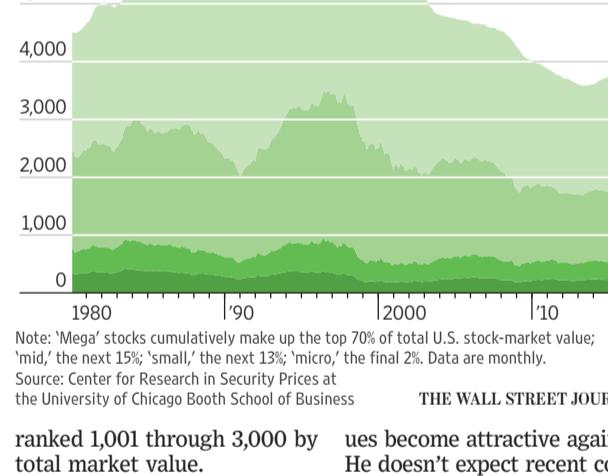
That's because the surviving companies tend to be "fewer, bigger, older, more profitable and easier to analyze," he says, making stock picking more competitive.

Consider small-stock funds. Often, they compare themselves with the Russell 2000, an index of the U.S. stocks

### 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

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."

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.

There were 7,355 U.S. stocks in 1997. Nowadays, there are fewer than 3,600.

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 val-

ues 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, those that have disappeared from the market.

Before concluding that small stocks or cheap "value" stocks will outrace 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.

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.

# Two Italian Banks to Close In a Move to Address Crisis

By TOM FAIRLESS

FRANKFURT—Troubled Italian lenders **Veneto Banca SpA** and **Banca Popolare di Vicenza SpA** will be wound down after the European Central Bank decided they are likely to fail.

The decision Friday by the eurozone's top banking supervisor indicates Italy is moving closer to addressing its slow-moving banking crisis, which has been fueled by a mountain of nonperforming loans.

Italy's Treasury had been seeking European Union approval for a rescue of the two lenders, which have combined assets of around €60 billion (\$67 billion) and are based in northeastern Italy.

But in a statement published Friday evening, the ECB

said the banks' plans to raise additional capital had proved inadequate.

The two banks "repeatedly breached supervisory capital requirements," the ECB said. They had been given time to present capital plans but "had been unable to offer credible solutions going forward," it said.

The Single Resolution Board, which is in charge of dealing with Europe's failing banks, accepted that the two lenders should be wound down under national Italian insolvency laws.

The two banks needed to fill a multibillion-euro capital shortfall identified by the ECB during bank stress tests in 2014.

Their financial positions have since deteriorated further as they struggled with

high levels of nonperforming loans and challenges to their business models, the ECB said.

A €3.5 billion capital investment in 2016 from Italy's government-sponsored banking fund, Atlante, didn't solve the problems.

The Italian government planned to meet over the weekend to enact measures aimed at shielding depositors and senior bondholders from losses arising from the banks' liquidation.

Italy faces a tense political calendar over the coming months, with national elections due by next May in which the euroskeptic Five Star Movement is expected to emerge as the largest political force.

—Julia-Ambra Verlaine contributed to this article.

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FUND NAME GF AT LB DATE CR NAV YTD %RETURN—

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8866 Website: [www.cam.com.sg](http://www.cam.com.sg) CAM-GTF Limited OT MUS 06/22 USD 0.5 6.5 -3.2

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China A-Share Fund Cls A AUD H OT HKG 06/22 AUD 13.36 13.3 20.6 -2.6

