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EUROPE EDITION

DJIA 21374.56 ▲ 0.22% | NASDAQ 6194.89 ▼ 0.41% | NIKKEI 19883.52 ▼ 0.08% | STOXX 600 387.58 ▼ 0.30% | BRENT 47.00 ▼ 3.53% | GOLD 1272.80 ▲ 0.55% | EURO 1.1278 ▲ 0.59%

What's News

Business & Finance

The Fed raised rates by a quarter point and detailed plans to start shrinking a $4.5 trillion portfolio of bonds and other assets. **A1**

◆ **Anbang's chairman** has disappeared after an economic-crimes unit detained the Chinese businessman. **A1**

◆ **The global oil glut** is proving immune to OPEC output caps, as crude prices fell to their 2017 low after the release of inventory data. **A1**

◆ **Zara parent Inditex** posted an 18% jump in net as the Spanish retailer continued to outpace rivals. **B1**

◆ **U.S. investors** are pouring money into Europe-focused ETFs without hedging against currency risks. **B1**

◆ **Uber is taking** the unusual step of handing control to a group of executives during its CEO's leave. **B1**

◆ **The EU air-safety chief** criticized a U.S. call to expand a laptop ban, citing the potential risk of lithium batteries in cargo holds. **B4**

◆ **Elliott urged** a shake-up of BHP's board, saying it stood by while the company wasted billions of dollars. **B2**

◆ **GM will extend** the summer shutdown at some U.S. plants due to slumping sales and bloated inventory. **B3**

◆ **GE's Power chief** is leaving the company after not getting the CEO job. **B3**

World-Wide

◆ **A gunman opened** fire on a group of congressional Republicans during a morning baseball practice, injuring the GOP's third-ranking House member and four other people. **A1**

◆ **Islamic State fighters** launched a counterattack against Iraqi forces in Mosul, briefly retaking control of some city blocks. **A3**

◆ **The death toll** rose to at least 12 from a blaze in a London high-rise tower that residents had complained was a fire hazard. **A1**

◆ **Trump was sued** by congressional Democrats over payments and benefits to his businesses from foreign governments. **A6**

◆ **Tillerson said** the U.S. would support efforts by Russia and Ukraine to resolve their conflict outside of the Minsk accords. **A4**

◆ **A Turkish judge** who adjudicates U.N. war-crimes trials was found guilty of terrorism over alleged links to a U.S.-based cleric. **A4**

◆ **Egypt's parliament** approved a controversial deal to cede two Red Sea islands to Saudi Arabia. **A3**

◆ **Australia will pay** $53 million in compensation to asylum seekers held in Papua New Guinea. **A5**

◆ **Irish lawmakers** elected the country's first openly gay prime minister. **A5**

Journal Report

A new Wall Street Journal ranking identifies tech startups that show signs of becoming leaders in the industry. **Tech Companies to Watch, Pages R1-6**

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Fed Boosts Rates, Plans Asset Cutback

Central bank pencils in another increase for this year if economy performs as expected

By Nick Timiraos

The Federal Reserve said it would raise short-term interest rates and spelled out in greater detail its plans to start slowly shrinking its $4.5 trillion portfolio of bonds and other assets this year.

The moves Wednesday mark the latest test of the economy's ability to stand on its own as the central bank dials back the stimulus measures it unleashed through successive bursts of bond purchases to boost household and business spending after the 2008 financial crisis.

Fed officials said they would increase their benchmark federal-funds rate on Thursday by a quarter percentage point to a range between 1% and 1.25%. They also penciled in one more increase this year if the economy performs in line with their forecast.

Since officials last met in early May, they have faced conflicting signals about the economy on two items that matter most: employment and inflation. Solid job gains have pulled down the unemployment rate to lower-than-expected levels, at 4.3% in May, but inflation has slowed.

In a news conference, Fed Chairwoman Janet Yellen said officials are "monitoring inflation developments closely," but warned against reading too much into a handful of recent drops in consumer prices, such as in wireless phone plans, that have weighed on inflation gauges.

"It's important not to overreact to a few readings and data on inflation can be noisy," she said, particularly given tight labor markets.

Officials also revealed plans for winding down their holdings of Treasury and mortgage securities by updating principles laid out in 2014, though they didn't say exactly when the process will commence. The central bank stopped adding to its holdings, also known as its balance sheet, more than three years ago, but it has been reinvesting the proceeds of maturing assets to keep those holdings steady.

The Fed's plan would start reducing the holdings by allowing a small amount of net maturities a month—$6 billion in Treasury securities and $4 billion in mortgage bonds—and to allow that amount to rise each quarter, essentially setting a speed limit for any wind-down. Those limits would ultimately rise to a maximum of $30 billion a month for Treasurys and $20 billion a month for mortgage securities.

The reinvestments have helped to hold down long-term interest rates and letting them roll off without reinvestment could push up rates. The Fed has been buying around $24 billion in mortgage securities a month this year and around $17.5 billion in Treasurys, ac-

Please see FED page A6

NATALIE OXFORD/AGENCE FRANCE-PRESSE/GETTY IMAGES

Smoke emanates from a residential tower that caught fire in west London. The cause of the blaze was unknown.

Lawmaker Among Five Shot In U.S.

ALEXANDRIA, Va.—A gunman opened fire on a group of congressional Republicans during a Wednesday morning baseball practice, injuring the GOP's third-ranking House member and four others before he was mortally wounded by police, officials said.

By Peter Nicholas, Kristina Peterson and Gordon Lubold

Rep. Steve Scalise, a 51-year-old from Louisiana who is House majority whip, was shot in the hip and was in critical condition after surgery, a Washington hospital said. Also injured in the shooting were a congressional aide, a lobbyist and two Capitol Police officers, officials said.

Officials didn't disclose a motive for the shooting, which they said was carried out by James T. Hodgkinson, a 66-year-old home inspector from Illinois. A social-media profile purportedly belonging to Mr. Hodgkinson showed him to be active in several groups opposing President Donald Trump, a Republican, and others in the GOP.

The shooting—on a baseball field in Alexandria, just outside Washington—was the first time in more than 60 years that multiple U.S. lawmakers had been targeted in the same attack. An attempted assassination in 2011 of then-Rep. Gabrielle Giffords (D., Ariz.) left six dead and 13 wounded. Ms. Giffords was

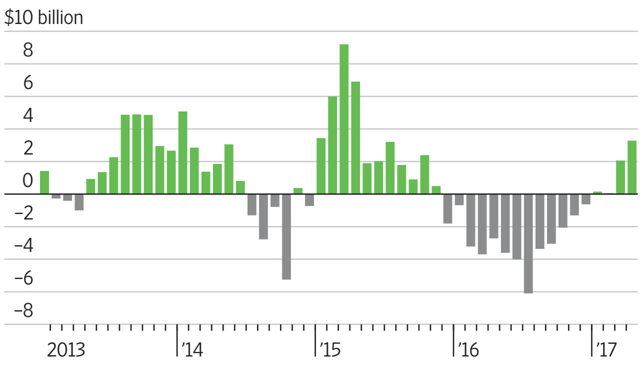
Please see SHOT page A6

◆ Scalise known for devotion to congressional team A6

Investors Renew Faith in Euro

International equity investors are heading back into Europe. This time, they aren't hedging against the risk of a fall in the currency.

Net flows into European equity funds



Flows into North-American-listed European-exposed ETFs*

*Year-to-date
Sources: EPFR Global (equity); IHS Markit (ETFs)

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Foreign investors are fueling the euro's rise by betting on European equities without hedging against sharp currency moves. U.S. speculators seem to expect the euro to keep rallying. **B1**

Deadly Fire Engulfs London High Rise

By Wiktor Szary And Jason Douglas

LONDON—The death toll from a blaze in west London rose to at least 12 in a high-rise tower that residents had complained was a fire hazard, raising questions about maintenance and safety of low-income housing.

The fire started early Wednesday and spread rapidly through the 24-story public-housing block, which residents said lacked adequate emergency exits. Witnesses said they saw people jumping from the building to escape the flames. Dozens of residents were injured, and police said they expected the death toll to rise.

Firefighters were still battling pockets of fire Wednesday evening, but had searched most of the Grenfell Tower in the otherwise upscale North Kensington neighborhood, clambering through the ruins and also using drones, authorities said. It was too early to pinpoint the cause of the blaze or the precise number of dead, police said.

Residents said they heard few, if any, alarms. One man who got out described a chaotic race through a central staircase that was the only escape route.

London Fire Commissioner Dany Cotton called the blaze unprecedented, saying she hadn't seen anything like it in her 29-year career.

Michael Paramasivan, who lived on the seventh floor, said he woke to the smell of burning plastic and heard people

Please see FIRE page A5

Chinese Deal Maker Is Said To Be Held

By James T. Areddy

SHANGHAI—Wu Xiaohui transformed a provincial auto insurer into a symbol of China's rising economic clout, emerging as a global deal maker who raised eyebrows from Beijing to Washington.

Late last week a special investigative unit looking at economic crimes detained Mr. Wu, people familiar with the matter said. In a terse statement Wednesday, Anbang Insurance Group said its chairman is "temporarily unable to fulfill his role for personal reasons" and has authorized other senior executives to manage the business. Mr. Wu can't be

Please see ANBANG page A2

Oil Market Fuels Doubt About Power Of OPEC

OPEC is running smack into a wall of crude-oil storage.

The global oil glut is proving immune to the limits set by the Organization of the Petroleum Exporting Countries

By Summer Said, Georgi Kantchev and Neanda Salvaterra

and its big-producer allies like Russia, fueling the idea that output caps withholding almost 2% of world crude supply were a miscalculation.

Both Brent, the international benchmark, and West Texas Intermediate, the U.S. price setter, fell almost 4% to their lowest levels of 2017 on Wednesday after the release

Please see GLUT page A2

◆ Split over listing venue slows Aramco IPO effort B5

Much Refrigerated: CEO's Exit Fills GE Colleagues With Warm Wishes

* * *

Immelt is known for preferring unusually low office temperatures; 'it's not that cold'

By Joann S. Lublin, Ted Mann and Thomas Gryta

Chief Executive Jeff Immelt will give up control of General Electric Co. later this year. His colleagues were relieved to learn that he will also relinquish command of the office thermostat.

Jeff Immelt

Mr. Immelt, who said this week he will end his 16-year captaincy of the conglomerate, is famous for preferring refrigerator-like temperatures in GE offices and meeting rooms.

"He keeps it very cold," one person who has regularly endured the chill says. "It's part of the Immelt lore."

As head of one of the world's biggest companies, Mr. Immelt dines with heads of state and jets around the globe to seal multibillion-dollar deals. He also gets to mess with the air conditioning, often asking for a setting that feels like the low 60s. Some colleagues feel so chilled that they wrap themselves in a scarf or shawl to attend a meeting with the GE leader.

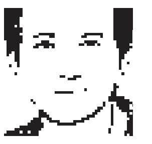
"In the middle of summer, half the room would have a fleece vest on," says an adviser who has worked closely with GE executives.

Why the cold treatment? Maybe the 6-foot-4-inch former Dartmouth football player doesn't like to sweat. Some say the veteran man-

Please see COLD page A8

CAPITAL ACCOUNT | By Greg Ip

Lousy Pay Raise? It May Be as Good as It Gets



For anyone who collects a paycheck, there's some bad news, and worse news.

First, the bad: Unemployment may be at a 16-year low and the economic expansion may be third-longest on record, yet wage growth is miserable, clocking in between 2.5% and 3% for the past year. When unemployment was this low in the late 1990s and the mid-2000s, wages grew 4%.

Now, the worse: If a labor market this tight can't generate better pay, quite possibly it never will. In Japan and Germany, where unemployment is plumbing generation lows, wages are moribund. This suggests the problem transcends borders: Minimal corporate pricing power, lackluster productivity growth and an aging workforce have undercut employers' ability to pay better.

This threatens to throw a wrench into the Federal Reserve's plans. It raised interest rates at its meeting Wednesday and plans to keep doing so gradually in the next two years.

Yet its longstanding assumption that a fully employed economy would eventually nudge prices and wages higher looks shakier by the month. Consumer price inflation excluding food and energy slipped to 1.7% in May, the Labor Department reported Wednesday, a two-year low. The Fed targets a different index, which shows even lower "core" inflation.

For most of the past eight years, the Fed's assumption was a decent base case. Lousy pay was easily explained by a deep recession that left a glut of spare workers, many uncounted in the most common measure of unemployment, which robbed those with jobs of bargaining power. That explanation no longer washes. Broader measures of underemployment are close to their 2007 lows. Some 4% of jobs are vacant, matching the highest recorded since 2000. Anecdotes of worker shortages are too pervasive to ignore: Maine has released some prisoners early as tourism struggles to fill jobs, and in the western U.S., some farmers threw out crops for lack of workers to harvest them.

Employers' inability to increase wages is complicating the Fed's plans.

Which raises the obvious question: If employers are so desperate for help, why not pay more? Because pay is closely tied to what employers can recover by raising prices (inflation) or sales per employee (productivity). Since 2012, U.S. businesses' selling prices have risen by 1.4% and worker productivity by 0.6% a year. At 2%, the sum of those two figures—a proxy for sustainable wage growth—is the lowest in more than 60 years.

Worker pay has actually grown faster than that subdued 2% benchmark, because employers have absorbed the excess in their profit margins, which have fallen from record highs. As a result, labor's share of the total economic pie has been recovering and isn't far from its long-run average.

Raises may also be more prevalent than the subdued average pace of wage gains lets on. The Federal Reserve Bank of Atlanta looks at how much respondents to the monthly household employment survey say their pay has risen in the last year and finds the median raise has doubled since 2010 to 3.5%, meaning half of workers saw pay rise by more, half by less. Why the median is so much higher than the average is unclear but may reflect the changing composition of the workforce. Employers hold on to their best employees in recessions. As the expansion matures they hire less-skilled and experienced workers. Because they come on board at much lower pay levels than incumbents, these newly hired workers' raises don't move the average much.

The same phenomenon happened late in the last expansion. This time there's an added wrinkle: Baby boomers have retired in droves since 2008, and their replacements are typically less experienced and earn less.

This is good news for many workers at the bottom. The median raise for a low-skilled worker has risen from 1% in 2013 to 3% now, and for a young worker (aged 16 to 24) from 3.5% to over 7%. But it spells trouble for the economy as a whole. As more low-skilled workers join the workforce, its average quality suffers, which is bad for productivity. Researchers at the Federal Reserve Bank of San Francisco and Bart Hobijn at Arizona State University predict that in the next few years, labor quality would continue to deteriorate, assuming more of the newly hired come from the fringes.

That doesn't dictate worse productivity and pay, but it sure doesn't help.

For wage gains to grow sustainably faster, either prices, productivity or both have to grow much faster. But inflation is below the Fed's 2% target and has lately drifted lower. Even if it returned to 2%, higher real (i.e., after inflation) wages requires better productivity growth. It did edge above 1% in the last year, and with business investment picking up, that pace may be sustained.

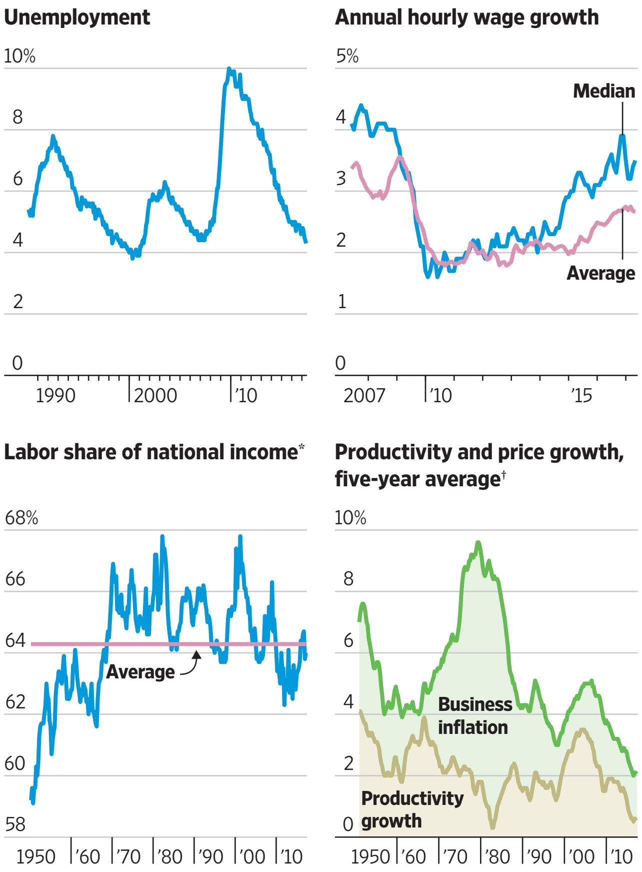
Experience abroad, however, is not encouraging. In Japan, unemployment is the lowest in decades and labor shortages are rampant. Yet wage growth hovers around zero in part because retirees are taking menial jobs to supplement their pensions.

Germany has the tightest labor market in two decades, but pay gains are below 2%. Like the U.S., both countries are grappling with the interrelated problems of lackluster productivity and an aging labor force whose most experienced and best paid workers are retiring.

For now, the Fed remains confident unemployment this low will eventually get inflation back to 2%. Productivity growth is also long overdue for some rebound. Yet for this to get wage growth back to 4% is a stretch, all the more so when an expansion is as long in the tooth as this one. In short, if you just got a raise, enjoy it: It might be as good as it gets.

A Recovery for Labor but Not Wages

Low unemployment has elevated the median raise and labor's share of national income is rising, while poor productivity and low pricing power hold back broader wages.



*Employee wages and benefits divided by net domestic product (GDP minus depreciation)
†Excludes farms and government

Sources: Bureau of Labor Statistics (unemployment, average hourly earnings, productivity); Bureau of Economic Analysis (net domestic product); Federal Reserve Bank of Atlanta (median wage gain)

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GLUT

Continued from Page One

of fresh data about inventories. Overall, prices are down over 17% since the beginning of the year.

In the U.S., the Energy Information Administration said Wednesday that crude stockpiles fell last week by 1.7 million barrels, less than the 2.6 million drop forecast by a Wall Street Journal survey. At the same time, gasoline inventories rose by 2.1 million barrels, compared with the survey's expectation of a 700,000 decline, underlining worries about the oversupply extending to crude oil's products.

Oil stockpiles in the Organization for Economic Cooperation and Development—a club of 35 countries with industrialized economies—rose by 18.6 million barrels in April and were higher than they were when OPEC agreed to its cut late last year, said the International Energy Agency, a Paris-based group that advises governments on energy trends.

"There's still so much crude in storage," said Doug King, chief investment officer at RCMA Asset Management and manager of that firm's $200 million Merchant Commodity hedge fund. "OPEC needs much deeper cuts to draw inventory."

Adding to oil traders' angst: U.S. oil production has come roaring back to life. The IEA said U.S. crude supply will grow almost 5% on average this year, and nearly 8% in 2018, potentially vaulting American producers ahead of Saudi Arabia in daily output.

"Such is the dynamism of this extraordinary, very diverse industry it is possible that growth will be faster," the IEA said.

With shale producers humming and storage tanks still brimming full of crude, the production limits that OPEC, Russia and others have approved through March 2018 are coming under heightened scrutiny. Bjarne Schieldrop, chief commodities analyst at SEB Markets, the Nordic bank, called it an "error."

"It would stimulate production in the U.S. too much and this is basically what we are seeing," he said.

OPEC and its leader, Saudi Arabia, the world's largest exporter, had resisted cutting output when oil prices began crashing in the summer and fall of 2014, reasoning it couldn't stop the market slide on its own. It changed course late last year after bringing Russia and 10 other non-OPEC producers on board for almost 600,000 barrels a day in cuts.

But even those combined efforts have done little to drain oil in storage. Eugen Weinberg, an oil analyst at Commerzbank, said OPEC needed to end its production cut. "The only option that OPEC has for the next five years is to let the market go," Mr. Weinberg said.

OPEC officials in Vienna referred questions to Secretary General Mohammad Barkindo, who didn't respond to messages seeking comment. Saudi officials also didn't respond to questions.

Saudi energy minister Khalid al-Falih said this week that the production cuts would start having an impact this summer, accelerating a drop in stored oil that OPEC said began in January. He has said OPEC and Russia would do "whatever it takes" to bring supply back in line with demand.

Daniel Yergin, vice chairman of IHS Markit and a longtime oil market watcher, said OPEC wouldn't abandon its production-cut agreement, which took almost a year to put together through 2016.

"When OPEC and the other producers agreed to this deal, they hoped that, as the old adage says, time heals all—and time will heal the inventory problem," Mr. Yergin said. "They should now take a deep breath and realize this will take a lot more time."

OPEC this week acknowledged that its efforts weren't working as quickly as it thought. In its own monthly market report, the cartel on Tuesday blamed U.S. shale for slowing its rebalancing efforts.

The cartel set a tough goal this past December, when its officials said they wanted to cut oil-storage levels to the five-year average.

OPEC said OECD storage levels actually have been falling but by only 88 million barrels in the first four months of 2017. At that pace, it would take until March 2018 for stockpiles to fall an additional 250 million barrels to the five-year average.

In 2018, non-OPEC production is set to increase by 1.5 million barrels a day, the IEA said, more than the 1.4 million barrels of growth forecast for world consumption. That means OPEC could have to sacrifice more market share over a longer period to maintain its output cuts.

—Stephanie Yang contributed to this article.

ANBANG

Continued from Page One

reached and Anbang declined to comment further.

A 50-year-old born near the eastern city of Wenzhou, Mr. Wu is a Chinese archetype: the highflying financier who appears to have come from nowhere.

He isn't the first to then tumble out of sight.

In addition to going toe-to-toe with the likes of private-equity firm Blackstone Group LP, Mr. Wu was known for top-shelf political links in China.

Other tycoons who fit that mold include Tomorrow Group's Xiao Jianhua, who has been missing since January, and Fosun Group's Guo Guangchang, who briefly vanished in late 2015 to help in an investigation.

In Mr. Wu's case, one political connection was his marriage to a granddaughter of former leader Deng Xiaoping.

Politically connected tycoons in China are a double-edged sword for the leadership in Beijing, and a focus as the Communist Party gets set to hand President Xi Jinping a second five-year mandate at a meeting this autumn. His political standing depends in part on party views of his signature anticorruption campaign, now nearly five years old.

China's policy makers have long directed business to trusted associates, including family members, to ensure jobs are done properly—and sometimes to line their own pockets. But China's fast-growing economy can quickly produce massive wealth that transforms the associates into power centers of their own.

Mr. Wu was detained by a joint team of antigraft investigators and police officers specializing in economic crimes, the people familiar with the situation said. The investigation has been going on for months but is still in its early stages, they said, and doesn't mean charges will be brought. They said the probe in part centers on possible bribery or other economic crimes by Mr. Wu at Anbang.

The China Insurance Regulatory Commission and Central Commission for Discipline Inspection couldn't be reached to comment.

A sign of the political sensitivity emerged late Tuesday when Chinese authorities or-

QILAI SHEN/BLOOMBERG NEWS

Anbang Chairman Wu Xiaohui in Boao, China, earlier this year.

dered a report that Mr. Wu had been detained deleted soon after it was published online by the widely read magazine Caijing.

In building Anbang, Mr. Wu was aggressive and detail-oriented, say people who have done business with him. "He's very hands-on, very quick in decision making," said the head of an Anbang-controlled European company who sees Mr. Wu a few times a year in Beijing.

Anbang claims assets approaching $300 billion, but the structure of the company is complex and it has no key business units listed on a stock exchange. That keeps Mr. Wu off lists of the country's richest tycoons.

"The shareholder structure is so obscured that it's impossible to see who owns it," says Rupert Hoogewerf, who runs a Shanghai wealth-tracking service called Hurun Report.

Disclosure concerns this year thwarted Mr. Wu's bid to expand into the U.S. insurance sector: Anbang's $1.5 billion play to take control of Iowa-based Fidelity & Guaranty Life. The deal unraveled after it failed to win approval from New York insurance regulators, who had found Anbang's answers about shareholders and funding insufficient, according to people involved and official statements. Disclosure was also an issue for the multiagency Committee on Foreign Investment in the United States when it looked at the bid, according to a person familiar with the situation.

At times, Anbang has criticized scrutiny of its shareholder base. Mr. Wu has told staff that a level of secrecy is needed for competitive reasons, a trait common to insurers but taken to the extreme at Anbang.

After a string of takeovers following the global financial crisis, Anbang shot to international recognition in 2014 when it agreed to pay nearly $2 billion for New York's historic Waldorf Astoria hotel from Hilton Worldwide Holdings Inc. President Xi stayed in the hotel for the following year's United Nations General Assembly, while Barack Obama broke with U.S. presidential tradition and went elsewhere.

In 2015, Mr. Wu offered rare public insight into his thinking with an appearance at Harvard University. He played down his skills as a deal maker, describing himself as "even a bit simple, like a child," according to a transcript posted to the company's website but since deleted. "In the future, Anbang will be an internet-based financial institution providing full services via internet," he said.

Mr. Wu's aggressiveness was exhibited in Anbang's efforts to change how insurance is sold in China. Instead of offering commissions to agents who sell home and life coverage, Anbang pulled in revenue through banks and online platforms by selling products that look more like short-term deposits than insurance policies.

The Anbang chairman defended his company's strategy in an interview published by state-owned Beijing News earlier this year. The interview showed Mr. Wu still in control of Anbang, but signaling his willingness to get in step with government priorities by pursuing more-traditional business lines, such as pensions.

Mr. Wu made a public appearance on May 15 at an event at the Belgian Embassy in Beijing. Anbang owns a bank and an insurer in Belgium.

—Lingling Wei and Chao Deng contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Larry Tabb, the founder and research chairman of consulting firm Tabb Group, was incorrectly identified as president of the company in a Page One article on Tuesday about the CBOE Volatility Index.

The surname of China's self-proclaimed "No. 1 Paparazzo" Zhuo Wei was misspelled as Zhou in a World News article Tuesday about the Chinese Communist Party's rebuke of internet censors.

The surname of Qin Han, chief fixed-income analyst at Guotai Junan Securities, was incorrectly given as Tan in a Page One article Wednesday about China's yield curve.

An internet poll by The Knot found that 77% of suitors ask parents' permission to wed their daughters. A Life & Arts article on Wednesday about couples' seeking parental approval before getting engaged incorrectly described the poll as informal.

In the House Call column published in the May 26-28 Mansion section, former baseball player Lou Piniella recalled parties thrown by the Pasetti family, childhood neighbors, who served crab enchilau. The article incorrectly said the family was named Pancetti, and it incorrectly called the dish crab enchiladas.

Readers can alert The Wall Street Journal to any errors in news articles by emailing **wsjcontact@wsj.com**.

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Thorold Barker, Editor, Europe
Grainne McCarthy, Senior News Editor, Europe
Cicely K. Dyson, News Editor, Europe
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Editeur responsable: Thorold Barker M-17936-2003. Registered address: Avenue de Cortenbergh 60/4F, 1040 Brussels, Belgium

WORLD NEWS

Iraqi Forces Beat Back ISIS Counterattack

Islamic State fighters reclaim parts of western Mosul before being pushed back

ERBIL, Iraq—Islamic State fighters armed with machine guns and wearing suicide vests launched a counterattack against Iraqi government forces in western Mosul, police officials said, briefly retaking control of some city blocks before they were beaten back.

By Ben Kesling, Awadh Altaie and Ghassan Adnan

ALKIS KONSTANTINIDIS/REUTERS

An Iraqi Army helicopter launched a missile against Islamic State positions in western Mosul on Wednesday.

In the operation early Wednesday, at least 50 Islamic State fighters slipped from their positions in the Old City, with some moving down the bank of the Tigris River and evading defenses established by U.S.-backed Iraqi forces, said Col. Faris Radhi, a top official in Iraq's Federal Police.

Underscoring the resilience of the estimated hundreds of Islamic State fighters still in the Old City, the militants swept into the Dendan neighborhood and set houses on fire, sending plumes of black smoke into the sky in what police said was an attempt to hamper air support for Iraqi government forces on the ground.

The death toll of civilians and combatants wasn't immediately known, as government forces continued to search the area late Wednesday, Col. Radhi said. Islamic State said it killed 40 police and seized weapons in the attack.

Col. Ryan Dillon, spokesman for the U.S.-led international coalition fighting against Islamic State, said no ground had been lost to Islamic State in Wednesday's fighting. He didn't respond to questions whether smoke from the burning houses impaired efforts to provide coalition air support for government ground forces.

Since driving Islamic State from eastern Mosul in January, Iraqi forces have seized large swaths of territory in the west of the city and have largely bottled up the militants in a small area of the Old City.

Dendan abuts the southern edge of the Old City and was retaken by government forces from Islamic State months ago. Federal Police established defenses there, and some people had moved back into their homes nearby.

The government's campaign to take out Islamic State from Mosul began in October, and in recent weeks, government forces have sought to complete and tighten their encirclement of the Old City, where tens of thousands of civilians are also believed to be holed up in addition to the militants.

The fighting to remove Islamic State from its last stronghold in the city is expected to be especially brutal because of the neighborhood's densely packed buildings and narrow, twisting streets.

Philippines Becomes a Prime Focus of Islamic State

By James Hookway

RODY/AGENCE FRANCE-PRESSE/GETTY IMAGES

THE WALL STREET JOURNAL.

A Philippine soldier takes aim at militant positions from a rooftop on Tuesday in the southern city of Marawi, where jihadists have taken hold.

Signs are mounting that the Philippines is now a primary target for Islamic State.

The southern reaches of the mostly Roman Catholic country have long been home to Muslim insurgents seeking to carve out an independent state. Until now, counterterrorism officials and experts have largely viewed local declarations of loyalty to Islamic State founder Abu Bakr al-Baghdadi as little more than pleas for attention. That is changing.

One of the newest insurgent groups shocked the country three weeks ago by marching into Marawi City and waving black Islamic State flags; they are still holding around 20% of the town along with hundreds of hostages. The standoff with the Philippine military so far has claimed the lives of at least 58 security forces, nearly 200 rebels, and dozens of civilians.

Since the May 23 attack, Islamic State has taken a stronger interest in the Philippines, profiling some of the militants in its propaganda magazine Rumiyah and falsely claiming responsibility for the burning of a Manila casino that left 37 people dead; police say it was in fact a botched robbery by a heavily indebted gambler.

On Sunday, Philippine President Rodrigo Duterte said "it appears that al-Baghdadi himself, the leader of ISIS, has specifically ordered terrorist activities here in the Philippines." Mr. Duterte didn't say how he knew about Mr. Baghdadi's instructions.

Islamic State's spokesman, in an audio recording circulated on Tuesday, appeared to single out the Philippines for further attacks and praised the assault on Marawi.

The battle for Marawi is being waged by one of the region's most powerful militias, and its aftermath could determine whether Islamic State can lay down a marker in the Philippines.

Some intelligence officials now worry the Philippines' growing profile in jihadist circles could bring more foreign fighters to its shores as Islamic State loses ground in Syria and Iraq.

Governments across Southeast Asia and Australia already are watching the Philippines with concern as militants from Indonesia, Malaysia, Yemen and Saudi Arabia join the fight. The U.S. is getting involved: U.S. Special Operations Forces are providing support for the Philippine military in Marawi.

The danger, said an intelligence official in the Philippines, is that "the southern Philippines is becoming a cause célèbre again."

The Philippines' porous borders and lax immigration control also make it an attractive destination for foreign extremists, according to Sidney Jones, a terrorism expert at the Institute for Policy Analysis of Conflict in Jakarta. Fighters are also attracted, in part, because some of the combatants have extensive networks, Ms. Jones said.

"They're really quite sophisticated and have a lot of resources to draw on, and that's attractive," she said.

The Islamic State's emir in the Philippines is Isnilon Hapilon, a 51-year-old commander with the Abu Sayyaf terrorist group, which was seeded in the 1990s with help from al Qaeda. He swore loyalty to Islamic State in 2014, and since then has built an alliance with the Maute family, an aristocratic landowning clan able to command hundreds of followers.

Ms. Jones said the Mautes are likely the brains behind the Marawi operation, particularly 37-year-old Omarkhayam Maute.

Once the captain of the school baseball team in Marawi City, Omar, as he is known, studied Islam in Egypt and later married the daughter of an influential conservative cleric in Indonesia and has strong ties there. Indonesian armed forces chief Gen. Gatot Nurmantyo told reporters Monday that there were Islamic State sleeper cells in nearly every province of the country.

Omar returned to the southern Philippines where he and his brother Abdullah Maute took the reins of the family's local militia. The militia had been used to help settle local political scores, but in 2015, the brothers publicly aligned it with Islamic State.

Their ultimate goal, senior Philippine officials said, was to take control of Marawi, the Philippines' largest Muslim-majority city. Military officials said they are trying to determine whether the Maute brothers are among several guerrillas killed in a battle with troops on Saturday.

Qatar Sets Up New Transport Links

By Nicolas Parasie
And Summer Said

DUBAI—Tiny Qatar, cut off by its Arab neighbors, is trying to break out of its sudden isolation in ways that could reshape trade and transport in the region.

Qatar Airways, which already flies to 150 foreign destinations, plans to redeploy aircraft to serve new markets beyond the Middle East after Saudi Arabia, the United Arab Emirates, Bahrain and Egypt severed diplomatic ties with Qatar last week and closed their air, sea and land borders with the country.

"We don't know how long this will last so we have to mitigate the risk by continuing our growth into markets that are outside this region," said Akbar Al Baker, chief executive of Qatar Airways, which has grounded about 50 daily flights to 18 destinations in the other four countries.

The airline funnels millions of passengers every year through its hub in Doha, the Qatari capital, helping boost tourism and business, which are vital to Qatar's plan to diversify its energy-dependent economy.

Qatari tankers, meanwhile, are avoiding the Suez Canal and looking into using ports in Oman now that they are shut out from the U.A.E., where they have traditionally stopped to refuel and to load and unload cargo. Qatar has also received shipments of food from Iran and is using Iranian airspace, drawing closer to Saudi Arabia's main rival in the region.

Saudi Arabia, the U.A.E., Bahrain and Egypt accused the Qatari government of meddling in their affairs and harboring extremists. Qatar has denied the allegations.

Soon after the crisis erupted, residents of Doha emptied supermarkets to stock up on food items such as milk and chicken, before the government stepped in to quell concerns about potential shortages.

Shippers that supply Qatar with food, clothing and electronics remain wary of accepting cargo to and from the country, brokers say.

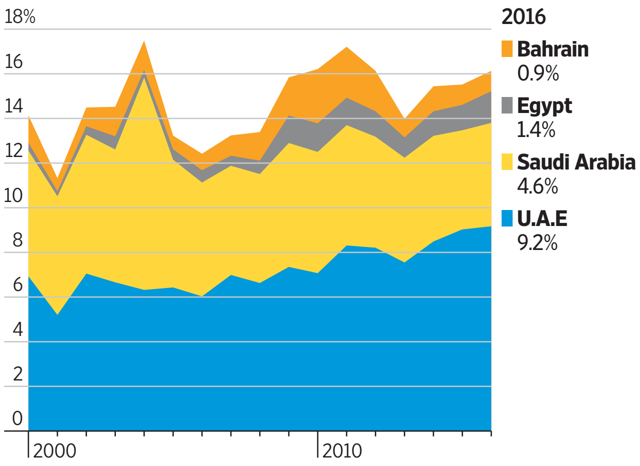
If the Arab sanctions remain in place for more than six months, inflation in Qatar could be twice as high as it would be if the crisis were resolved immediately, and the growth rate for Qatar's gross domestic product could be cut in half from 2016, to 1.1%, the Institute of International Finance estimates.

The dispute between Qatar and its Arab neighbors is fraught for the U.S., because Qatar hosts the largest American military base in the region.

U.S. military officials have expressed concern over prospects for the base, saying current movements haven't been interrupted or curtailed, but that long-term planning may be hindered.

Import Impact

The four countries that recently cut diplomatic ties with Qatar combined to supply roughly one-sixth of its imports in 2016.



Source: International Monetary Fund via CEIC data THE WALL STREET JOURNAL.

"We're watching that very, very closely, but we've had good cooperation from all the parties to make sure that we can continue to move freely in and out of Qatar," Gen. Joe Dunford, chairman of the Joint Chiefs of Staff, testified Tuesday at a Senate hearing on the military budget.

Qatar has focused on ensuring that air and sea routes remain open. Its only land border is with Saudi Arabia.

Qatar's main ports management company said it has established a direct shipping route between Doha's Hamad Port and Sohar Port in Oman, which has stayed out of the Gulf rift. The new shipping service will operate three times a week.

"The company is keeping an eye on the developments and is well equipped to ensure that the country's requirements" are handled, said Captain Abdul Aziz al Yafei, director of Hamad Port in Qatar.

Some ships carrying Qatari liquefied natural gas to Europe, meanwhile, are bypassing the Suez Canal, even though Egypt hasn't closed the waterway for Qatari ships. Qatar, which depends on energy exports for a major chunk of its budget revenues, is the world's largest exporter of LNG with a 30% market share.

—Gordon Lubold contributed to this article.

Egypt Moves to Cede Isles to Saudi Arabia

By Dahlia Kholaif

CAIRO—Egypt's parliament on Wednesday approved a controversial deal to cede two Red Sea islands to Saudi Arabia, an agreement backed by President Abdel Fattah Al Sisi but widely criticized by people in the North African country.

After days of deliberation, a majority of the 596 lawmakers voted in favor of the agreement by standing up, according to Anissa Hassouna, a lawmaker, who tweeted the result immediately after the vote.

The deal triggered large protests when agreed last year, largely because it was viewed as the sale of sovereign Egyptian territory after the kingdom gave Cairo billions of dollars in aid and deposits. Egyptian courts blocked the deal, saying the government failed to provide solid evidence of Saudi ownership of the islands.

Mr. Sisi has made the case that Egypt wasn't surrendering territory but instead restoring Saudi Arabia's rightful ownership, citing government records that proved Riyadh's legal claim over the islands.

Ms. Hassouna, in her tweet, said there were dozens of requests by lawmakers to speak on the floor but the parliament speaker closed discussion and announced the body's approval.