China A-Share Fund Cls A AUD H OT HKG 06/22 CAD 12.94 24.2 32.8 -1.2

China A-Share Fund Cls A EUR H OT HKG 06/22 EUR 14.76 23.6 32.1 -1.1

China A-Share Fund Cls A EUR H OT HKG 06/22 GBP 14.23 22.9 30.8 NS

China A-Share Fund Cls A HKD H OT HKG 06/22 HKD 12.09 22.7 31.5 -1.1

China A-Share Fund Cls A NZD H OT HKG 06/22 NZD 14.75 22.3 31.5 -1.1

China A-Share Fund Cls A USD H OT HKG 06/22 USD 12.04 15.5 30.4 NS

VP Multi-Asset Fund Cls A HKD H OT HKG 06/22 CNY 12.15 26.4 36.1 NS

VP Multi-Asset Fund Cls A USD H OT HKG 06/22 HKD 10.37 7.8 NS NS

VP Multi-Asset Fund Cls A USD H OT HKG 06/22 USD 10.47 7.2 8.8 NS

VP Taiwan Fund AS EQ CYM 06/22 USD 19.54 16.7 24.2 10.4

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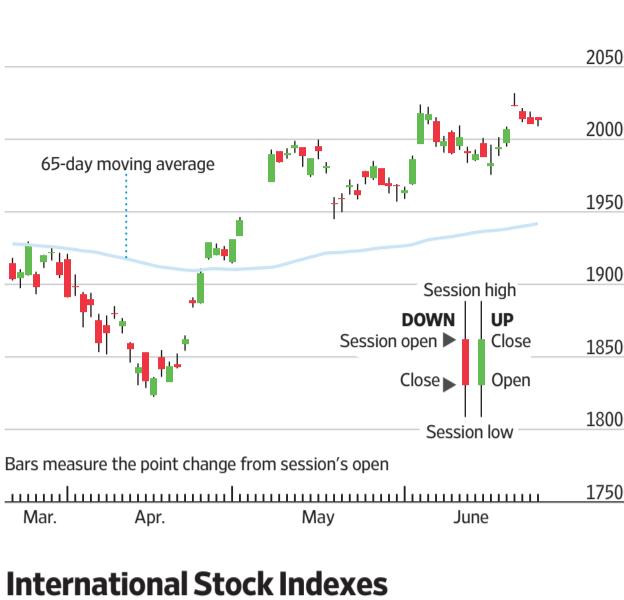
## MARKETS DIGEST

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.