The president is expected to ratify the agreement.

There are concerns the vote could reignite protests as the parliament is seen to be controlled by Mr. Sisi. Many major opposition parties were either barred or boycotted parliamentary elections, allowing the president's supporters to dominate the house.

Egyptian reaction on social media was mostly critical.

"Two islands have been removed from the body of our homeland," Amin Haddad, a poet, wrote on Twitter.

Mr. Sisi and King Salman signed an accord last year to transfer control of the islands of Tiran and Sanafir to Saudi Arabia, touted as the first step toward the construction of a $4 billion bridge linking the two Arab countries. Tiran and Sanafir are in the Strait of Tiran, a gateway to the Jordanian port of Aqaba and the nearby Israeli port of Eilat.

Saudi Arabia is Mr. Sisi's biggest ally in the region, supporting his government with billions of dollars in recent years to help cope with economic challenges after years of political unrest. Egypt has become a partner for the kingdom as it seeks to strengthen its position as a regional leader.

The islands agreement sparked public rage last year but security forces clamped down on protests, using a tough anti-protest law. Many still remain behind bars.

U.S. Urges New Way to Peace in Ukraine

Tillerson tells Congress objectives of Minsk accords could be reached outside process

BY FELICIA SCHWARTZ

VALERI KVIT/EUROPEAN PRESSPHOTO AGENCY

A Ukrainian soldier resting at his position at the Butovka Coal Mine in Donetsk area of eastern Ukraine last month.

WASHINGTON—Secretary of State Rex Tillerson said the U.S. would support efforts by Russia and Ukraine to resolve a yearslong conflict outside of an internationally backed agreement signed by both countries, the implementation of which has long been a U.S. condition for lifting sanctions against Moscow.

Mr. Tillerson made his comments on Wednesday in testimony before the House Foreign Affairs Committee. They appeared to mark a departure from longstanding U.S. policy and a potential break from other world powers, including Germany and France, which brokered and have supported the cease-fire and peace accords reached in Minsk, Belarus, in 2014 and 2015.

"I think it's important we be given sufficient flexibility to achieve the Minsk objectives," Mr. Tillerson said, adding, "It's possible that the government of Ukraine and the government of Russia could come to a satisfactory resolution through some structure other than Minsk, but would achieve the objectives of Minsk, which we're committed to."

Pursuing an agreement outside the Minsk accords could allow the two sides to go back to the drawing board and negotiate a pact that both are willing to implement, possibly without meeting benchmarks set in Minsk. It isn't clear if such efforts are already under way.

The Minsk agreements call for local elections in Ukraine's breakaway Donbas region, the withdrawal of foreign-armed troops, and returning the border with Russia to Ukrainian control, among other points.

Mr. Tillerson has said the U.S. would maintain sanctions against Russia until the Minsk agreements are fully implemented. Washington and European allies have long been united in that demand.

Mr. Tillerson most recently reiterated that position to Russian Foreign Minister Sergei Lavrov in a May 10 meeting in Washington, according to State Department spokeswoman Heather Nauert.

"On Ukraine, Secretary Tillerson stressed the need for progress toward full implementation of the Minsk agreements. Sanctions on Russia will remain in place until Moscow reverses the actions that triggered them," Ms. Nauert said then.

A day later, after meeting separately with Mr. Lavrov and Ukraine's foreign minister, Pavlo Klimkin, President Donald Trump called for the parties to make peace, casting the U.S. as something of a neutral arbiter. The Obama administration had presented the U.S. as an advocate for Ukraine's sovereignty and demanded Russia cease its occupation of Crimea and its support for armed rebels in eastern Ukraine.

U.S. and European officials often have voiced dismay over the absence of progress on implementing the specific points of the Minsk accords. But Mr. Tillerson's comments Wednesday were the first time the U.S. has suggested the possibility of brokering a new deal.

Supporters of the accords say they at least managed to largely freeze the conflict and keep Ukraine's borders in place. Any move that appears to scrap it could risk a return to full-scale violence, they say.

"We want to be very careful about giving up one tool especially if we don't have another in place," said Daniel Baer, who was the U.S. ambassador to the Organization for Security and Cooperation in Europe during the Obama administration.

Meanwhile, the Senate on Wednesday approved tougher Russia sanctions that also would require the president to seek congressional permission to relax any part of the current sanctions regime on Russia.

—Paul Sonne contributed to this article.

Turkish Court Finds Judge Guilty of Terrorism

BY MARGARET COKER

REBA EFFEBDI FOR THE WALL STREET JOURNAL

Judge Aydin Akay and his family are shown in photographs at their home

ANKARA, Turkey—A Turkish judge who adjudicates war-crimes trials for the United Nations has been found guilty of terrorism by a Turkish court.

Aydin Akay, whose legal travails after last summer's failed coup in Turkey sparked U.N. condemnation, was sentenced to seven years in prison on terror charges stemming from conversations he held in 2015 via a commercially available social media application that Turkish prosecutors argue was a key platform used by followers of U.S.-based cleric Fethullah Gulen.

Turkish officials classify Mr. Gulen and his followers as terrorists and accuse the cleric of masterminding the failed coup, which Mr. Gulen denies. Since last summer the government has arrested more than 60,000 people.

Mr. Akay denies any connection to Mr. Gulen. His lawyers and family say they believe the trial was a sham and that he is collateral damage in what many in Turkey's political opposition see as a witch hunt by the government to rid the country of critics of President Recep Tayyip Erdogan. They have appealed to the Turkish constitutional court and the European Court of Human Rights.

"There has not been a fair trial so far and the judges, I believe, are scared to issue fair decisions," said Yaman Akdeniz, a constitutional law scholar and a member of Mr. Akay's defense team.

The head judge overseeing Mr. Akay's case read out the conviction Wednesday afternoon to a packed courtroom in Ankara. While he called the defendant a terrorist, he also suspended Mr. Akay's sentence pending appeal, allowing him to return home from jail for the first time in nine months. A spokesman for the family said they look forward to vindicating Mr. Akay.

The trial illustrates the extent to which the Turkish state is evaluating loyalty and guilt in its voracious hunt for traitors under a continuing state of emergency called after the summer's failed coup.

Mr. Akay's case has sparked criticism from the head of the U.N. war crimes appellate court in The Hague, where Mr. Akay works. The court there has ruled that Turkey should be sanctioned by the Security Council, saying Mr. Akay's prosecution violates his immunity as a U.N. official.

The Turkish government has argued that such immunity is limited to issues related to the U.N. court's case work and doesn't apply to Mr. Akay's actions in Turkey.

Mr. Akay, 66 years old, hails from a secular nationalist family. He spent a career in Turkey's Foreign Ministry defending the state against human rights allegations. He later was nominated by his government to sit on the U.N. court for war crimes in Rwanda and reappointed for the appellate war crimes tribunal for Rwanda and the former Yugoslavia.

Turkish officials linked him to the Gulenist organization because his phone appeared on a list of more than 200,000 Turkish citizens who downloaded ByLock, a smartphone chat app the Turkish intelligence agency believes was developed by the Gulenist organization as a means of communication used by followers of the cleric.

Mr. Akay testified that he had downloaded ByLock on the request of a friend, but he rarely used it, as he found the app complicated.

Before the indictment, a Turkish intelligence official said Mr. Akay's career and lifestyle didn't match the usual profile of a so-called Gulenist. But the official said Mr. Akay's use of ByLock indicated he was a "functional" member of the group.

During his trial, prosecutors submitted to the court several printed pages that they asserted were ByLock chat messages between the judge and a Turkish acquaintance who managed a school in Africa affiliated with the Gulenist movement. The text messages spanned a time frame between June 2015 and January 2016. The subject matter largely consisted of social greetings, news about common acquaintances and plans about arranging face-to-face meetings.

Mr. Akay's defense team argued downloading an app isn't a crime. They also argued some of the chats appeared forged.

North Korea Release Highlights Travel Risks

BY JONATHAN CHENG

DAMIR SAGOLJ/REUTERS

Dancers mark the anniversary of the birth of Kim Il Sung in Pyongyang, where most tourism in North Korea is focused.

SEOUL—North Korea's release of American student Otto Warmbier after 17 months turns a spotlight on the risks taken by the roughly 5,000 Western tourists who visit the country each year, dangers amplified by heightened tensions between Washington and Pyongyang.

North Korea is isolated, but it isn't cut off. Tourism is one of the most visible ways in which North Korea retains ties to the outside world, despite wide-ranging sanctions on its economy.

Over the past decade, a steady stream of American citizens have been detained in North Korea. Some U.S. lawmakers in May called for a travel ban; advocates say it is a relatively easy way to curb the risk of U.S. citizens' arrests and cut off a modest but reliable source of income for Pyongyang. Others argue that the U.S. government shouldn't restrict its citizens' movements.

Rising international tensions with North Korea's can damp tourism, but not by much, according to estimates by Simon Cockerell, general manager of Koryo Tours, a Beijing-based company that has been bringing visitors to the country since 1993.

The number of Western tourists visiting North Korea each year peaked at about 6,000 around 2013 and has since dropped slightly to around 5,000 as the international dispute over the regime's nuclear and missile programs intensified, he said.

U.K.-incorporated Koryo Tours accounts for about 40% of the overall volume, Mr. Cockerell estimated. Roughly 1,000 Americans travel to North Korea each year, accounting for about one-fifth of Western tourists, he said.

There are, in addition, from "scores to a few hundred" American educational and humanitarian aid workers in North Korea at any given moment, according to an estimate from the National Committee on North Korea, a Washington-based nongovernmental organization.

President Barack Obama's former U.S. special envoy for North Korean human rights, Ambassador Robert King, agreed with the estimate.

Tourists visiting North Korea aren't typically allowed to travel independently and generally join group tours, where they are closely chaperoned by representatives of official state entities.

For many, the allure of the forbidden is a central part of the draw. But for a handful of visitors, things can go badly wrong—often for seemingly minor misdemeanors.

Mr. Warmbier, a University of Virginia undergraduate, was sentenced to 15 years of hard labor for allegedly defacing a political poster while on a tour of North Korea. The 22-year-old Cincinnati native, who U.S. officials learned last week had been in a life-threatening coma for more than a year, was released on Tuesday and reunited with his family after a year and a half in detention.

At least three other Americans are being held in North Korea, though none was a tourist. At least two are tied to a Christian university in Pyongyang.

Tourism agencies based in the U.S., Europe, China and Australia have sprung up in recent years to meet demand from tourists with less-conventional tastes. Most tours last from three days to two weeks and are focused on Pyongyang, though some have included train travel, skiing and surfing.

Andrea Lee, chief executive officer of Kearny, N.J.-based Uri Tours, which bills itself as the largest American provider of North Korea travel, said simple exchanges can break down "historical barriers of hate on both sides."

Uri Tours' website offers potential travelers a list of "five reasons why you should play golf in North Korea."

Brian Sayler, a police officer in Wilkes-Barre, Pa., said visiting Pyongyang in May opened his eyes to a country often demonized in the Western press. "Once you actually get on the ground there and look around, it can't help but change your opinion, the way you look at it," said Mr. Sayler, who traveled with Uri Tours. "When you realize that these are real people living over there, it humanizes the place to a certain extent."

—Kristina Peterson in Washington contributed to this article.

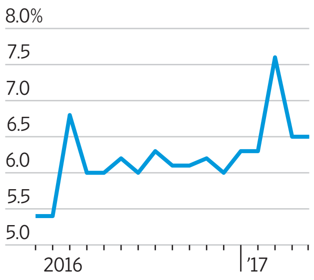
China Economic Moves Bear Fruit, Data Show

BY MARK MAGNIER

Steady Sailing

After a strong first quarter, China hopes to prevent a dramatic slowdown in growth.

Industrial production, change from previous year



Source: National Bureau of Statistics
THE WALL STREET JOURNAL.

BEIJING—A snapshot of China's economy in May showed some success for Beijing in balancing its bid to rein in debt with preventing growth from declining too rapidly in an important political year.

Among a series of data, one indicator not usually in the spotlight stood out: the broadest measure of overall money supply known as M2, which rose less than 10% compared with a year earlier, slipping below that mark for the first time in the decades that the central bank has published the data, evidence of less credit sloshing around the system.

"Shadow banking financing is in retreat while bank financing remains stable," said Nomura Group economist Yang Zhao.

Economists cautioned that the real test of Beijing's commitment to paring debt will be whether it continues to maintain a relatively tight grip on credit growth, infrastructure spending and regulatory oversight even after growth slows.

The International Monetary Fund warned China to speed up overhauls aimed at stemming mounting debt, saying in its annual review of the Chinese economy on Wednesday that China risks instability and a "sharp adjustment" in financial markets and in the broader economy if it doesn't boost the role of market forces and tighten regulatory control over nonbank lenders.

"It is critical to start now, while growth is strong and buffers sufficient to ease the transition" to an economy powered by consumption rather than credit-fed investment and debt, said David Lipton, a managing director with the IMF. The fund forecasts that China will grow 6.7% this year and expand by 6.4% on average from 2018 to 2020.

The National Bureau of Statistics reported on Wednesday that industrial output, a rough proxy for economic growth, rose 6.5% in May from a year earlier, matching April's pace.

WORLD NEWS

ANDY RAIN/EUROPEAN PRESSPHOTO AGENCY; RICK FINDLER/PA WIRE/ZUMA PRESS

Grenfell Tower, a 24-story public-housing block in London's North Kensington neighborhood, burned on Wednesday as firefighters battled the deadly blaze, which started overnight, for hours.

FIRE

Continued from Page One

shouting. He, his girlfriend and their children fled down a crowded central staircase. He said he wasn't sure if there were sprinklers, but said none had activated.

"I saw three kids near the top floor, and next thing we knew, bang, it went up in flames," he said. "They must have perished. It was horrific."

"It was the towering inferno, like lighting a bonfire," said Piers Thompson, who lives in a neighboring building and said he was awakened by shouts at about 1:15 a.m. and watched fast-moving flames spread.

"I couldn't believe it. You could see people flashing" lights in an effort to attract rescuers attention, especially on high floors, he said. "Someone was waving a blanket."

A spokesman for British Prime Minister Theresa May said she was "deeply saddened" by the loss of lives.

Opposition leader Jeremy Corbyn of the Labour Party told LBC radio that "some very searching questions" needed to be asked, suggesting budget cuts could be to blame for the blaze.

"If you deny local authorities the funding they need, then there is a price that's paid by the lack of safety facilities," he said.

The public-housing block was built in 1974 and recently went through an £8.6 million ($11 million) refurbishment. New exterior cladding and a new heating system were installed.

The cladding appears to have significantly contributed to the fire's spread, said Angus Law, a lecturer at the BRE Centre for Fire Safety Engineering at the University of Edinburgh.

Nick Paget-Brown, the leader of the Kensington and Chelsea council, acknowledged that the council had received complaints about the refurbishment work. "But we will need to look much more closely about how much of that corresponds to the cause of today's fire."

Rydon Group Ltd., which carried out the refurbishment, said the work met fire and health and safety requirements.

The Kensington and Chelsea Tenant Management Organization, which manages the building for the council, said it was too early to speculate on the cause and what contributed to the fire's spread.

Residents of the block had long warned of fire risk in the building. The Grenfell Action Group, a residents' rights group, warned on its website in November that "only a catastrophic event will expose the ineptitude and incompetence of our landlord."

"All our warnings fell on deaf ears and we predicted that a catastrophe like this was inevitable and just a matter of time," it said in a blog post early Wednesday.

Vassiliki S. Lorraine, who lives near the tower, said she heard children screaming shortly after the fire started.

"They screamed very loud, 'Save us, save us, save us' and 'Can we jump?' " she said. She said the cries stopped after about an hour.

A woman identified only as Zoe told the British Broadcasting Corp. that she had escaped from the fourth floor after someone banged on her door and told her to get out.

"When I got on the landing it was thick with smoke but the smoke alarms weren't going off, which is quite scary," she said. "Then I just ran down the stairs. You could see the fire is in one of the flats."

In July 2009, six people died after fire broke out in Lakanal House, a 14-story residential public housing block in Camberwell, south London. The local council pleaded guilty to breaching fire safety regulations and was fined £270,000. It also had to pay another £300,000 in costs.

—Michael Wright, Jenny Gross and Joanna Sugden contributed to this article.

WORLD WATCH

MIGRATION

Australia Settles With Asylum Seekers

Australia will pay 70 million Australian dollars (US$53 million) in compensation to hundreds of asylum seekers held in Papua New Guinea, some of whom may soon be heading to the U.S.

Lawyers for 1,905 current and former inmates at the Australia-backed refugee-processing center on Manus Island said Wednesday they had agreed to the settlement, the largest ever in a human-rights case in Australia. Their class-action lawsuit alleged physical and psychological abuse as well as false imprisonment. On average, each inmate will get around A$37,000.

"The people detained on Manus Island have endured extremely hostile conditions, but they will no longer suffer in silence," said Andrew Baker, a lawyer at Slater & Gordon, the firm that spearheaded the two-year lawsuit. "Most were fleeing religious persecution and violence and came to Australia seeking protection, only to be denied their basic human rights."

Australian Immigration Minister Peter Dutton said in a statement the government considered the case was considered more prudent than going ahead with a trial expected to cost millions of dollars in legal fees and last more than six months. As part of the settlement the government denied liability, arguing the camp was overseen by the Papua New Guinea government, according to Rory Walsh, lead lawyer on the inmate side.

Australia's government recently admitted that Papua New Guinea soldiers opened fire indiscriminately at the Manus center in April, injuring nine people.

—Rob Taylor

AFGHANISTAN

Pentagon to Decide Afghan Force Levels

President Donald Trump has given the Pentagon unilateral authority to send thousands of new American troops to Afghanistan at its discretion, a U.S. official said, clearing the way for the military to intensify its fight against the Taliban and Islamic State extremists in the region.

The decision to delegate control over troop decisions to the Pentagon sets the stage for U.S. commanders to begin sending more forces to the country, after years of reductions made in the hope Kabul could handle internal threats on its own.

Also on Tuesday, Defense Secretary Jim Mattis told the Senate Armed Services Committee the U.S. is "not winning" the war in Afghanistan.

—Dion Nissenbaum

ARMEND NIMANI/AGENCE FRANCE-PRESSE/GETTY IMAGES

COOLING OFF: A boy takes a dip in a fountain in the main square in Pristina, Kosovo, on Wednesday.

Irish Lawmakers Elect First Openly Gay Prime Minister

BY PAUL HANNON

Irish lawmakers elected the country's first openly gay prime minister—and the youngest—on Wednesday, a sign of the fast-changing attitudes in a once staunchly conservative country.

At a time of upheaval in many other democracies, Leo Varadkar's appointment is also a reflection of the unusual stability of Irish politics. Like his 13 predecessors, Mr. Varadkar, 38, is a member of one of the two center-right groups that have governed the country since its independence from the U.K. in 1922.

He is also committed to an economic strategy that goes back at least four decades, relying on attracting U.S. businesses seeking access to European Union markets.

The son of an Indian doctor and an Irish nurse, Mr. Varadkar's boosters say he represents a new face for a country that was once the most socially conservative in Europe, and dominated by the Catholic Church.

"He represents a modern, diverse and inclusive Ireland, and speaks for them like no other," said Enda Kenny, the departing prime minister, who nominated his successor.

Mr. Varadkar, whose Fine Gael party runs a minority government supported by a group of independent lawmakers, received 57 votes, while 50 lawmakers opposed his appointment. Forty-four lawmakers from the opposition Fianna Fáil party abstained under a 2016 agreement not to bring down the government for a period of three years.

Left-of-center lawmakers were less enthusiastic about Mr. Varadkar. Gerry Adams, the leader of Sinn Féin, a nationalist party that is the third-largest in the Irish Parliament, said Mr. Varadkar threatens to be "the most right-wing" prime minister in Irish history, with dire consequences for low-income workers and those who rely on the state for health and other services. Mr. Varadkar has recently launched a campaign to cut down on people claiming benefits they weren't entitled to.

Accepting the office, Mr. Varadkar dismissed the distinction between right-of-center and left-of-center as a relic of the 1980s, and not relevant to the challenges of the 21st century.

"The government I lead will not be one of left or right," he said. "The government I lead will be one of the European center."

Mr. Varadkar's greatest challenge will be the U.K.'s departure from the EU. Ireland has closer economic, political and cultural ties with Britain than other members of the bloc and expects the consequences of Brexit to be mostly negative. Agricultural exports to the U.K have already been hit by the weaker pound, and policy makers fear worse is to come if new trade barriers follow Brexit.

Mr. Kenny leaves his successor in a relatively strong position as the bloc prepares for Brexit talks, having secured an acknowledgment of Ireland's "unique circumstances" from fellow leaders when they agreed to guidelines for the negotiations.

Mr. Varadkar is unlikely to depart from the government's established approach. In his election program, he said he would argue that Northern Ireland—which is part of the U.K.—should be allowed to remain within the EU's single market for goods and services, and have access to its agricultural subsidies as well as a number of other programs.

However, he may face difficulties his immediate predecessor was largely free from. Following inconclusive U.K. elections, a new British government is set to rely on Northern Ireland's Democratic Unionist Party for its survival.

Some architects of the Good Friday Agreement, which ended three decades of violent conflict in 1998, fear that may place the province's peace in peril. The accord requires the British government to be "impartial" in its dealings with unionists who favor remaining in the U.K., and nationalists who want the province to join with the Republic of Ireland.

U.S. NEWS

Democrats Sue Trump Over Business Ties

Suit says his financial interests violate ban in Constitution; White House rejects claim

By Brent Kendall

ALEX BRANDON/ASSOCIATED PRESS

Trump International Hotel in Washington. President Donald Trump decided to place his business assets into a trust rather than divest.

WASHINGTON—Nearly 200 congressional Democrats on Wednesday sued President Donald Trump, alleging he is violating the Constitution because his businesses are accepting payments and benefits from foreign governments.

The lawsuit, filed in a Washington, D.C., federal court, is the latest to focus on the president's decision not to divest his business holdings. Legal challengers say Mr. Trump's businesses are benefiting from his presidency, and that Mr. Trump, by retaining his financial interest in those businesses, is benefiting, too.

The president's conduct "deprives the American people of assurance that their highest elected official is pursuing their best interests with undivided loyalty," the lawsuit says. It argues Mr. Trump is violating a constitutional provision that prohibits U.S. officials from receiving "any present, Emolument, Office, or Title, of any kind whatever, from any King, Prince, or foreign State" without Congress' consent.

Rather than divest his business assets, Mr. Trump decided to place them into a trust. His two adult sons are running the **Trump Organization** in his absence.

A White House spokeswoman said the president's business interests don't violate the Constitution's emoluments provisions.

"The White House will review the complaint, but we expect that DOJ will move to dismiss this case in the ordinary course," the spokeswoman said. "This is another example of the Democrats playing political games instead of working for the American people they were elected to serve."

A similar lawsuit, brought in January by an ethics watchdog organization, is proceeding in New York, and attorneys general representing Maryland and the District of Columbia filed their own lawsuit this week making similar allegations.

Plaintiffs in all the lawsuits could face considerable procedural hurdles, and it is possible judges will be unwilling to weigh in on Mr. Trump's business arrangements.

Challengers will have to show that they are suffering harm from Mr. Trump's alleged conduct to establish their right to sue over it. Judges also are likely to consider whether the cases raise political questions, not legal ones, meaning they should be resolved by branches of government other than the courts.

The Justice Department, representing Mr. Trump, last week asked a judge to dismiss the New York lawsuit, saying the president is allowed to maintain ownership interests in private commercial businesses. Constitutional prohibitions only apply to gifts and compensation that are based on the president's official position, the department said.

The congressional Democrats are asking a judge to issue an injunction requiring the president to obtain congressional permission before accepting benefits from foreign states.

The lawmakers, among other things, voiced concern about foreign diplomats staying at Mr. Trump's new downtown Washington hotel to curry favor with the president, and they said entities owned by foreign states have recently become tenants of Trump Tower in New York. They also said Mr. Trump has an ownership interest in ventures around the world, and that foreign governments could bestow regulatory benefits on them because Mr. Trump is president.

Mr. Trump, through his lawyers, has pledged to donate to the U.S. Treasury all profits from foreign-government payments made to his hotels and similar businesses, though the policy applies only to customers who identify themselves as foreign officials.

—Rebecca Ballhaus and Joe Palazzolo contributed to this article.

SHOT

Continued from Page One

shot in the head and survived.

Leaders of both parties in the wake of the shooting called for unity and a calming of Washington's tense partisanship.

House Speaker Paul Ryan (R., Wis.) declared from the House floor that "an attack on one of us is an attack on all of us." Rep. Nancy Pelosi of California, the House Democratic leader, told members: "We are not one caucus or the other in this House today."

At the White House, Mr. Trump said, "We may have our differences, but we do well in times like these to remember that everyone who serves in our nation's capital is here because, above all, they love our country."

No votes were to be held in the House on Wednesday. The White House canceled Mr. Trump's planned afternoon event at the Labor Department to launch an apprenticeship initiative.

The lawmakers and aides had been practicing for Thursday evening's annual charity congressional baseball game, which is to be held at the home of Major League Baseball's Washington Nationals. The game, besides being a bipartisan social event, is intensely competitive. Republicans have been practicing each morning since April, eager to build on last year's win over the Democratic team, which snapped a yearslong losing streak for the GOP.

Mr. Ryan said from the House floor, to a standing ovation, that the game would go on as scheduled.

Witnesses described seeing a gunman with a rifle open fire from near the third-base dugout at Eugene Simpson Stadium Park in Alexandria. Dozens of shots pierced the early-morning calm, as congressional aides and about 22 lawmakers practiced batting and fielding. Local residents walked their dogs in the muggy heat.

Police immediately opened fire on the gunman, police and witnesses said.

The Republican team was being guarded by officers with the U.S. Capitol Police on a detail protecting Mr. Scalise. The lawmaker was shot as he stood by second base, and he dragged himself into the outfield in a bid to reach safety, witnesses said.

SHAWN THEW/EUROPEAN PRESSPHOTO AGENCY

Members of the Republican congressional baseball team following the shooting in Alexandria, Va., on Wednesday.

Sen. Rand Paul (R., Ky.), who was in the batting cage at the time of the shootings, said he heard a single shot followed rapidly by a string of about 10 shots. Mr. Paul said he then heard more rounds of gunfire.

"I probably heard 50, 60 shots," he said on MSNBC. "Everybody probably would have died except for the fact that the Capitol Police was there," which was only due to Mr. Scalise's presence, he said.

Also wounded were Zach Barth, a staff member of Rep. Roger Williams (R., Texas), Mr. Williams's office said, and Matt Mika, a lobbyist for Tyson Foods Inc., the company said. Mr. Williams, a former professional ballplayer, has been the Republican coach of the baseball team since 2013.

Mr. Trump said the two shot officers were in "stable condition." The officers were identified as Special Agent Crystal Griner and Special Agent David Bailey.

The Federal Bureau of Investigation was taking the lead on the investigation because it involves a member of Congress, police said. The FBI said it had found no indication the shooting had links to international terrorism. FBI and Secret Service agents were scouring databases to see if the alleged gunman had previously appeared on investigators' radar.

On a Facebook page that appeared to belong to Mr. Hodgkinson, he wrote on March 22 that "Trump is a Traitor. Trump has destroyed our democracy. It's time to destroy Trump & Co."

On the same day, he signed a petition calling for the "legal removal" of the president and vice president.

Mr. Hodgkinson also appears to have written several letters to the Belleville News-Democrat in Illinois, his hometown newspaper, according to an analysis on the paper's website.

Rep. Jeff Duncan (R., S.C.) said in an interview that he and Rep. Ron DeSantis (R., Fla.) left practice early and were stopped by a man asking if the team practicing was the Republicans or Democrats.

"I said 'Republicans' and he said 'thanks' and walked off," Mr. Duncan said. He said he believed the man was the shooter.

—Louise Radnofsky, Del Quentin Wilber, Douglas Belkin and Natalie Andrews contributed to this article.

Scalise Is Known For Devotion to His Congressional Team

WASHINGTON—House Majority Whip Steve Scalise, the Louisiana Republican shot in the hip at Wednesday's congressional baseball practice, has been the third-ranking House Republican for three years.

House Republicans elected Mr. Scalise, one of their most gregarious colleagues, to be their whip in June 2014 in the leadership shuffle following the unexpected primary defeat of former Majority Leader Eric Cantor (R., Va.). As whip, Mr. Scalise is tasked with counting the votes of the 237 other House Republicans and helping corral the often fractious group.

Buoyed by support from fellow Southerners, Mr. Scalise elbowed out Rep. Peter Roskam (R., Ill.) and former Rep. Marlin Stutzman (R., Ind.) in the race to succeed Rep. Kevin McCarthy (R., Calif.), who was elected majority leader.

Mr. Scalise has long been known for his devotion to the congressional baseball team. He had bats emblazoned with team mottos made during his leadership race, and his office is festooned with jerseys from past games. In fact, Mr. Scalise began the day when he was elected whip by attending congressional baseball practice.

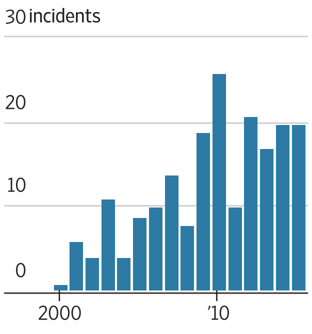
Mr. Scalise underwent surgery Wednesday and his office said he was in "good spirits" at the hospital.

A former computer programmer, Mr. Scalise was first elected to the House in May 2008 to fill a vacancy created when former Rep. Bobby Jindal resigned. Before joining the House GOP leadership, Mr. Scalise served as the chairman of the Republican Study Committee, a large group of conservative House Republicans.

—Kristina Peterson

A Dangerous Trend

The FBI tally of active shooter situations* has increased in recent years.



* Individual actively engaged in killing or attempting to kill people in a populated area. 2015 data is most recent available.
Source: FBI
THE WALL STREET JOURNAL.

FED

Continued from Page One

cording to FTN Financial.

The Fed said "all participants" had agreed to update their principles for reducing the balance sheet. "The committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated," the rate-setting Federal Open Market Committee said.

Together with the decision to raise interest rates, the moves signal officials believe the economy will keep growing and the job market will stay healthy as the central bank withdraws support.

Fed officials marked down their projections for inflation this year, though they still see annual price gains reaching their 2% target by the end of 2018. They now expect prices excluding food and energy to rise 1.7% this year, from a projection of 1.9% in March.

Officials also dropped their unemployment rate forecast to 4.3% for the end of 2017 and to 4.2% at the end of 2018 and 2019, compared with their March projection of an unemployment rate at 4.5% in each year. Officials see the unemployment rate over the long run rising to 4.6%, down from 4.7% in the March projection.

Officials also released their updated projections for the economy and the path of interest rates. Their median expectation for the federal-funds rate showed few changes from projections released in March. The projections put short-term rates between 2% and 2.25% at the end of 2018, implying three more quarter-point increases next year, and between 2.75% and 3% at the end of 2019, implying three additional quarter-point increases.

Such projections aren't set in stone and reflect how the views of Fed officials have shifted. In recent weeks, officials said they see opportunities to raise rates due to a brightening economic outlook and easing financial conditions, and they have dismissed the inflation softness as transitory.

Minneapolis Fed President Neel Kashkari cast a dissenting vote on Wednesday because he wanted to hold rates steady.

The central bank had held short-term rates steady since March, when it raised them by a quarter point to a range between 0.75% and 1%, the third increase since June 2006. The Fed held rates at near zero from the end of 2008 through most of 2015, before lifting the benchmark rate once in late 2015 and once in late 2016.

Wednesday's rate increase had been largely anticipated by investors and analysts, but expectations for how the Fed's plans later this year will unfold aren't clear.

In recent years, officials faced a recurring predicament in which they signaled a desire to tighten policy only to hold off after the economy underperformed or faced risks from abroad. That hasn't happened so far this year, and in fact financial conditions have eased, with stocks rising to new highs and bond yields drifting lower. Consumer and business confidence surveys have remained buoyant.

But inflation has weakened. When officials raised rates in March, the Fed's preferred inflation measure, released by the Commerce Department, showed prices excluding food and energy had risen 1.8% over the year ended February, matching the strongest reading in nearly five years.

Since then, inflation has ticked lower, due only in part to an idiosyncratic decline in wireless phone plans. Core inflation, according to the Fed's preferred gauge, rose 1.5% over the year ended April.

A separate measure of inflation released Wednesday by the Labor Department showed price pressures remained muted in May, with more broad-based softness in categories that include used cars and apparel. As a result, economists at J.P. Morgan Chase & Co. expect core prices measured by the Fed's preferred inflation to show an annual gain of less than 1.4% in May.

In recent weeks, officials have said they expect low unemployment will force inflation to firm up and to eventually move closer to its 2% target. They said they would want to see several more months of inflation readings before they significantly change their plans.

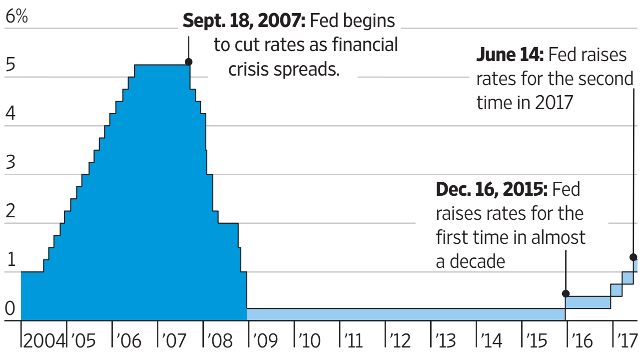
U.S. government bond prices rallied Wednesday after the inflation report from the Labor Department, sending the yield on the benchmark 10-year Treasury note to a fresh 2017 low. Yields fall as bond prices rise.

Employers have added an average 121,000 jobs over the three months ended May, a slightly slower pace than in recent periods but still ahead of the levels officials believe is needed to keep up with growth of the population and labor force. Since officials raised rates in March, the unemployment rate has dropped to 4.3% from 4.7%.

After years of pushing down on the gas pedal, the Fed's job now is to allow "the economy to kind of coast and remain on an even keel, to give it some gas, but not so much that we're pressing down hard on the accelerator," said Fed Chairwoman Yellen in remarks on April 10 in Ann Arbor, Mich.

On the Rise

Federal-funds interest rate target



Source: Federal Reserve
THE WALL STREET JOURNAL.

Republicans Slow to Staff Labor Board

By Eric Morath

JOE RAEDLE/GETTY IMAGES

The National Labor Relations Board's position on joining unions will have big implications for chains like McDonald's, above.

Five months into President Donald Trump's administration, the federal agency that referees disputes between unions and business is still controlled by Democrats, complicating the White House's effort to roll back government oversight of the labor market.

National Labor Relations Board decisions during President Barack Obama's tenure resulted in some big victories for labor, including an easier path for employees at franchise businesses and contractors to join unions. The board's position in the months ahead will shape how far these efforts go, with big implications for chains like **McDonald's**.

With two of the board's five seats vacant since August 2016, Mr. Trump has an opportunity to flip the board controlled by two Democrats into Republicans' favor. The president may make nominations as soon as this week as part of a focus on labor policy, but Senate confirmation might not occur until well into the fall.

Mr. Trump has elevated the sole Republican, Philip Miscimarra, to chairman. That move slowed issuance of agency decisions, since he can control which cases are decided but lacks the votes to win rulings.

The board "functions best with a full complement of five Board members, and I hope that our two existing vacancies will be filled as soon as possible," Mr. Miscimarra said in a statement to The Wall Street Journal. "My primary focus is to facilitate the board's timely resolution of our cases, and to support the agency generally. This will be enhanced when we return to having five confirmed Board members."

The White House is considering William Emanuel, an attorney representing employers at the **Littler Mendelson** law firm, and Marvin Kaplan, counsel at the independent Occupational Safety and Health Review Commission, according to people familiar with the vetting process.

Mr. Emanuel has a background similar to the chairman's; both spent much of their careers at major law firms representing large companies in employment-law cases. Mr. Kaplan previously was policy counsel to the House Education and the Workforce Committee.

Mr. Emanuel declined to comment through his firm. Mr. Kaplan didn't respond to requests for comment. A White House spokesman said the administration doesn't comment on personnel matters.

Through the first five months of this year, the board has decided about 40% fewer cases, compared with the same period in 2016. This year, it hasn't issued any "notable decisions," the designation given to cases that are of broad interest to employers and unions. Last year, 10 such decisions were issued before June.

"The delays are concerning," said Robert Cresanti, president of the International Franchise Association trade group. Uncertainty about how the board could rule in future cases is keeping firms from expanding and leaving it unclear how much involvement a franchise can have in its franchisee's employment policies, Mr. Cresanti said.

Cases decided before the board don't in themselves set precedent, but that can change if rulings are challenged in court. NLRB decisions also guide businesses and unions on how the board could rule in future cases.

Filling out the board has been a politically fraught process in the past. The board had only two members from January 2008 until March 2010, meaning Mr. Obama didn't have a body controlled by Democrats until more than a year after he took office. President George W. Bush didn't see the board turn to Republicans' favor until January 2002, a year after his inauguration. President Bill Clinton faced a similar wait for a return to a Democratic majority.

For each of the three prior administrations, the board was split for at least a portion of the time.

Business groups such as the franchise association and Chamber of Commerce say they are anxious to have the board take another look at organizing rules revised in recent years—and to find a case that would overturn a ruling that made it easier for contract workers and employees of franchises to collectively bargain.

Google Addresses Housing Crunch

By Laura Kusisto

BRETT GARLING/CUT CANVAS CREATIVE

A project using modular-building technology was completed in San Francisco last year.

VALLEJO, Calif.—Soaring home prices and apartment rents in Silicon Valley have become a growing headache for technology titans. Google owner **Alphabet** Inc. is taking a step toward addressing the issue.

The Mountain View, Calif., company is finalizing an order to buy 300 apartment units from Factory OS, a modular-home startup, in a building likely to serve as short-term housing for Google employees, according to executives from both companies.