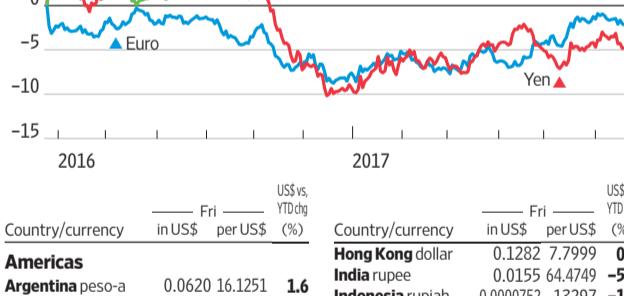
### International Stock Indexes

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>	<b>2769.26</b>	4.75	<span style="color: green;">▲ 0.17</span>	2197.91	2790.26	9.4
	<b>MSCI EAFE</b>	<b>1889.23</b>	3.20	<span style="color: green;">▲ 0.17</span>	1520.94	1916.37	12.2
	<b>MSCI EM USD</b>	<b>1011.67</b>	2.86	<span style="color: green;">▲ 0.28</span>	794.56	1019.06	17.3
<b>Americas</b>	<b>DJ Americas</b>	<b>584.97</b>	1.33	<span style="color: green;">▲ 0.23</span>	480.83	588.47	8.3
Brazil	Sao Paulo Bovespa	61087.14	-185.08	<span style="color: red;">-0.30</span>	49245.53	69052.03	1.4
Canada	S&P/TSX Comp	15319.56	99.66	<span style="color: green;">▲ 0.65</span>	13689.79	15922.37	0.2
Mexico	IPC All-Share	48980.78	-36.65	<span style="color: red;">-0.07</span>	44282.03	49939.47	7.3
Chile	Santiago IPSA	3621.19	7.03	<span style="color: green;">▲ 0.19</span>	3067.58	3782.66	12.3
<b>U.S.</b>	<b>DJIA</b>	<b>21394.76</b>	-2.53	<span style="color: red;">-0.01</span>	17140.24	21528.99	8.3
	<b>Nasdaq Composite</b>	<b>6265.25</b>	28.56	<span style="color: green;">▲ 0.46</span>	4594.44	6321.76	16.4
	<b>S&amp;P 500</b>	<b>2438.30</b>	3.80	<span style="color: green;">▲ 0.16</span>	2000.54	2453.46	8.9
	<b>CBOE Volatility</b>	<b>10.02</b>	-0.46	<span style="color: red;">-4.39</span>	9.75	25.76	-28.6
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>387.62</b>	-0.91	<span style="color: red;">-0.23</span>	308.75	396.45	7.2
	<b>Stoxx Europe 50</b>	<b>3191.74</b>	-8.42	<span style="color: red;">-0.26</span>	2636.71	3276.11	6.0
France	<b>CAC 40</b>	<b>5266.12</b>	-15.81	<span style="color: red;">-0.30</span>	3984.72	5342.40	8.3
Germany	<b>DAX</b>	<b>12733.41</b>	-60.59	<span style="color: red;">-0.47</span>	9268.66	12889.95	10.9
Israel	Tel Aviv	1438.22	...	<b>Closed</b>	1378.66	1478.96	-2.2
Italy	<b>FTSE MIB</b>	<b>20833.88</b>	-96.38	<span style="color: red;">-0.46</span>	15103.58	21787.90	8.3
Netherlands	<b>AEX</b>	<b>519.50</b>	0.11	<span style="color: green;">▲ 0.02</span>	411.62	536.26	7.5
Russia	<b>RTS Index</b>	<b>988.93</b>	10.48	<span style="color: green;">▲ 1.07</span>	888.78	1195.61	-14.2
Spain	<b>IBEX 35</b>	<b>10630.80</b>	-79.10	<span style="color: red;">-0.74</span>	7645.50	11135.40	13.7
Switzerland	<b>Swiss Market</b>	<b>9032.89</b>	-18.38	<span style="color: red;">-0.20</span>	7593.20	9127.61	9.9
South Africa	<b>Johannesburg All Share</b>	<b>51503.52</b>	430.66	<span style="color: green;">▲ 0.84</span>	48935.90	54548.91	1.7
Turkey	<b>BIST 100</b>	<b>99638.65</b>	-433.50	<span style="color: red;">-0.43</span>	71594.98	100072.15	27.5
U.K.	<b>FTSE 100</b>	<b>7424.13</b>	-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>	<b>1630.44</b>	2.38	<span style="color: green;">▲ 0.15</span>	1324.15	1640.63	14.6
Australia	<b>S&amp;P/ASX 200</b>	<b>5715.90</b>	9.90	<span style="color: green;">▲ 0.17</span>	5103.30	5956.50	0.9
China	<b>Shanghai Composite</b>	<b>3157.87</b>	10.42	<span style="color: green;">▲ 0.33</span>	2854.29	3288.97	1.7
Hong Kong	<b>Hang Seng</b>	<b>25670.05</b>	-4.48	<span style="color: red;">-0.02</span>	20172.46	26063.06	16.7
India	<b>S&amp;P BSE Sensex</b>	<b>31138.21</b>	-152.53	<span style="color: red;">-0.49</span>	25765.14	31131.57	16.9
Indonesia	<b>Jakarta Composite</b>	<b>5829.71</b>	...	<b>Closed</b>	4834.57	5829.71	10.1
Japan	<b>Nikkei Stock Avg</b>	<b>20132.67</b>	22.16	<span style="color: green;">▲ 0.11</span>	14952.02	20304.41	5.3
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1779.45</b>	2.02	<span style="color: green;">▲ 0.11</span>	1616.64	1792.35	8.4
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7553.64</b>	-10.05	<span style="color: red;">-0.13</span>	6664.21	7592.03	9.8
Pakistan	<b>KSE100</b>	<b>46332.31</b>	...	<b>Closed</b>	37039.57	52876.46	-3.1
Philippines	<b>PSEI</b>	<b>7814.17</b>	-44.17	<span style="color: red;">-0.56</span>	6563.67	8102.30	14.2
Singapore	<b>Straits Times</b>	<b>3209.47</b>	-6.08	<span style="color: red;">-0.19</span>	2729.85	3271.11	11.4
South Korea	<b>Kospi</b>	<b>2378.60</b>	8.23	<span style="color: green;">▲ 0.35</span>	1925.24	2381.69	17.4
Taiwan	<b>Weighted</b>	<b>10377.70</b>	-21.36	<span style="color: red;">-0.21</span>	8458.87	10399.06	12.1
Thailand	<b>SET</b>	<b>1582.36</b>	1.45	<span style="color: green;">▲ 0.09</span>	1406.18	1591.00	2.6

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

Country/currency	US\$ vs.		
	Fri	in US\$	per US\$ (%)
Country/currency	Fri	in US\$	per US\$ (%)
<b>Europe</b>			
Bulgaria leva	0.5725	1.7468	<span style="color: red;">-6.0</span>
Croatia kuna	0.1510	6.623	<span style="color: red;">-7.7</span>
Euro zone euro	1.1198	0.8931	<span style="color: red;">-6.1</span>
Czech Rep. koruna-b	0.0426	23.456	<span style="color: red;">-8.7</span>
Denmark krone	0.1506	6.6420	<span style="color: red;">-6.0</span>
Hungary forint	0.003616	276.58	<span style="color: red;">-6.0</span>
Iceland krona	0.009669	103.42	<span style="color: red;">-8.4</span>
Norway krone	0.1184	8.4470	<span style="color: red;">-2.3</span>
Poland zloty	0.2651	3.7729	<span style="color: red;">-9.9</span>
Russia ruble-d	0.01681	59.492	<span style="color: red;">-2.9</span>
Sweden krona	0.1148	8.7117	<span style="color: red;">-4.3</span>
Switzerland franc	1.0319	0.9691	<span style="color: red;">-4.9</span>
Ukraine hryvnia	0.0384	26.0338	<span style="color: red;">-3.9</span>
U.K. pound	0.2728	0.7857	<span style="color: red;">-3.0</span>
<b>Middle East/Africa</b>			
Bahrain dinar	2.6515	0.3772	<span style="color: red;">-0.01</span>
Egypt pound-a	0.0551	18.1430	<span style="color: green;">▲ 0.1</span>
Israel shekel	0.2828	3.5361	<span style="color: red;">-8.1</span>
Kuwait dinar	3.2924	0.3037	<span style="color: red;">-0.6</span>
Oman rial	2.5976	0.3850	<span style="color: green;">▲ 0.00</span>
Qatar rial	0.2721	3.675	<span style="color: green;">▲ 1.0</span>
Saudi Arabia riyal	0.2666	3.7508	<span style="color: green;">▲ 0.00</span>
South Africa rand	0.0774	12.9208	<span style="color: red;">-5.6</span>
<b>Asia</b>			
Hong Kong dollar	0.1282	7.7999	<span style="color: red;">-0.6</span>
India rupee	0.0155	64.4749	<span style="color: red;">-5.1</span>
Indonesia rupiah	0.0000752	13297	<span style="color: red;">-1.7</span>
Japan yen	0.008988	111.25	<span style="color: red;">-4.9</span>
Kazakhstan tenge	0.003067	326.09	<span style="color: red;">-2.9</span>
Macau pataca	0.1245	8.0342	<span style="color: green;">▲ 1.5</span>
Malaysia ringgit-c	0.2331	4.2895	<span style="color: red;">-4.4</span>
New Zealand dollar	0.7292	1.3706	<span style="color: red;">-5.1</span>
Pakistan rupee	0.0095	104.750	<span style="color: green;">▲ 0.4</span>
Philippines peso	0.0200	50.113	<span style="color: green;">▲ 1.0</span>
Singapore dollar	0.7213	1.3	