The expected value of the deal is $25 million to $30 million, according to Rick Holliday, founder and chief executive of Factory OS. It would be the first order for the company.

Modular-building technology, essentially factory-built homes that are pieced together on site, could help reduce the cost of construction in the Bay Area by 20% to 50%, experts said.

"Anything that can help us to move forward with a greater knowledge of how we can produce housing more effectively is something we're interested in," said John Igoe, director of design and construction at Google. "We absolutely are confident that it will work. Hopefully, it doesn't become false bravado."

To be sure, modular-building companies in places like California and New York have failed over the years, and the approval process can be just as difficult if not more so, because the technology is still developing. And so far, the cost savings haven't been as big as developers have hoped, though experts predict costs will come down sharply as the industry evolves.

As Silicon Valley battles its severe housing shortage, tech companies are becoming more active in trying to help solve the problem. Facebook Inc. has pledged to plan and build 1,500 units in Menlo Park, of which 15% will be classified as affordable housing. The project is still in the early planning phase. A spokesman said the company is considering modular construction and is supportive of Mr. Holliday's project and "anything that has the potential to accelerate building housing in the Bay Area."

In modular construction, also known as prefab, builders construct entire homes, apartment units or individual rooms in a factory and truck them to home sites, fitting them together like puzzle pieces. The process is quicker and usually cheaper than on-site construction, because companies can work through bad weather and bring more order to a job site.

"We won't have much of a housing market if we don't figure this out," Mr. Holliday said.

Experts said one of the few ways to reduce housing costs would be to build apartment towers in factories. San Francisco rents have jumped by almost 50% since 2010, while home prices have increased 98% since the bottom of the market in 2009.

"We've reached a tipping point where costs are just so high that people are desperate to figure out a solution," said Carol Galante, faculty director of the Terner Center for Housing Innovation and a former federal housing commissioner.

Mr. Holliday, who also is the owner of Holliday Development, a builder of affordable and market-rate housing in the Bay Area, said he became enamored of the idea after years of dealing with labor shortages, chaotic construction sites and difficulty finding workers.

Mr. Holliday expects to begin production of Google's order in the fall, and to employ some 300 people.

Officials Charged In Flint Water Case

By Kris Maher

The Michigan attorney general charged the head of the state health department and four other former state and local officials Wednesday with involuntary manslaughter in the investigation into Flint's lead-tainted water crisis.

Nick Lyon, director of the Michigan Department of Health and Human Services, was among those charged, becoming the highest-ranking official in Republican Gov. Rick Snyder's administration to face charges in the 17-month-old criminal probe.

Michigan Attorney General Bill Schuette said the latest charges reflected the determination of investigators to hold government officials responsible for Flint's water crisis.

"There are those who assumed this would be swept under the rug," Mr. Schuette said. "That arrogance that people would want to sweep this away, that there were nameless, faceless bureaucrats that caused this, is outrageous."

The four other individuals charged with manslaughter Wednesday, including Darnell Earley, a former Flint emergency manager appointed by Gov. Snyder, had previously been charged with other felonies related to the city's lead contamination.

Mr. Schuette's office also brought obstruction charges against the state health agency's chief medical executive, Dr. Eden Wells. Prosecutors said she lied to an investigator and allegedly tried to withhold funding for programs designed to aid victims of the water crisis unless the program stopped investigating a Legionnaire's disease outbreak.

Jerold Lax, a lawyer for Dr. Wells, said she "vehemently denies the charges and the charges will be vigorously defended."

Mr. Lyon and Mr. Earley couldn't immediately be reached for comment.

A. Scott Bolden, a lawyer for Mr. Earley called the new charge against his client "extremely disappointing, false and excessive" and said he would vigorously fight them.

Gov. Snyder issued a statement saying that Mr. Lyon and Dr. Wells are instrumental to Flint's recovery and that both have his confidence and will remain in their positions.

Mr. Schuette said his team has filed a total of 51 charges against 15 current or former state officials. He said investigators didn't rule out the possibility that more charges could be filed.

The manslaughter charges, tied to a contemporaneous outbreak of Legionnaire's disease, significantly increase the legal jeopardy for the individuals who now face up to 15 years in prison if convicted.

The manslaughter charges are tied to the death of Robert Skidmore in December 2015. Prosecutors say the state officials caused Mr. Skidmore's death when they failed to alert the public to a Legionnaire's outbreak in Flint.

Flint's drinking water became contaminated when the city switched to using the Flint River as its water source from April 2014 to October 2015. During that time, state regulators failed to require the use of a chemical to prevent pipe corrosion, and lead leached into drinking water from aging lead service lines running to homes.

In September, Corinne Miller, a former Michigan state epidemiologist, agreed to plead no contest to a misdemeanor count of willful neglect of duty for failing to report an epidemic of Legionnaires' disease.

ANDREW HARNIK/ASSOCIATED PRESS

Michigan Health Department Director Nick Lyon and four other officials face involuntary manslaughter charges.

WASHINGTON WIRE

SENATE

Judiciary Panel to Probe Firing of Comey

The Senate Judiciary Committee plans to open an investigation into the circumstances surrounding President Donald Trump's removal of James Comey as FBI director, a probe that could examine the thorny question of whether Mr. Trump improperly interfered in an ongoing investigation by doing so.

"The Judiciary Committee has an obligation to fully investigate any alleged improper partisan interference in law enforcement investigations," said Sen. Chuck Grassley, an Iowa Republican and committee chairman, said in a letter released Wednesday. "It is my view that fully investigating the facts, circumstances, and rationale for Mr. Comey's removal will provide us the opportunity to do that on a cooperative, bipartisan basis."

Mr. Grassley's letter came in response to a push from Dianne Feinstein, the top Democrat on the committee. Ms. Feinstein has asked for Judiciary to conduct its own probe in addition to the other investigations unfolding on Capitol Hill. A White House spokeswoman didn't respond to a request to comment.

—Byron Tau

MULTILATERAL LENDERS

White House Aims To Retain Veto Power

U.S. Treasury Secretary Steven Mnuchin said that despite plans to downsize contributions to the World Bank and other multilateral institutions, the administration still plans to preserve Washington's power within them as a critical tool for U.S. foreign policy.

"America will continue to lead on issues of global importance, and therefore will remain a top donor to the multilateral development banks as our economy is the largest in the world," Mr. Mnuchin said in prepared remarks to a House Appropriations subcommittee.

His testimony was a clear indication that the administration doesn't plan to give up its veto power at the two top global lending institutions, nor abdicate its heavyweight role in them.

"Treasury's international budget request should send a message that the international financial institutions need to operate more efficiently," he told the subcommittee that oversees spending on international programs.

—Ian Talley

CONGRESS

Senate Backs More Sanctions on Russia

The Senate overwhelmingly backed a package of additional sanctions on Russia, in part to punish Moscow for alleged interference in the 2016 elections.

The package would impose new restrictions on Russian actors linked to human-rights abuses, arms sales to the Syrian government or malicious cyberattacks on behalf of the Russian government.

It also would require President Donald Trump to seek congressional permission to relax the current regime of sanctions against Russia, possibly limiting his leeway to improve relations between Washington and Moscow.

—Byron Tau

SPORTS

EUROPEAN PRESSPHOTO AGENCY

Swedish billionaire Torbjorn Tornqvist bankrolled Team Artemis, which failed to advance to the Cup finals despite likely having the fastest boat.

A $100 Million Gamble...Sunk

Torbjorn Tornqvist built perhaps the fastest boat in the history of the America's Cup—and still lost

By Aaron Kuriloff
And Matthew Futterman

BERMUDA—For much of the past several months, the 50-foot catamaran called Magic Blue carved through the waters of the Great Sound here on practice runs enjoying an unlikely position: It appeared to be the fastest boat in the history of the America's Cup.

That was notable in large part because Magic Blue's owner, billionaire oil trader Torbjorn Tornqvist, and his Artemis Racing team suffered the death of a sailor in the competition four years ago off San Francisco and failed to win a race. That tragedy shook to its roots a competition that had become obsessed with speed.

It also seemed to place Tornqvist as the latest dreamer in a long line stretching from tea magnate Sir Thomas Lipton to Baron Marcel Bich, inventor of the Bic pen—tycoons who since 1851 have spent fortunes in fruitless pursuit of sailing's most prestigious trophy.

But Magic Blue knocked off Larry Ellison's Oracle Team USA, the defending champion, in two early-round races in recent weeks, and stormed back from an early deficit to defeat SoftBank Japan in the semifinal series this month. Tornqvist was on track for a showdown with fellow billionaire Ellison in the Cup finals.

And then Magic Blue helmsman Nathan Outteridge fell off the boat. That embarrassing flub last weekend, which followed races when Magic Blue's crew struggled to control the boat's blazing speed, led to a critical loss against Emirates Team New Zealand that Artemis proved unable to overcome. On Monday, New Zealand advanced to a rematch of the last Cup finals against Ellison's Oracle team, starting on Saturday.

The outcome for Artemis embodied the tension between technology and old-school sailing acumen that dominates the debate around the America's Cup—with Tornqvist taking the lead in the camp that wants the competition to be more of a high-tech extreme sport.

Tornqvist, 63 years old, joined the fray just as a revolution in high-tech design has roughly tripled America's Cup speeds to around 50 miles an hour in less than a decade. Whether he decides to make a third run at the "Auld Mug" will have a significant impact on the direction of yachting's most-hallowed international competition.

The co-founder of the oil-trading firm Gunvor Group spent more than $100 million on the race, mostly out of his own pocket, according to a person familiar with the matter. "It was an irresistible challenge for me," Tornqvist told The Wall Street Journal. "I like competition, and in sailing I've been able to compete on the highest level."

Altair, a Michigan company whose software is used in the automotive and aerospace industries, helped design Magic Blue. Engineers working for Tornqvist's Artemis Racing team used the firm to create and test designs for underwater wings, called hydrofoils, that lift boats in the air.

Oracle drew on Airbus for engineering help. Yet Ellison's sailors also were recruited into strength and endurance training. Oracle's message was that sailors working as a team would win the race, not machines—that skillful boat-handling was more important than superior boat speed.

"We don't think sailing should be an elitist sport," said Jimmy Spithill, the Oracle skipper. "It should be like anything else, where the best athletes win."

Technological advances have nonetheless made boats faster than ever. Ted Turner, who won the 1977 America's Cup in a monohull, doesn't like the change.

"I'm a traditionalist," said Turner, 78 years old. "I like catamarans, just not in the America's Cup."

Tornqvist, a native of Stockholm, rekindled his childhood passion for sailing during a cruising trip on his 50th birthday in 2003. Winning two world sailing contests in 2007 and 2011 helped persuade him to enter the 2013 America's Cup, competing for Sweden.

"The jump didn't feel that big anymore," he said.

Other America's Cup competitors that year, including Ellison, built their boats to rise out of the water on the first generation of hydrofoils in the race.

Tornqvist and his team instead began with a more conventional catamaran, Big Red. It was slower than rivals in training and spent hours in the shop for repairs, cutting down on practice time, team members said.

During a training exercise with Oracle in San Francisco Bay, a gust of wind hit Artemis's vessel mid-turn. Big Red's twin noses buried themselves beneath the surface and the boat pitched forward. Andrew Simpson, a British Olympic Games gold medalist, became trapped in the wreckage underwater.

Tornqvist learned of Simpson's death by phone, and days later decided the team would nonetheless finish a new boat. The crowd gave Artemis an ovation when it got the new boat to the starting line, though it failed to win a race.

Despite back-to-back disappointments, Tornqvist is winning fans within the sport.

"I give Torbjorn Tornqvist all the credit in the world. He could have just said, 'I'm out of here. This is not for me,'" said Ken Read, a TV analyst and a sailor in many America's Cup races.

What Went Wrong For Team Artemis In Bermuda in 2017

MARK LLOYD/AGENCE FRANCE-PRESSE/GETTY IMAGES

Swedish billionaire Torbjorn Tornqvist, center, with his team.

After winning in 2010 and 2013, contests criticized for out-of-control spending, Larry Ellison—the world's ninth-richest man—took fresh advantage of an unusual tradition that allows America's Cup winners to shape the rules.

Ellison implemented cost controls, resulting in more teams and smaller, cheaper boats. The move echoed calls for a return to old-school seamanship.

High-tech investments like Tornqvist's nudged the sport the other direction. But it didn't pay off in 2017.

Despite an accomplished crew and a fast boat, Artemis proved inconsistent in competition. They sped away from Ellison's Oracle team in two races, but lost to a French team that was the first eliminated and Artemis finished the round-robins with a 5-5 record. Artemis then fell behind SoftBank Team Japan 3-1 in the semifinals, before notching four straight wins to advance and face a New Zealand squad that's now reached six of the past seven Cup finals.

While helmsman Nathan Outteridge outmaneuvered the Kiwi boat several times on the start, New Zealand seemed to hold a speed advantage in the light winds that dominated the series. The teams split the first two races and Artemis held a narrow advantage in the third when Outteridge went over the side during a turn.

After the Kiwis ripped off three more wins to advance, Outteridge said he would discuss the future with Tornqvist in the next few days. If they continue, Artemis remains committed to pushing the high-tech, high-speed version of the Cup to its limits.

For Tornqvist, there doesn't seem to be any turning back. "These are the inflection points in life that we think mean so much, and it was almost accidental," Tornqvist said of his quest. "Then I was on the slippery road toward the America's Cup whether I wanted it or not."

—Aaron Kuriloff and Matthew Futterman

FROM PAGE ONE

COLD

Continued from Page One

ager thinks it helps people pay attention. Mr. Immelt wasn't immediately available for comment.

Turns out the 61-year-old executive has had arctic preferences since he was just a boy growing up in Ohio.

"We did not have air-conditioning when Jeff was little," said his older brother Stephen, who is CEO of international law firm Hogan Lovells. "When we finally got AC it made such a difference for a muggy Cincinnati summer that I think Jeff decided that cold was for him."

Stephen also has a preference for the colder temperatures, "but I live with someone who does not and life is all about compromises."

The GE boss seems to hesitate on moving the thermostat in any direction but down, according to people who have worked with him for years. GE's roughly 300,000 workers will have to wait until August to learn whether his successor, John Flannery, has similar preferences. Mr. Flannery wasn't immediately available for comment.

Earlier this month, Mr. Immelt tweeted "Climate change is real." He was referring to global efforts to combat rising temperatures. Folks inside GE might be forgiven for thinking their boss was simply reiterating his longstanding position on air conditioning.

Mr. Immelt often gets teased about his predilection for cold meeting rooms by GE associates. They recognize this habit as "a Jeffism"—along with his tendency to start meetings several minutes early if every participant is present.

"Let's get going," the early-starter CEO typically declares—even if everyone hasn't gotten a cup of hot coffee yet, according to a person who has been in the meetings.

Mr. Immelt will nudge the thermostat up a bit "once in a while" when attendees complain about their frosty surroundings, this person says. "People would say, 'It's f—ing cold,'" and Mr. Immelt would laugh as he replied, 'I know, I know,'" this person recalls.

The executive isn't doing it to drum up business. GE doesn't sell air-conditioners anymore—it sold its GE Appliances business in January 2016 to a Chinese company as part of Mr. Immelt's strategy to refocus on industrial machinery.

UDIT KULSHRESTHA/BLOOMBERG NEWS

Jeff Immelt, outgoing chief executive officer of GE.

This year, the company hosted its annual shareholder meeting at a factory in Asheville, N.C., where it produces jet-engine parts. One investor who stood up to lodge a protest wasn't upset about sagging profits. "Jeff, I just want to tell you one thing. I come from Florida, and why don't you put some heat on in the building? I'm freezing my rear end off back here."

One former GE executive says the cold never bothered him, but he contends that is probably because "I have a lot of body fat."

Mr. Immelt believes "that if the room is too warm, it makes people sleepy," the former executive says.

While people tend to think warm rooms make them sleepy, some research shows the opposite is true. Keeping a meeting room too cool hurts attentiveness, according to an ergonomics expert.

"When you start to feel cold, you feel distracted," says Alan Hedge, director of the Human Factors and Ergonomics Laboratory at Cornell University. "You're not focusing on what people are saying."

Distracted behavior typically happens in rooms cooler than 68 degrees, he says. Employees make fewer errors and complete more computer tasks with office temperature set between 76 and 78 degrees Fahrenheit, Prof. Hedge concluded, based on several studies he has conducted since 2004. A room must be pretty warm "to get people falling asleep in meetings—unless it's super, super boring," Prof. Hedge says.

Unfortunately, he adds, Cornell doesn't let faculty members change thermostats in their classrooms. The rooms are usually set to 72 degrees in the winter and to 74 degrees in summer to follow guidelines set by the American Society of Heating, Refrigeration, and Air Conditioning Engineers.

For many years, Mr. Immelt hosted GE's annual meeting for financial analysts on the set of "Saturday Night Live," in 30 Rockefeller Center at the company's former Manhattan headquarters. The soundstage features robust air conditioning in part to offset heat given off by TV lights.

The company continued to use the studio for several years after it sold its interest in NBC and the frigid temperature at the analysts' meeting was an open secret among regular attendees, who spoke of dressing warmly to prepare for the hour-plus event.

People at cold Immelt meetings "laugh about it" but hardly ever register complaints, according to another person familiar with the situation. "Jeff does not spend a lot of time worrying where the thermostat is," this person says. "It's not that cold."

But some do speak up. At a GE analyst meeting in the SNL soundstage in December 2013, an analyst questioned whether the building's new owner was paying its heating bill, according to a transcript of the event. "I ask for this, this cool, this refrigerator treatment here," Mr. Immelt responded.

"I wonder if we can cut this short," the analyst joked. "So we can all get out of here and go warm up outside."

The high temperature that day in Manhattan was 37 degrees.

THE MIDDLE SEAT | By Scott McCartney

The Best and Worst Coach Seats

The space between seats on planes has never been tighter, though some carriers are resisting taking more legroom away

ENGINEERS WOULD SAY technically sardines are still packed tighter. But the difference between a can of oily fish and a coach cabin of sweaty airline passengers is getting smaller.

There's growing variation in legroom, hip room and headroom as airlines find more ways to cram seats into planes. Travelers had best pay attention: The bad seats aren't always where you might think.

Some airlines are down to 28 inches of space from the back of your seat to the seat back in front of you in their basic coach rows, down from the once-standard 32 inches of what's called seat pitch. That's a difference felt right in the kneecap. Airlines considered full-service have shrunk down to 30 inches and American Airlines, which 15 years ago gave each row of coach seats 34 inches of space, considered going to rows with as little as 29 inches.

They backed off Tuesday. Still, new 737-800s will have 172 seats, with two more rows of seats squeezed in compared with their existing 737-800s. Space will shrink to 30 inches from 31. American first flew that plane with 150 seats, then upped it to 160 in 2015.

Slimmer seats with flexible backs and bottoms make the pinch possible. But American's announcement of 29-inch rows raised eyebrows and ire as the first big airline to break below 30 inches.

"I wouldn't have expected a full-service carrier to go that low. That's very, very tight pitch, even with a slim-line seat," says Jami Counter, vice president of flight at SeatGuru and its parent TripAdvisor.

After hearing customer complaints, American said it agreed and would avoid dropping to 29 inches.