## FINANCE & MARKETS

# Beijing Shows Its Heavy Hand in Markets

After MSCI's upbeat news, debt crackdown on highfliers leaves investors wary

BY SHEN HONG

SHANGHAI—What a week for Chinese markets: First came a rally induced by a leading global index compiler's long-awaited decision to include Chinese stocks, and then a selloff after a regulatory crackdown on some of the country's biggest companies.

MSCI Inc.'s move on Tuesday to include for the first time Chinese shares in its global benchmarks was a recognition of the sheer weight of the world's second-largest stock market. But Beijing's abrupt regulatory sweep against some of the nation's largest overseas deal makers on Thursday underscores the biggest, long-lasting risk in investing in China: policy uncertainties.

The markets' response to the regulatory clampdown also serves as a reminder of how fragile Chinese investors are in the face of Beijing's seemingly strong resolve to clean

up a debt-laden financial system after years of widely available credit.

The Shanghai Composite Index rose 0.5% to its highest level in a week and a half on Wednesday after MSCI announced its decision to include 222 domestically listed Chinese stocks in its emerging-markets index.

The opposite happened less than 24 hours later, when news broke that China's banking regulator is conducting a sweeping check on the borrowing of some of the country's top overseas deal makers in one of the most forceful attempts yet to get a grip on debt. The list covers some of the highest-flying private conglomerates in China, including Anbang Insurance Group Co., whose chairman, Wu Xiaohui, has been detained by investigators of economic crimes; HNA Group Co.; Fosun International Ltd.; and property giant Dalian Wanda Group, owned by billionaire Wang Jianlin.

Little-known Rossoneri Sports Investment Management Changxing Ltd., which made headlines with its acquisition this year of Italian soccer powerhouse AC Milan, is



The Shanghai Composite is up 1.75% year to date. Above, a scene from Shanghai's Bund in January.

also on the list.

The five all have made bold international bets on big brand names. The revelations triggered heavy selloffs in bonds and stocks related to some of these companies.

Shenzhen-listed shares of Wanda Film Co., the entertain-

ment unit of Wanda Group, plunged nearly 10% before the company requested suspending share trading. Bonds issued by one of Wanda's property units fell 2.5% amid chatter that several banks were dumping their holdings. Hong Kong-listed HNA Holding

Group Co., a unit of HNA Group, fell 6%, while Fosun International closed down 5.8%.

The broader market also tanked. The Shanghai index erased earlier gains and closed down 0.3%, while its more-active Shenzhen counterpart lost 1.3%.

OLAI SHEN/BLOOMBERG NEWS

While their individual stocks rebounded after Wanda and Fosun each issued statements saying their operations remain normal, investors look far from convinced in general.

"Doubts and confusion linger on among investors, and it shows again that policy risk is the biggest risk in this market," said Amy Lin, senior analyst at Capital Securities. While some of the companies in question have made relevant comments, "it'd be best for the banking regulator itself to come out to clarify," Ms. Lin said.

The China Banking Regulatory Commission has remained silent.

Some investors view the financial housecleaning as an overdue, positive development. "At least they are doing it now rather than after a crisis," said Sean Darby, chief global equity strategist at Jefferies in Hong Kong. "The authorities have made it known they are going to start cracking down on leverage. This is going to be a risk for some parts of the equities market for some time."

—Steven Russoillo  
in Hong Kong  
contributed to this article.

## Bankers Gird for Further Fall in Chinese Deals Abroad

BY JULIE STEINBERG

Global bankers are bracing for more damage to 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 highflying 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 damp Chinese companies' appetite for investments abroad. Buying interest 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 dis-

courage 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 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

*The volume of purchases overseas has already been hit by capital controls.*

ates are privately held and don't disclose much, it is tough to assess just how much debt they have. Still, bankers and data trackers say the most

aggressive acquirers appear to be highly leveraged.