"We've reassessed what's appropriate" for 737 coach seating, President Robert Isom said in a message to employees Tuesday. "This is the right call for customers and the right call for our team members who take care of them."

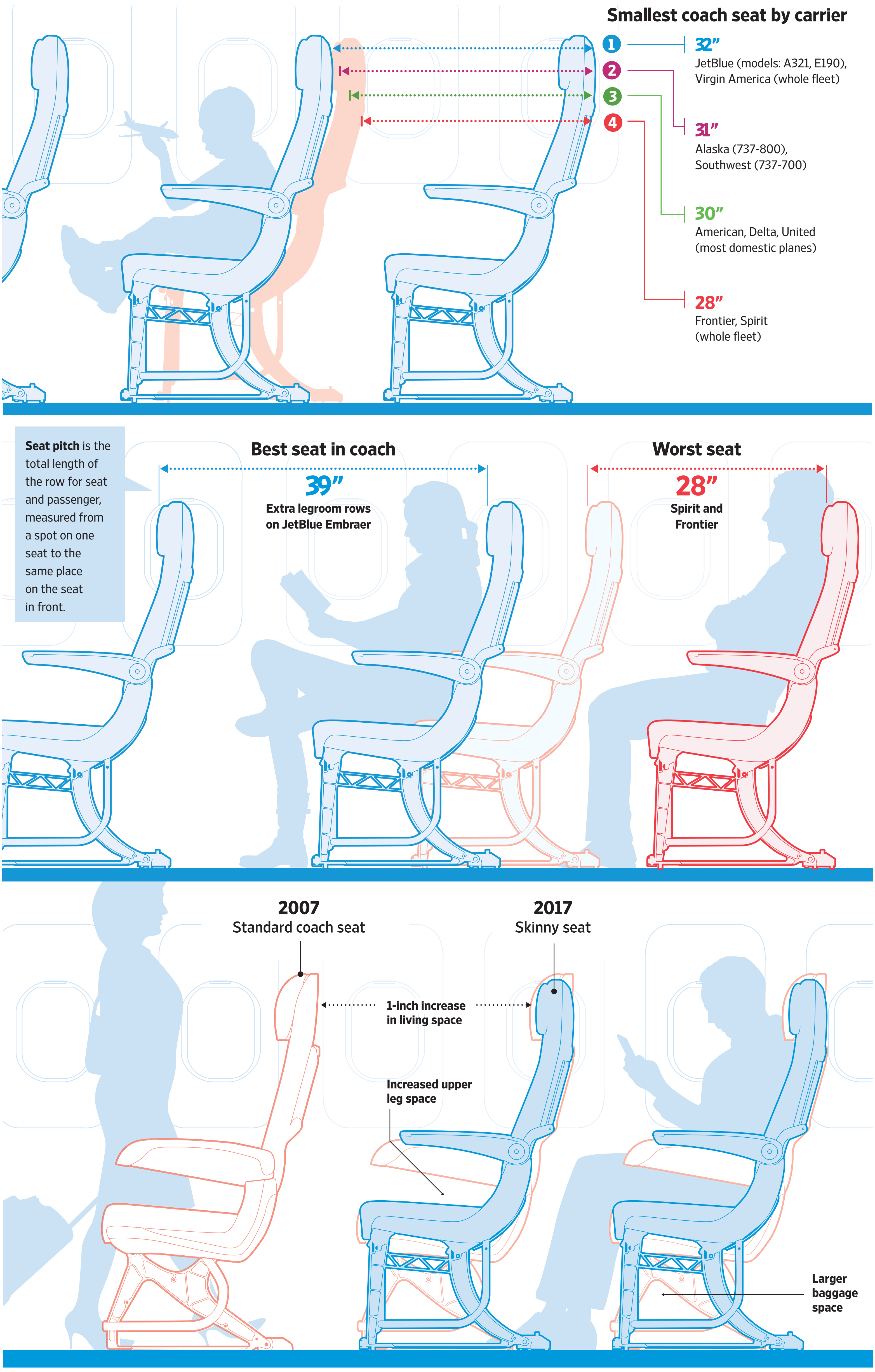
Southwest Airlines is taking delivery of the same plane as American, now called the 737-Max 8, and using the same **Rockwell Collins** Meridian slim-line seats. But Southwest, which has no first-class or extra-legroom rows, has decided to keep its seat count at 175, the same as its other 737-800s, with 32-inch pitch. The airline says there are operational efficiencies to keeping the same number of seats. In addition, "we were focused on offering a great customer experience at an affordable price for everyone onboard," says Mike Van de Ven, chief operating officer.

Travelers say dense packing has done as much as baggage fees and overhead-bin anxiety to make flying coach a more miserable experience.

"When someone leans back, we all have to lean back," says Jim Chud, a frequent flier from Los Angeles who recently was on a plane packed so tightly that passengers kept hitting him while maneuvering into and out of a bathroom.

"It's a hassle to fly to begin with, and then they squeeze you into a cattle car."

Cramming cabins really started after the post-2001 travel slump, when fares were low and airlines were losing lots of money. As travel recovered, discount carriers spread broadly, putting cheap fares in many markets. Rival carriers figured more seats would let them match cheap prices and still make money.



Sources: the airlines; SeatGuru, Rockwell Collins

Mike Sudal/THE WALL STREET JOURNAL.

At the same time, seat manufacturers found ways to make coach seats lighter and smaller. New metals and composite materials make skinny frames stronger. Three-dimensional computer modeling aided seat design, manufacturers say. Instead of hard backs and seat pans, manufacturers started using mesh covered with thin layers of foam. (Think Aeron office chairs.) Magazine pockets were moved up high on the seat back and seat bottoms changed shape to open up shin room.

Take 3 inches out of padding out of a seat back and you can push the seats several inches closer together without reducing personal space. In many cases, the new seats are more comfortable.

"Comfort is not just about the dimensions and the measurements. It's also about how the cushion feels, where the pressure points are," says Mark Hiller, chief executive of Recaro Aircraft Seating.

American has new Airbus A321 planes with slim seats, power ports and seat-back video and older A321s from US Airways with thicker seats but no power and no video. There's an inch less seat pitch on the newer planes, but they score better in reviews, says Mr. Counter of SeatGuru, which rates airline seats plane-by-plane.

But heads are still several inches closer together, and people feel more confined. "Seat pitch is definitely one of the most important amenities based on the data points we collect," says Jason Rabinowitz, director of airline research at Routehappy.

To sort through the cabin confusion, here's a guide to coach seating:

Which airline has the best coach seats?

JetBlue. Rows are 32 inches long, planes have fast Wi-Fi service and seats have free seat-back entertainment. "Their Airbus aircraft consistently score higher than anyone else," says SeatGuru's Mr. Counter.

Virgin America is close with 32-inch seat pitch and similar amenities. **Southwest** has some planes at 32 and others at 31. These three so-called value carriers, which often don't have the lowest prices but build a strong following with their comfort and service, offer the most legroom.

Which have the worst?

Spirit and **Frontier** are two major U.S. airlines with 28-inch seat pitch on their fleets. Even renowned cheapskate Ryanair has more.

Around the world, only charter operators are typically that tight. SeatGuru says Spirit is "far and away" the most poorly rated in reviews for U.S. travelers.

What about the Big Guys?

American, **Delta** and **United** have standardized most of their planes at 30 to 31 inches of seat pitch. Adding rows creates capacity growth without the expense of new airplanes and makes a low-margin business more profitable.

Widest and skinniest seats?

Boeing single-aisle planes typically have 17.2-inch-wide seats in coach. Airbus single-aisle planes have 18.3 inches because of a wider fuselage. The newest seats coming from manufacturers actually are built to hug the sidewall more closely, moving the window seat closer to the window. That allows for a seat one-half inch wider on 737s, measured inside the armrests.

Seats on widebody planes used to be 18 inches wide, but now that is dwindling to 17 inches. The Boeing 787 was designed to have eight seats across, but now almost every airline flies it with nine 17-inch-wide seats in each row.

The Boeing 777 has gone from nine abreast to 10. One airline—French leisure line Air Caraïbes, has installed 10 seats across each row of its brand new Airbus A350 jets.

Other airlines have nine seats, but will that last?

"The difference between 17 and 18 is a big deal. You lose wiggle room. You're shoulder to shoulder," Mr. Counter says.

How did seats slim down?

Rockwell Collins says its newest seats have about 20% more living space than traditional seats before the slim-down diet.

If you take that and reduce pitch from 32 to 30, passengers still end up with an extra inch of space, says Tom Plant, vice president and general manager, aircraft seating.

The frame got smaller and lighter and the back portion of the seat moved forward—it tucks in around your bottom and opens up shin space for the person behind you.

The seat pan you sit on used to be padded metal but now is netting—a diaphragm that stretches to your shape.

Mr. Hiller of Recaro says seats have to stay attached to the floor against forces 16 times as strong as gravity and must not break with 14 G's of downward pressure.

REVIEW & OUTLOOK

The Truth About Austerity

The Tories are drawing the wrong lesson from the election.

Add fiscal restraint to the list of losers in last week's British election. Theresa May has already started bidding for votes in the next general election by abandoning the restraints on spending imposed by her predecessor, David Cameron.

The new spending is the result of the loose coalition agreement Mrs. May's Tories have reached with Northern Ireland's Democratic Unionist party (DUP). The best element will be a lower corporate-tax rate of 12.5% for Northern Ireland, equal to the rate in Ireland and competitive against the 17% that will apply in the rest of the U.K. by 2020. It's odd that the government would want to give business more incentive to invest in Belfast than Birmingham, but that's what happens when you have to buy votes in Parliament.

As for spending, the Northern Irish tax cut will come without any reduction in the block-grant funding that Northern Ireland receives from other U.K. taxpayers. Mrs. May's plan to end the Cameron-era guarantee that pension payouts increase by 2.5% annually is also now running into DUP resistance.

Meanwhile, Tories such as new May adviser Gavin Barwell complain that voters gave them an earful about government-employee pay freezes, so a raise for state employees may also be on the way. And backbench Tories are warning that entitlement reforms are now off the table.

All this is a reversal of the policies pursued by Mr. Cameron and Chancellor George Osborne. They cut the corporate-tax rate from 28%, one of the main reasons the British economy has grown by more than 2% a year and revenues have boomed. They also reformed entitlements for working-age recipients, which is good for the fisc and employment. They allowed government employment to fall by 15% from its peak in 2009.

Their main failure was political, notably in selling their economic policies as "austerity" rather than aimed at growing the economy for broader prosperity. Their policies weren't all that austere in any case considering how much they increased pensions. Although the government headcount is lower, it still accounts for 17% of the workforce, compared to 15% in the U.S. (2% for the federal government). The British government's share of GDP has fallen below 43% from 48% since 2010, but that's still roughly the same as in Germany.

The austerity label let voters conclude that spending restraint was temporary, with normal political largesse to resume after the financial crisis ended. Jeremy Corbyn responded in the recent campaign by saying the time for sacrifice is over, and now Mrs. May is moving in Labour's direction.

The new Tory coalition is precarious but its success won't be measured in larger public benefits. It will depend on emerging from Brexit with policies that promote faster growth and persuade voters to rethink the role of the state in the economy. Tories like Ruth Davidson and perhaps now even Chancellor Philip Hammond are right that the focus must be on jobs and the economy.

The alternative, which Mrs. May seems more inclined to pursue, is Labour-lite spending promises that dodge the austerity label but aren't sustainable without faster growth. This will undo Mr. Cameron's hard work in convincing voters that responsible budgeting is a virtue, and it's a recipe for economic anemia that could doom the Tories in the next election.

Otto Warmbier's Homecoming

He visited North Korea as a tourist. He left 18 months later in a coma.

University of Virginia student Otto Warmbier visited North Korea over New Year's in 2015 as a tourist, and on Tuesday the 22-year-old returned home to the U.S.—in a coma.

Mr. Warmbier traveled to North Korea for a five-day tourist trip, despite U.S. State Department warnings and the North's long record of taking Americans hostage. As he was preparing to leave with his fellow travelers in January 2016, he was detained and accused of stealing a propaganda poster from his hotel. The next month he gave a tearful public confession, and that March he was sentenced to 15 years of hard labor for a "hostile act" against the state.

Mr. Warmbier's parents told the Associated Press Tuesday that they recently learned their son has been in a coma since March 2016, or shortly after his show trial. They say North Koreans told U.S. authorities that their son contracted botulism and never awoke after he was given a sleeping pill. "We want the world to know how we and our son have been brutalized and terrorized by the pariah regime," Fred and Cindy Warmbier said in their statement.

U.S. Secretary of State Rex Tillerson declined to comment on Mr. Warmbier's condition "out of respect for the privacy" of the family. But a U.S. official told the New York Times that the U.S. had recently obtained intelligence indicating the young man had been repeatedly beaten in custody. A United Nations commission documented in 2014 that "the use of torture is an established feature of the interrogation process" in North Korea.

Otto Warmbier's fate underscores the grotesque nature of former basketball player Dennis Rodman's latest visit this week with his pal Kim Jong Un in Pyongyang. Kim still holds three other American hostages, and any American who visits is tempting torture and death.

Uber's Growing Pains

The ride-sharing app won't survive if lawyers and HR run the show.

Ride-hailing app Uber Technologies' growth curve has been as meteoric as its learning curve has been steep. But its leadership turmoil shows the perils of moving from Silicon Valley darling to durable success, especially if it wants to tap public markets for capital anywhere close to its $68 billion valuation.

Uber said Tuesday that CEO Travis Kalanick will take an indefinite leave from the company he built, a day after chief business officer Emil Michael stepped down. The moves followed a unanimous vote by Uber's board—which consists of private investors—to adopt reforms to its "workplace culture." The San Francisco-based startup enlisted former U.S. Attorney General Eric Holder's law firm, Covington & Burling, after several women complained that Uber executives ignored sexual-harassment allegations.

Workplace culture often flows from the top, and the internal analysis seeks to correct lapses in executive judgment. In 2014 Mr. Michael floated a plan to dig up details about the private lives of journalists critical of the company. Earlier this year Mr. Kalanick was caught on camera berating a driver.

Yet Uber would never have achieved what it has if not for Mr. Kalanick's hard-charging attitude. The company has had to break through regulatory barriers backed by the taxi lobby in city after city, and it didn't do that by bowing at the first sign of resistance. Uber's innovation has greatly improved the lives of millions of urban travelers, and that breakthough has in turn invited competitors such as Gett, Lyft and Via. There's no guarantee that Uber will emerge as the Facebook of this pack.

But Uber's hardball tactics also present business risks. Last year the California DMV pulled the registration on Uber's self-driving cars because the company didn't obtain a $150 permit to test its vehicles. Twenty other car manufacturers had obtained permits, but Uber didn't see the need. It finally conceded to apply for a permit in March. The Justice Department is also investigating Uber's use of "greyball" software to evade regulators in jurisdictions where it wasn't authorized to operate.

Uber is the dominant ride-hailing app in most U.S. cities because private investors bankrolled its rapid expansion with recruitment bonuses for drivers. A high concentration of drivers in cities reduces rider wait times while heavy customer traffic deters drivers—in effect free agents—from defecting to other apps.

Millennials are fickle customers, and a drop in ridership could divert drivers to competing apps. This would make it harder for Uber to raise capital to sustain its huge losses ($2.8 billion last year) as it expands. Investors who may have tolerated Uber's earlier blunders because of its growth potential will draw a line when management failures impair the company's performance and profitability.

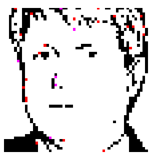
Consider the lawsuit by Google's self-driving startup Waymo that accuses former employee Anthony Levandowski of lifting trade secrets before joining Uber. Last month federal Judge William Alsup referred the case to prosecutors after declaring that the evidence that Mr. Levandowski pilfered Waymo's technology was highly incriminatory. Uber has denied colluding with Mr. Levandowski. But even if Uber isn't found complicit in the alleged piracy, the judge could bar it from using any cribbed code or technology. This would be a major setback in Silicon Valley's autonomous-car race.

All of this explains why investors are shaking up Uber's management, but that also carries risks. Sheryl Sandberg's collaboration with Mark Zuckerberg worked for Facebook, but John Scully clashed with Steve Jobs when he arrived at Apple from Pepsi. Jobs left Apple but returned to revive it with a new burst of innovation. One certainty: Uber won't survive the ride-sharing shakeout if the lawyers at Covington & Burling are in charge.

One question for capitalism is whether Uber's shakeup would have occurred sooner if it had already braved public equity markets. Two decades ago startups went public much earlier in their business cycle. But Sarbanes-Oxley and other regulatory demands have made going public far more costly, and even successful tech startups tend to delay listing shares on exchanges. Public markets are sensitive to losses and bad publicity, so they can be as useful for disciplining managers as they are for rewarding investors.

The only story the business press likes better than a glorious startup is an inglorious failure, so Mr. Kalanick is now getting a rough ride. But he's built an innovative business that fulfills a public need, and Uber's investors had better hope his replacement is as good a manager as Mr. Kalanick has been an entrepreneur.

What's Driving the Race Over Autonomous Cars



BUSINESS WORLD
By Holman W. Jenkins, Jr.

Google and Uber face cultural challenges that have little to do with driverless vehicles.

Google-parent Alphabet isn't a litigious company. So proclaimed its chief financial officer, Ruth Porat, in a public forum two weeks ago. She added that its legal spat with Uber just happens to be a "compelling" exception.

Compelling, certainly, for the media, which love a tale of tech giants battling it out over autonomous vehicles. One thing the celebrated case won't do, though, is decide anything important about the future of driverless cars.

Too many questions remain unanswered and unanswerable. When commuting is effortless, won't people commute a lot more? Won't some buy Winnebagos and live in them, constantly in motion? Then traffic will be worse, not better.

If people won't need to own cars anymore and cars won't sit idle 95% of the time in driveways, supposedly vehicle sales will plummet. But if people are commuting more and shared cars are racking up 150,000 miles in a year instead of 10, won't they wear out and need to be replaced faster?

Will people still care about luxury and performance brands in a car-sharing world?

Talk of winners and losers isn't remotely sensible at this point, but that hasn't stopped anyone—Audi, BMW, Daimler, Ford, GM, Tesla, etc.—from engaging in such blather for reasons related to the stock market and brand management.

While GM or Ford must scrimp money from car sales to reinvest in robotics, Tesla can whistle up more cash from Wall Street on the back of an Elon Musk tweet. Apple and Google can dip into bottomless cash piles generated by their high-margin tech businesses.

A neurosis has enveloped the auto sector on this point. The firing of Mark Fields at Ford last month was, at bottom, about Ford's failure to lift its stock by mouthing autonomous-driving hype. Or listen to GM's Mary Barra. You would think she eats, drinks and sleeps driverless cars and the "mobility revolution" rather than the products that bring in 100% of GM's revenue.

Guess what? The same is true of Uber. Its embattled co-founder, Travis Kalanick, overegged the pudding last year by claiming his company would be doomed unless it raced to the front in developing and demonstrating self-driving cars. This made no sense. As long as Uber maintains its lead as the world's preferred, trusted dispatcher of rides, its basic business model should be able to survive a transition to autonomous vehicles just fine.