HNA Group, for instance, said it had around \$104 billion in debt at the end of last year, which would give it a high debt-to-earnings ratio.

HNA said the group "is in a sound financial and operational situation" and fully complies with rules 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 "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, those that don't align with the buyer's core businesses, haven't been coming to market since December.

## THE FUTURE OF EVERYTHING

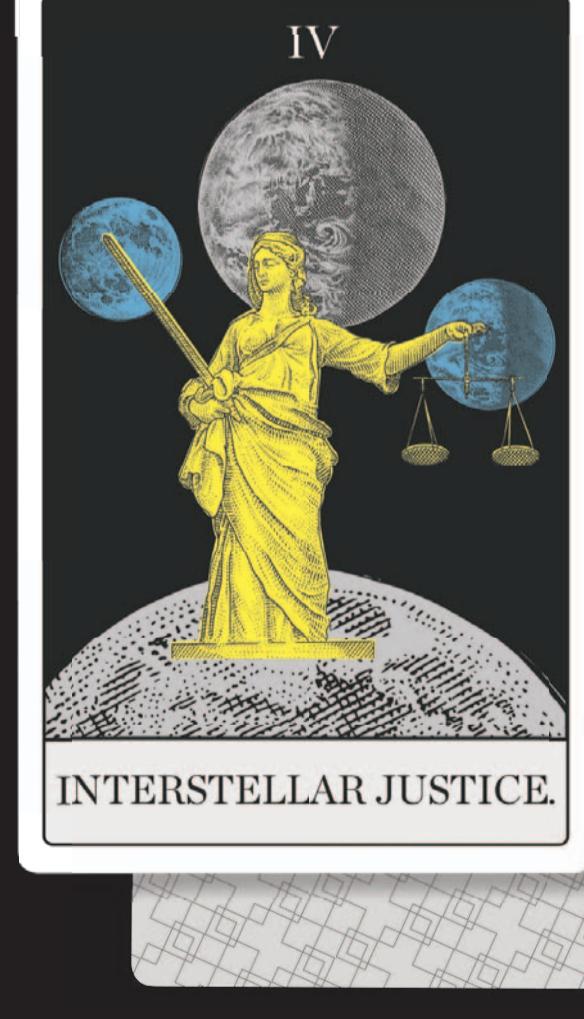
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# MARKETS

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

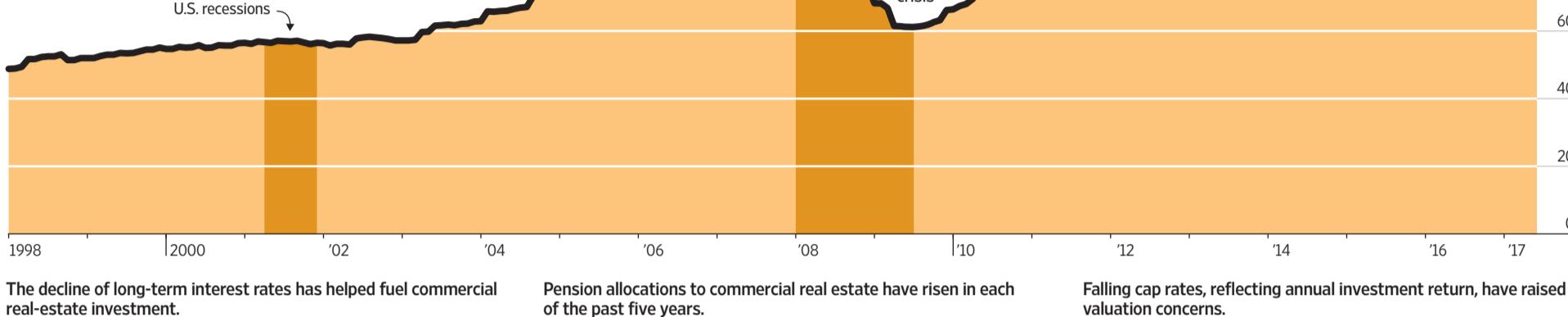
annual income generated by a property as a share of its purchase price, have fallen substantially in recent years, squeezing landlords and potentially increasing the sector's vulnerability to a market shock or economic downturn.