The ride-sharing company's real problem is its giddy $70 billion private-market valuation, which no amount of commissions earned on driver pickups would seem likely to justify. Uber would like at some point to go public, and at a tech-wonder valuation, thus its aggressive and flamboyant effort starting last year to attach itself to the self-driving car meme by buying Otto, the startup created by Google renegade Anthony Levandowski.

If Uber blundered into its legal war with Google by trying to help itself to autonomous-vehicle hype, Google blundered into the fight for a different reason. This reason has nothing to do with the driverless future and everything to do with the limits of Google's signature effort to maintain a freewheeling, entrepreneurial, tech-incubator feel inside a large organization.

Google brought aboard Ms. Porat in the first place and turned itself into the Alphabet holding company to impose discipline on its free-spending "moonshots." It played down its "don't be evil" motto in favor of a more traditional corporate code of conduct.

Mr. Levandowski himself was a fruit of Google's eccentric policy of letting employees pursue personal projects on company time and with company resources. A leader of Google's autonomous-vehicle efforts, Mr. Levandowski, as the Journal detailed last month, previously tested the limits by secretly setting up an outside company to sell his inventions back to Google.

Where another employer might have found this an intolerable case of employee self-dealing, Google rewarded Mr. Levandowski by buying his company for $20 million.

Mr. Levandowski could hardly have gotten any message except to keep testing the limits of chutzpah. This he allegedly did by spiriting a large amount of Google data into another startup, Otto. When he left Google and eventually sold Otto to Uber for $680 million, this was apparently more employee initiative than Google could stomach.

Back in the real world, driver-assistance technology has been creeping into cars for decades and likely will continue to do so, with collision avoidance the next feature to become standard over the next several years. The driverless car won't arrive with a bang overnight.

For instance, the Lidar sensors at the heart of the Google-Uber litigation will have to become a cheap commodity before autonomous driving is widespread. That alone means however the case plays out, you should expect neither company to walk away with a meaningful advantage in the driverless vehicle sweepstakes.

LETTERS TO THE EDITOR

The Talented Mr. Comey Takes On Congress

Regarding "James Comey's Passion Play" (Review & Outlook, June 12): The former FBI director is a coward for failing to stand up to President Trump and former Attorney General Loretta Lynch. Anyone in the military, law enforcement, auditing, law or medicine at some point has to confront a supervisor and tell him he is wrong. When Mr. Trump said that Gen. Mike Flynn is "a good guy" and hoped Mr. Comey could "let this one go," he should have smiled and said: "We don't want to go there. We will work Flynn's case as quickly as we can."

When Mr. Trump asked for loyalty, Mr. Comey could have said he would keep the president in the loop. When Ms. Lynch told Mr. Comey to say that the Hillary Clinton investigation was to be described as a "matter," Mr. Comey should have said that he would not do it. Instead he caved.

Mr. Comey should have understood that his superior is a political novice, and instead of stabbing him in the back by leaking a memo, should have guided him into understanding the complex relationship between the president and FBI.

The FBI isn't independent and the president can fire the FBI director, but to do so risks precious political capital and invites a special counsel, which has happened.

Mr. Comey failed as a subordinate in supporting his boss's boss. He deserved to be fired.

O.S. Martin
Richardson, Texas

I believe Mr. Trump was surprised by Mr. Comey's refusal to pledge loyalty. Isn't that what Mr. Comey displayed toward Ms. Lynch? The FBI conducted a sham investigation of Mrs. Clinton and her associates' abuse of classified information. No grand jury was convened by the Justice Department. Mrs. Clinton wasn't interviewed until very late in the game, and then not under oath and the interview wasn't recorded. Mrs. Clinton's chief of staff, Cheryl Mills, was given immunity for the contents of her laptop and allowed to serve as her former boss's lawyer though she had handled emails that were the point of the "matter."

Mr. Trump could have reasonably expected the same courtesy as Mr. Comey had shown to President Obama, Ms. Lynch and Mrs. Clinton.

Francis G. Knipe
Torrance, Calif.

It isn't clear to me how anyone can justify the head of the FBI leaking information. Mr. Comey's actions effectively say to all of the FBI that it is OK to leak.

Jim Ikeler
Cincinnati

If Mr. Comey's backdoor approach to triggering the appointment of a special counsel to investigate the president or his advisers is honorable behavior in the swamp, do most of Washington's many deep-state leakers of information (sometimes classified) deserve to be reclassified as heroes?

Twenty-five-year-old federal contractor Reality Winner, described by friends and family as a passionate person, decided recently that the public deserved to know more about Russian military intelligence cyber-attacks. She shared classified information directly with the media and now is in trouble with the Justice Department. She should have used a friend to serve as a document-release buffer.

Please forgive us despicable simpletons for not understanding the mystifying ways of the Washington swamp ecosystem.

Tom West
Raleigh, N.C.

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OPINION

How Trump Is Like Obama

By Josef Joffe

Uncle Sam is getting pushed around by the rest of the world, and we aren't going to take it anymore. That is the gist of President Trump's "America First" doctrine. But let's cut No. 45 some slack. He isn't the first to chop away at the made-in-the-USA global order designed by Harry S. Truman 70 years ago. Pride of place must go to No. 44, Barack Obama.

What, that exemplar of internationalist virtue? True, President Obama didn't trumpet "America First." His standard shibboleth was "It's time for a little nation-building at home," echoing George McGovern's "Come home, America!" from 1972. Let's lay down the burden and mend crumbling bridges and failing schools, Mr. Obama suggested. Cut to Mr. Trump, who wants to invest $1 trillion in the domestic infrastructure.

There's more continuity than difference between 'nation-building at home' and 'America First.'

Come home or *To hell with you*—either way, the message reads: The world's housekeeper will now look out for No. 1. So Mr. Trump keeps bullying the allies on defense spending, demanding zillions in back pay for the security the U.S. has always delivered at a discount. Now listen to Mr. Obama. In a 2016 interview with the Atlantic, he rumbled: "free riders aggravate me."

Mr. Trump hasn't brought the boys home, but Mr. Obama did. He drew down the European force to about 50,000 from 75,000. During the 1980s, it numbered 350,000. That was supposed to be accompanied by the fabled "pivot" to Asia, but it didn't materialize. Instead Mr. Obama presided over a global retraction, most grievously in Iraq.

President Obama at a NATO summit in Warsaw on July 9, 2016.
AGENCE FRANCE-PRESSE/GETTY IMAGES

Then, refusing to enforce his "red line" in Syria, Mr. Obama invited in Russia and effectively welcomed Iran, too. Turning away from old allies, he chased the will-o'-the-wisp of Iranian friendship. In Mr. Obama's view, paraphrased by the Atlantic's Jeffrey Goldberg, "the Middle East is no longer terribly important to American interests." Meanwhile, Tehran has expanded to the Mediterranean.

The Obama agenda was *self*-containment, a first in the history of great powers. So who would mind the global store, as the U.S. had done since 1945? Under Mr. Obama, "Yes, we can" segued into "Others will." Beijing, Moscow and Tehran did, but not as retainers of Aloof America. Rising powers have never seen a vacuum they didn't like.

Set aside Mr. Trump's in-your-face tweets and savor the kinship between Donald the Crude and Barack the Cool. Each in his own way—brutally or softly—has signaled: America, previously the "indispensable nation," is vacating its penthouse at the top of the global hierarchy.

No great power has ever done so voluntarily; all America's predecessors were sent packing by more-muscular competitors.

Yes, but doesn't Mr. Trump want to "make America great again"? First, this is a mendacious slogan. By any measure, America wasn't a limping giant on Jan. 20 but the greatest power on earth, given its economic primacy, military clout, diplomatic centrality and cultural sway. The world dresses, watches, listens and dances American. Some has-been.

Second, what makes a nation "great"? Mr. Trump thinks it is unbridled national egotism, flanked by the extended middle finger, as when he withdrew from the nonbinding Paris climate accord. Promptly, China began to posture as the guardian of global goodness. Another great victory was pushing aside the leader of tiny Montenegro at the NATO summit's photo-op last month.

The short take on Trumpist diplomacy: A schoolyard bully is never elected class president. The other kids may fear him, but they won't follow him. Leadership means taking care of others while going to the top. It comes from authority grounded in consent, not humiliation of the weak.

Still, America's slide into abdication began in 2009, not in 2017. What made America great after World War II? Sheer clout, at first. So why did the Pax Americana endure while Europe and Japan rose from the ruins and China grew into the world's second-biggest economy? Because of the genius of pre-Obama, pre-Trump diplomacy: Achieve your own ends not by going mano-a-mano, but by serving the interests of others in the process, like safeguarding security and the liberal trading order.

"Too expensive!" trumpets No. 45. Let's consult No. 33, President Truman: "Which is better for the country," he asked with a view to Europe, "to spend 20 or 30 billion dollars to keep the peace, or to do as we did in 1920 and then have to spend 100 billion dollars for four years to fight a war?"

In World War II, U.S. defense outlays peaked at 41% of gross domestic product. Today, the cost of empire has come down to 3.6%—a steal. So the Europeans spend only 1.5% on average. Global powers always pay more for defense; that's part of what makes them great.

The U.S. isn't doing the European Union a favor by adding its own weight to an Atlantic order that doubles as the world's largest trade and investment relationship. The insurance premium is worth it, especially given Vladimir Putin's strategic ambitions.

Do good for yourself by doing good for others—that has been the secret of America's realpolitik and exalted position. While Mr. Obama wielded hammer and chisel against the nation's perch, Mr. Trump is waving a chain saw. As friends retract, rivals rejoice: What a windfall! But take solace from Bismarck, who supposedly quipped: "God protects children, drunkards and the United States."

Mr. Joffe serves on the editorial board of Die Zeit in Hamburg and is a fellow of the Hoover Institution in Stanford, where he also teaches U.S. foreign policy. His latest book is "The Myth of America's Decline."

Making U.S. Tax Cuts That Last

By Grover Norquist And David McIntosh

Americans know what kind of tax reform they want: a bill that cuts rates across the board, kills the death tax and the alternative minimum tax, expands the personal and family exemptions, and eliminates politically directed loopholes. If lawmakers passed such a plan, it would supercharge the economy and create millions of jobs.

The challenge is how to get from here to there, given the rules of Congress.

Tax reform can be enacted with a simple majority in the Senate under the process known as budget reconciliation—but only if various complicated procedures are followed. One of these, called the Byrd rule after Sen. Robert Byrd, says that bills passed under reconciliation cannot increase the deficit outside of the budget window—traditionally 10 years.

The 'budget window' has traditionally been a decade. But the Senate could make it 25 years.

The practical result? Tax cuts passed under reconciliation magically disappear in year 11, like Cinderella's carriage turning into a pumpkin at midnight. That is why the Bush tax cuts, passed in 2001, would have ceased to exist in 2011 had they not been temporarily extended for two years. Some parts were then made permanent in 2013.

But any tax reform meant to spur economic growth should be permanent so that corporations and entrepreneurs can plan ahead. If they don't know what the rules will be a few years down the road, it's tougher to build factories, hire new workers, invest in equipment or spend on research and development.

Conventional wisdom says that the only way to pass lasting tax cuts is to offset them with corresponding tax increases, base broadening or, best of all, permanent spending cuts.

There's another option: Extend the budget window to 25 years—or longer. The 10-year window isn't set in stone. The Budget Act of 1974 simply says that the window has to be at least five years in duration.

The idea of modifying the time frame isn't new, and it certainly isn't radical. The budget window was expanded in fiscal year 1995 to seven years from five. Congress used the 10-year window for the first time in 2000, but then went back to five years again as recently as 2007.

We say extend the budget window to 25 years. Why? Because the people creating jobs and investing in new products think long-term. Depreciation schedules for new plant and equipment often run to 25 years or more.

Lawmakers simply should write this year's budget to say that all tax cuts can last 25 years, which would allow rate reductions to go into effect now and be offset later with revenue from higher growth or spending restraint.

If Congress is serious about boosting the economy, it should pass a net tax cut within the extended 25-year budget window. As President Trump says, "prime the pump" now and the economy will start to flow, creating millions of jobs and more tax money for Washington.

Fortunately for taxpayers, Sen. Pat Toomey (R., Pa.) has taken the lead in promoting this pathway to recovery. "Nothing in the law prevents us from using a 20- or even 30-year timeframe," Mr. Toomey wrote in an op-ed last month. "A 20- or 30-year tax reform would be as close to permanent as we can get since Congress would be likely to overhaul the tax code within that period anyway."

This brings to mind the classical story of the Gordian knot. It was a knot so complicated that legend said the man who could untie it would go on to rule all of Asia. That man was Alexander the Great, who didn't wrestle with the knot as all the others had but picked up his sword and cut it in two, causing it to unravel.

That's what Mr. Toomey wants to do. Extending the budget window to 25 years would cut the Gordian knot, unravel the Byrd rule and allow serious tax reform to create millions of jobs in the years to come.

Mr. Norquist is the president of Americans for Tax Reform. Mr. McIntosh is the president of the Club for Growth.

Can America Afford Modern Nukes?

By Matthew R. Costlow

When President Obama left the White House, he punted on a tough choice: how to modernize America's nuclear force. In the coming weeks, the U.S. Congressional Budget Office is expected to release a report that estimates modernization as currently proposed would cost $1.2 trillion over 30 years, or about $40 billion a year. Congress and the Trump administration shouldn't be intimidated by the ostensibly big number.

The plan analyzed by the CBO would replace the nuclear delivery systems of bombers, missiles and submarines with new ones that incorporate the latest safety and survival features. These changes would enable some systems to perform well into the 2080s. It's ambitious, but this program isn't the budget buster nuclear-disarmament supporters describe.

Under the plan, spending on the nuclear arsenal would peak in the late 2020s at about 6.5% of the Defense Department budget, up from 3.2% today. Recall that military spending consumes only about 15% of the federal budget.

But determining whether modernization is affordable involves more than cost considerations. The Pentagon simultaneously has to consider its priorities and the costs of weapons systems when determining the best way to protect U.S. interests.

According to the Defense Department, the two highest priorities of U.S. strategy are "the survival of the nation" and "the prevention of a catastrophic attack against U.S. territory." The Pentagon's Quadrennial Defense Review lists "a secure and effective nuclear deterrent" at the top of a list describing how to achieve such priorities.

Given that the U.S. nuclear arsenal helps to deter the only existential threat to the U.S.—major nuclear war—its value can't be measured by traditional dollar metrics alone. Budgets are about tradeoffs and priorities. As the vice chairman of the Joint Chiefs of Staff, Gen. Paul Selva, testified earlier this year, "We are emphasizing the nuclear mission over other modernization programs when faced with that choice."

Forty billion dollars a year isn't much for the country's survival.

Critics will cry that every dollar spent on nuclear weapons, which haven't been set off in anger since World War II, is a dollar taken from those who are fighting wars right now. But as then-Defense Secretary Ash Carter explained in a speech last year, U.S. nuclear forces are the "bedrock" of American security and the "highest priority mission" of the Defense Department. They enable current war fighters to achieve their missions.

Even those in the military who could stand to miss out on spending increases because of nuclear modernization efforts, like U.S. Army Chief of Staff Gen. Mark A. Milley, support modernization: "It's not even an Army system and it needs to be overhauled and brought back up to the level of readiness."

The federal government can afford to spend less than 1% of its multitrillion-dollar budget on nuclear modernization. And with China, North Korea and Russia all upgrading their nuclear weapons capabilities, just about the only thing the U.S. can't afford is to end its modernization efforts before they begin.

Mr. Costlow, a doctoral student at George Mason University, is a policy analyst at the National Institute for Public Policy.

Open Cuba's Market to U.S. Farmers

By John Boozman And Rick Crawford

U.S. agriculture is struggling. Net farm income has fallen by half since 2013, and commodity prices across the board are below the cost of production. This is especially detrimental given the number of jobs agriculture provides the U.S. economy. Direct on-farm employment accounted for 2.6 million American jobs in 2015, and another 18.4 million jobs were supported by agriculture, according to the U.S. Department of Agriculture.

The U.S. should consider expanding the agricultural market in its backyard: Cuba. Less than 100 miles south of Florida, Cuba imports nearly 80% of its food annually, from countries such as New Zealand and Vietnam, including about 400,000 tons of rice.

Being closer to Cuba geographically, the U.S. has the comparative advantage and could provide cheaper, better-quality goods in hours instead of weeks.

But the Trump administration may be taking a step in the opposite direction. For the past several months, the White House has been reviewing its trade policy with Cuba, and a major announcement is expected Friday. Early reports foretell a rollback of Obama-era policies that relaxed U.S. restrictions on the island nation.

While the move may appease Cold War-era hawks and the minority of Cuban-Americans who still support the embargo, the American business community, agriculture in particular, needs access to Cuba's market.

There is a better way forward that satisfies both parties without repealing the embargo or changing its structure: allow agricultural goods to be sold on credit through private financing. Currently the U.S. trades agricultural goods with Cuba, but there are restrictions that limit trade to cash-only transactions. Considering that nearly all international trade relies on credit, this policy puts American farmers on the sidelines while competitors such as Brazil and China enjoy Cuba's $2.4 billion market.

Two bills under consideration right now, the Cuba Agricultural Exports Act in the House and the Agricultural Export Expansion Act in the Senate, would remove the credit restriction and allow private financing of agricultural exports. President Trump's secretary of agriculture, Sonny Perdue, expressed his support for trade on credit with Cuba during his Senate confirmation hearing in March. Producers from Arkansas, Kansas, Louisiana, Minnesota, Texas and other states would be the first to benefit directly from this change.

If there ever was a time for this bill to move, it is now. Agriculture is a crucial part of rural states' economies. The most important thing that can be done now for American agriculture is to open new markets for U.S. products.

Americans can sell food to the island, but only in cash transactions. It's time to extend credit.

Following Fidel Castro's death in November, President-elect Trump said, "Our administration will do all it can to ensure the Cuban people can finally begin their journey toward prosperity and liberty." He also has promised time and again to bring back American jobs and "make America great again."

Allowing agricultural trade on credit would be a good compromise: Those who support the Cuba embargo should be able to get on board. The Trump administration would accomplish a bilateral trade deal that supplies the Cuban people with high-quality food. And all of this can be done while supporting rural American jobs—an undeniable victory for the Trump White House.

Messrs. Boozman and Crawford, both Arkansas Republicans, are, respectively, a U.S. senator and representative from the First Congressional District.

FROM LEFT: ROBERT SLLUSZNIAK; GRAVITAS VENTURES; DAVID WOLFF - PATRICK/REDFERNS/GETTY IMAGES

Film composers from left, Brian Tyler, Hans Zimmer and Trent Reznor are stepping into the spotlight in part thanks to the new documentary 'Score.'

MOVIE MUSIC

For Film Composers, A Whole New Score

BY DON STEINBERG

WHEN "THE MUMMY" opened Friday, Brian Tyler, who composed the movie's music, performed his usual ritual. He headed to cinemas around Los Angeles to observe audiences. When screenings of the Tom Cruise action film let out, he lingered in the multiplex, taking extra time on the escalator and in the rest room to hear whether anyone was unconsciously humming his music.

"I'll wash my hands for a long time," says Mr. Tyler, who has composed music for four Hollywood films coming out this year. "I was happy to hear some people leaving the theater humming the theme."