Some analysts expect prices to decline further, as

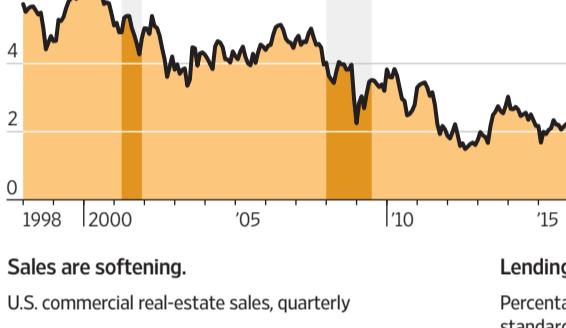
sales activity slows and banks pull back on lending. Those concerns, together with the headlong retreat this year of many retail firms, have helped pressure shares of real estate firms and related investment trusts. The question for investors is how fully these risks are appreciated now.

Prices have receded after a plateau

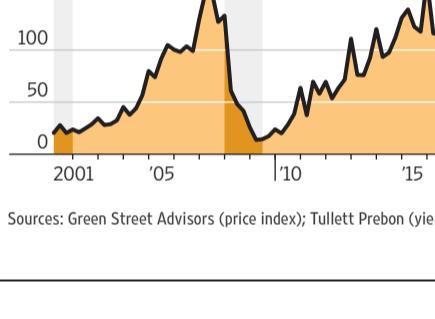
Commercial Property Price Index, major sectors (2007=100)



The decline of long-term interest rates has helped fuel commercial real-estate investment.



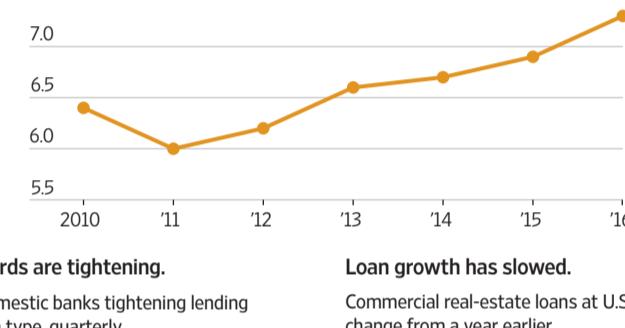
Sales are softening.



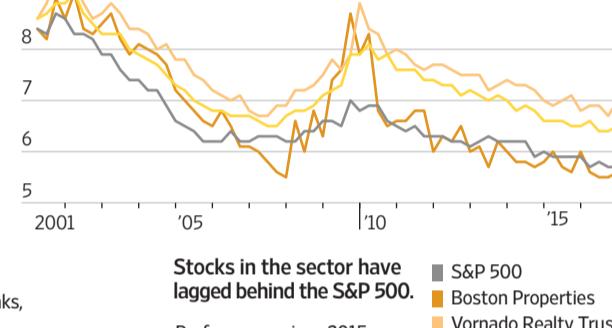
Lending standards are tightening.



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)

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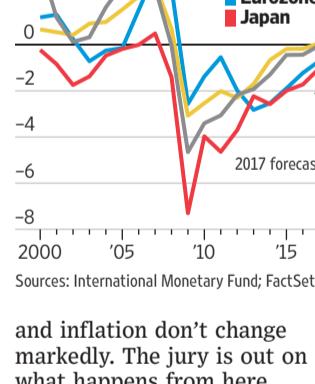
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## Not Investing May Be Best Option

### Slim Pickings

Output gap as a share of potential gross domestic product



### Total return



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 decline in oil prices may cause new 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-

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 some 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

## Weibo Gets A Warning From Beijing

Any investment in China is at the mercy of the country's government. Just ask shareholders in Nasdaq-listed **Weibo**, the country's wildly popular version of Twitter.

Weibo's shares lost \$1 billion, or 6%, of their value Thursday after China's media regulator ordered the social media company to stop streaming video and audio content. If that sounds chilling, the reality may not prove quite so bad: Weibo users were still able to view videos freely on Friday. Beijing's intervention may just amount to a nudge for Weibo to clean up its political content. **Tencent**, which operates China's largest social network, WeChat, received a similar warning in May. A month on, WeChat is still buzzing.

That should offer some relief for investors as video has been an important ingredient in Weibo's stellar growth over the past two years. Weibo's share price has almost quadrupled since the beginning of last year.

Yet Weibo faces a tough task in making sure its content is all politically acceptable. Just two weeks ago, the government shut down some WeChat and Weibo accounts about celebrity news—usually considered safe politically. The scrutiny is probably to do with a party congress later in 2017 that will name China's leadership lineup for the next five years.

Putting a price on the political risk that Weibo faces is tricky. It is clearly a sensitive time for China's rulers, and companies like Weibo operate in treacherous waters. The company already trades at 55 times this year's expected earnings. Given the backdrop, investors would be wise to take some bets off the table.

—Jacky Wong

## China's Crackdown on Debt Could Still Get Out of Hand

China is poised for a once-in-five-years conference this fall, in which the next generation of Communist Party leadership will be chosen. Nothing dramatic can happen before that, right?

Wrong. The winter of 2016 and spring of 2017 have already proved to be among the most volatile in memory, particularly in the bond market as yields shot higher, but also in stocks, which felt the heat from the broad regulatory crackdown on debt in April and May. The latest victims are China's highly levered overseas deal makers: **Anbang Insurance Group**, **HNA Group**, **Fosun International** and **Dalian Wanda**.

Group, whose widespread borrowing throughout China's banking sector is now under investigation.

As early as January, it was clear that the improving economic—and particularly employment—picture in China could give policy makers a window to deal with mushrooming financial-sector risks before the Party Congress made big political moves too risky. That window is about to close.

Although China's economy remains in reasonable shape, there are signals that growth has already peaked cyclically. And slowing industrial profit growth will start to put pressure on the job mar-

ket as well, the key to political stability that the Communist Party prizes above all.

Although some surveys paint a brighter picture, China's official purchasing managers' indexes show the job market moving back into contraction: Nonmanufacturing, which includes construction, peaked in November, while manufacturing peaked in March. Tightening financial conditions could accelerate this trend. After falling since late 2015, real borrowing costs for Chinese firms probably started rising again in the second quarter. Chinese factory gate inflation peaked in March, the same time as industrial profits.

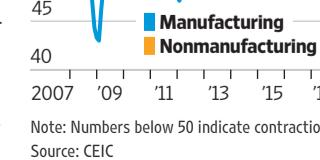
But regulatory crackdowns can take on a life of their own. In April, regulators competed to show leaders they were heading Mr. Xi's call to tackle risks. The 2015 stock crash, triggered in part by regulators' belated crackdown on margin borrowing, was a classic example of the danger of too little action too late.

Chinese regulators may succeed in tamping down just enough on leverage, at just the right time, to postpone a debt reckoning once again. But that is a tricky needle to thread, and the consequences of failure large indeed.

—Nathaniel Taplin

### No Raise

China purchasing managers' indexes, employment component



Note: Numbers below 50 indicate contraction

Source: CEIC

The early warning signs of a slowdown mean that the pressure from President Xi Jinping to keep raising the heat on financial-sector leverage will soon ease.

—Nathaniel Taplin