It's getting harder for Mr. Tyler and some of his colleagues to stay under the radar. Film composers are stepping into the spotlight in a new documentary, "Score," which opens June 16. The movie celebrates the storytelling ability and emotional power of a film's score—the original music composed to complement scenes in a non-musical film, rather than pop-music tracks a director might insert.

Composers such as Mr. Tyler, who is featured in "Score," also are taking rock-star turns in concerts. In May, he conducted a 75-piece orchestra and 60-person choir, performing music from "The Mummy" and his other films for an arena audience of 15,000 in Krakow, Poland. He also performed some of his original electronic music, under his alter-ego name Madsonik, at a dance club in San Diego.

Another movie maestro in the documentary is Hans Zimmer, who has scored more than a hundred films from "Driving Miss Daisy" in 1989 to the coming "Dunkirk." Mr. Zimmer rocked the Coachella music festival in April, playing electric guitar with a backing orchestra and kicking off a global tour that this month has him filling arenas across Europe. He returns to the U.S. in July for his first North American concert series. "People are realizing that film music can stand on its own two feet," Mr. Zimmer says. "There's a sense of storytelling in the music. It's not necessarily the story you saw on the screen. You can make your own movie in your head."

The documentary reveals the film-music creation process, practitioners, and history. It explores the impact of Bernard Herrmann's screeching violins in Alfred Hitchcock's "Psycho," John Barry's "James Bond" theme, Ennio Morricone's spaghetti western sound, and Thomas Newman's ethereal score for "American Beauty." There is footage of John Williams and Steven Spielberg working on music for "E.T." as well as Mr. Spielberg's reaction to Mr. Williams's two-note motif for the "Jaws" shark. Initially, the director thought it was a joke.

Movie music is all about manipulating the audience. "The whole purpose of your job as a film composer is to be the emotional voice of what the director wants in the scene," Mr. Tyler says. "It's the wordless narrative, so you try to jump into their head as much as possible. " Director James Cameron ("Titanic" and "Avatar") says in the documentary that a composer "has to act almost like a therapist" to extract a director's feelings.

Live movie-score performances, sometimes accompanied by films, have become a summertime staple. The Harry Potter Film Concert series hits cities across North America this summer. "Titanic Live" continues its world tour, and the New York Philharmonic plays a "Star Wars" Film Concert Series in September. Orchestras regularly perform John Williams's music (including "Star Wars," "Raiders of the Lost Ark" and "Jurassic Park").

For composers, moving between films and other work keeps ideas cross-pollinating. Mason Bates is composer-in-residence at Washington's John F. Kennedy Center for the Performing Arts. His classical symphonies tend to tell stories. For the 100th anniversary of John F. Kennedy's birth in May, he composed a piece that integrated JFK's moon-shot speech into a symphonic work about American exploration. Director Gus Van Sant heard a recording Mr. Bates did with the San Francisco Symphony and asked him to try his hand at scoring the film "The Sea of Trees," which premiered at Cannes in 2015. Working on movie music that's tied so closely to dramatic narrative "allows one to think more theatrically" about other music, Mr. Bates says.

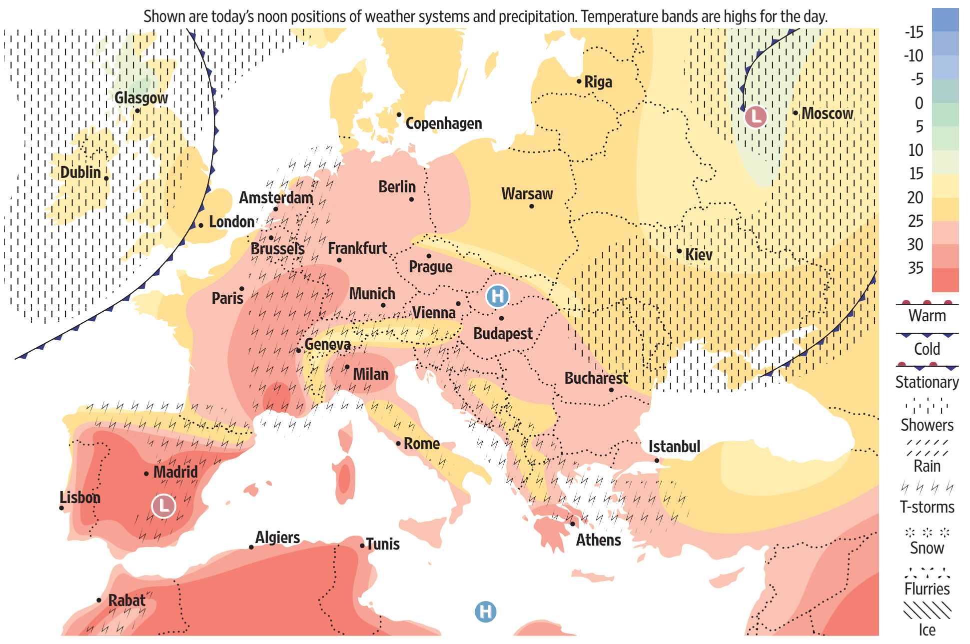
Today's arena performances might not surprise film composers who started out in the rock world. Danny Elfman graduated from the band Oingo Boingo to score films including "Good Will Hunting" and "Silver Linings Playbook." Trent Reznor of Nine Inch Nails won an Oscar for composing the score of "The Social Network" with Atticus Ross. But the arena-size crowds still astonish some composers. "Outside of John Williams doing his big concerts—and he's kind of always the exception to the rule—I don't think any of us thought that this was possible," Mr. Tyler says.

Mr. Zimmer played synthesizer and appeared in the video of the 1979 Buggles song "Video Killed the Radio Star," which launched MTV. This month he and Buggles frontman Trevor Horn, with a 60-piece orchestra, performed the song live for the first time in decades in Frankfurt. Mr. Zimmer has been joined on tour by Nile Marr, son of The Smiths guitarist Johnny Marr. His light show is done by Marc Brickman, lighting designer for Pink Floyd. "I'm so not the rock-star type," Mr. Zimmer says. "I've surrounded myself with people who really know how to do it. "

Weather

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

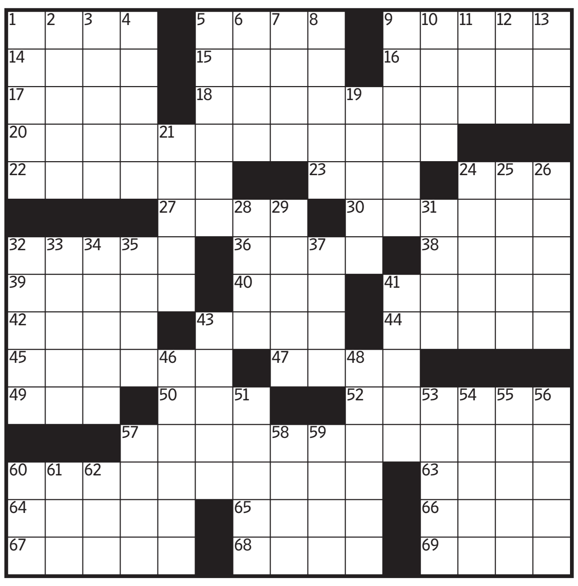


Global Forecasts

s...sunny; pc... partly cloudy; c...cloudy; sh...showers; t...t'storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today Hi	Today Lo	Today W	Tomorrow Hi	Tomorrow Lo	Tomorrow W
Amsterdam	25	15	t	18	15	c
Anchorage	16	9	pc	18	10	s
Athens	31	22	s	29	20	t
Atlanta	32	22	t	31	22	t
Baghdad	40	24	s	41	25	s
Baltimore	28	18	pc	27	19	c
Bangkok	36	25	pc	35	26	pc
Beijing	39	19	c	37	22	pc
Berlin	26	16	pc	20	12	sh
Bogota	19	9	pc	19	9	c
Boise	26	15	c	22	11	c
Boston	22	14	s	20	16	c
Brussels	27	13	t	20	14	pc
Buenos Aires	19	17	c	24	19	c
Cairo	35	23	s	36	23	s
Calgary	20	9	pc	19	8	c
Caracas	31	26	pc	31	26	sh
Charlotte	33	21	t	31	21	t
Chicago	33	20	pc	32	20	t
Dallas	35	26	s	36	26	s
Denver	31	14	pc	32	15	pc
Detroit	29	18	t	31	21	t
Dubai	45	31	s	41	32	s
Dublin	18	11	sh	21	13	pc
Edinburgh	18	11	sh	18	14	sh
Frankfurt	30	14	pc	23	11	c
Geneva	27	15	t	26	14	s
Hanoi	35	27	t	32	25	c
Havana	31	23	t	31	23	t
Hong Kong	32	28	t	32	27	t
Honolulu	30	23	t	31	23	pc
Houston	35	24	pc	35	24	pc
Istanbul	26	19	pc	26	18	s
Jakarta	32	25	t	31	25	t
Johannesburg	21	5	s	19	4	s
Kansas City	35	21	t	33	22	pc
Las Vegas	40	26	s	41	27	s
Lima	23	16	pc	22	16	pc
London	23	12	pc	24	15	pc
Los Angeles	31	17	s	32	19	s
Madrid	39	21	pc	39	23	s
Manila	33	26	t	33	26	s
Melbourne	16	7	c	16	5	pc
Mexico City	25	14	pc	26	13	pc
Miami	31	25	t	31	25	t
Milan	31	21	t	34	21	pc
Minneapolis	31	19	s	31	20	pc
Monterrey	38	20	pc	38	20	pc
Montreal	24	14	pc	21	16	r
Moscow	11	8	r	17	10	sh
Mumbai	32	27	r	33	27	r
Nashville	31	21	t	34	22	t
New Delhi	41	27	s	39	28	t
New Orleans	31	24	t	31	24	pc
New York City	23	16	s	20	16	sh
Omaha	35	21	t	34	20	t
Orlando	31	22	t	29	22	t
Ottawa	24	15	c	24	17	sh
Paris	28	12	t	23	13	pc
Philadelphia	27	17	pc	26	21	sh
Phoenix	42	25	s	43	26	s
Pittsburgh	29	20	t	30	19	t
Port-au-Prince	34	24	pc	33	24	t
Portland, Ore.	18	15	r	20	12	c
Rio de Janeiro	24	19	s	25	19	s
Riyadh	45	26	s	45	28	s
Rome	29	19	s	30	19	s
Salt Lake City	31	17	pc	31	18	s
San Diego	25	17	pc	27	17	s
San Francisco	22	14	s	23	15	s
San Juan	31	26	sh	31	26	sh
Santiago	17	8	pc	14	4	r
Santo Domingo	32	23	pc	31	23	t
Sao Paulo	20	14	pc	23	14	s
Seattle	17	13	r	19	10	sh
Seoul	27	18	s	31	17	pc
Shanghai	27	19	pc	27	20	pc
Singapore	31	26	t	31	26	t
Stockholm	23	13	pc	21	12	r
Sydney	20	13	pc	18	13	c
Taipei	25	24	r	31	24	r
Tehran	38	23	s	36	22	s
Tel Aviv	28	20	s	29	20	s
Tokyo	26	19	pc	27	19	s
Toronto	23	18	t	30	19	pc
Vancouver	17	12	r	19	10	pc
Washington, D.C.	29	20	c	28	22	c
Zurich	28	16	t	25	10	pc

The WSJ Daily Crossword | Edited by Mike Shenk



IF AT FIRST YOU DON'T SUCCEED... | By Morton J. Mendelson

Across

1 John Deere logo
5 Hummus scooper
9 Barely sufficient
14 Bar mixer
15 Speckled stallion
16 Parliament contents
17 It might be followed by a loop
18 Deluge
20 They aren't subject to customs inspection
22 Duke, e.g.
23 Jargon finish
24 Filing pro
27 One of many revolving around Mars
30 Big Sur retreat
32 Invigorate
36 Way to go?
38 Source of baby's breath
39 "Blood will have blood" speaker
40 Fighting a bug, say
41 Texas State team
42 Beethoven's birthplace
43 Roll of material
44 Snowy bird
45 Unfrequented
47 Pained cry
49 Scratch (out)
50 "Master Melvin" of the Polo Grounds
52 Brouhaha
57 Youngster's lyric, perhaps after five missed attempts in this puzzle
60 Like some biennial elections
63 Morlocks' victims
64 Trip home from the airport, perhaps
65 Instead
66 Prompt into action
67 Leaves undressed, maybe?
68 Sister brand of Tootsie Rolls
69 Game admission

Down

1 A great deal
2 Like chlorine
3 Hebrew leader?
4 Winery family
5 With formal propriety
6 Inner Hebrides island
7 Like a well-crafted whodunit
8 Hall of fame
9 Prepares for showing, as a home
10 Disaster shelter supply
11 Simple adders
12 Cpl., for one
13 Great deal
19 Like many a PAC
21 Vitality
24 Source of meals on wheels
25 Five-in-a-row board game
26 Uneasy feeling
28 ZZ Top, e.g.
29 Winter green
31 Slept like ___
32 Relaxed walk
33 Device with a Force Touch trackpad
34 Trattoria tubes
35 ___ Reader (quarterly digest)
37 High guy
41 Not on deck, perhaps
43 How one must win in badminton
46 Took stock?
48 Sum totals
51 Like many knock-knock jokes
53 Ultimate letter
54 Highway construction marker
55 Experimental fashion?
56 Sotto voce comment
57 Zilch
58 Dealer's unit
59 Cartoonist Thomas
60 They cross the line
61 Period
62 Zilch

▶ Solve this puzzle online and discuss it at **WSJ.com/Puzzles.**

Previous Puzzle's Solution

TECHNOLOGY: IBM TO HELP BMW RIDE ON THE CLOUD B4

Euro vs. Dollar 1.1278 ▲ 0.59% | FTSE 100 7474.40 ▼ 0.35% | Gold 1272.80 ▲ 0.55% | WTI crude 44.73 ▼ 3.72% | German Bund yield 0.229% | 10-Year Treasury yield 2.138%

Inditex Navigates Retailing Woes

Zara parent continues to dodge sector slump with its fast fashion and success online

By Jeannette Neumann

MADRID—What retail crisis?

Amid a major retrenchment by American companies such as **Gap** Inc., **J. Crew Group** Inc. and **Nordstrom** Inc., one retailer continues to defy gravity: Zara. And the rapid-fire design-and-production system that has powered the Spanish giant is now giving it the basis to succeed online, an outlet that has confounded many of its rivals.

On Wednesday, **Inditex** SA, Zara's parent company, reported €654 million ($733 million) in profit for its fiscal first quarter, an 18% jump from a year earlier. Total net sales at the world's largest fashion retailer by sales climbed 14% to €5.57 billion for the period, which ended April 30.

The results contrast with the deep pain afflicting many of Zara's rivals amid sea changes in shopping habits. Fewer visits to malls and the migration to online retailers are upending the sector's longstanding business model based on bricks-and-mortar outlets.

Chains such as **J.C. Penney** Co. and **Sears Holdings** Corp. are closing hundreds of stores to stanch their losses. This week, J. Crew reported its 11th consecutive quarter of same-store sales declines, just days after longtime chief Mickey Drexler announced he will step aside.

Meanwhile, Zara's fast-fashion model is thriving.

ERICA CANEPA/BLOOMBERG NEWS

Inditex, which operates the Zara chain, reported a 14% jump in sales for its latest quarter.

Parent company Inditex makes 60% of its garments in Spain and nearby countries. That allows it to respond quickly to daily updates from store managers around the world on what is and isn't selling. A 600-member design

Please see ZARA page B2

Investors Discover Renewed Faith in The Euro

By Mike Bird

International investors have rediscovered a love for Europe after a year's hiatus—but this time, they love the euro too.

Once, investors who wanted to bet on Europe's stocks and bonds often did so while hedging against sharp changes in the euro—a sign they weren't confident about the currency. But this year so far, $13 billion has flowed into American exchange-traded funds focused on European equities without any such safeguards. For their hedged peers, inflows have run to a mere $275.4 million.

In the first half of 2015, when investing in Europe was last popular in the U.S., $32.7 billion entered the same group of Europe-focused ETFs domiciled in North America. Of that, 63% was hedged against currency risk.

"It looks like North American investors in particular have regained their appetite for European investments," said Simon Colvin, research analyst at IHS Markit. "In Europe we're now seeing a lot more political clarity, and there's been an overwhelming preference for unhedged products."

The risk that anti-euro nationalist Marine Le Pen would triumph in France's presidential election has now been removed, lifting a political obstacle to buyers.

Unlike the last time European equities became popular with U.S. buyers, the euro has appreciated recently, magnifying returns for American investors who haven't hedged their exposure to shifts in currency markets.

The Euro Stoxx index, which is priced in euros, has returned 12% since the start of 2017. But because of the rise in the European currency's value, for U.S. investors exchanging their euro returns into dollars, it has returned 19%.

By comparison, in the first six months of 2015, the Euro Stoxx index returned 13% to European investors. But in dollar terms, the euro's fall meant that a buyer would have made only 4%.

The decision not to hedge is now fueling the recent rise in the euro, and helps explain why the currency has broken a traditional relationship with interest rates and bond yields.

When U.S. investors buy European assets, they need to buy euros to acquire them, which drives up the value of the currency.

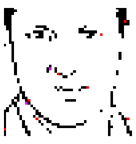
But if they hedge their foreign-exchange risk in the forward market, they agree to sell euros at a specified dollar price in the future—effectively canceling out the original purchase, and muting the impact on the exchange rate.

So despite huge inflows to European stocks during the first months of 2015, the euro actually fell, to as low as $1.05

Please see EURO page B2

HEARD ON THE STREET
By Justin Lahart

Fed Goes One Way, Inflation Another



Inflation is cooling again, and the Federal Reserve hopes that is only temporary.

What if it isn't?

One of the Fed's aims is to get inflation up to 2%, a rate that it believes minimizes the risks of the economy overheating or stumbling into recession. So it counted as awkward on Wednesday, the day the Fed was widely expected to raise rates, when the Labor Department reported that consumer prices edged lower last month from April, driven by a decline in gasoline prices.

Core prices, which exclude food and energy items to better capture inflation's trend, came in weak for the third month running and were up just 1.7% from a year earlier. That implies that the Fed's preferred measure of core inflation was up just 1.4% on the year, according to J.P. Morgan's calculations, which would mark the slimmest gain since late 2015.

1.7%

Labor Department's reported increase in core prices for May

Part of why inflation is so low is that wage growth, despite the low unemployment rate, has been weak. Scars that consumers still carry from the financial crisis also may be playing a role, as might the ease with which technology allows people to ferret out bargains. Whatever the reason, just as the economy remains in a slow-growth rut, inflation might be stuck below 2%.

Investors are betting that is the case. The yield on the 10-year Treasury fell to its lowest level since November and the dollar is at its lowest level versus other major currencies since October.

If so, the new inflation readings shouldn't be seen as a sign that deflation risks are elevated and that the Fed ought to counter them. But at the same time, they call into question why the Fed thinks it is a good idea to keep on raising rates. The economy is cool enough already, and the danger is that the Fed will only make it colder.

JULIE JACOBSON/ASSOCIATED PRESS

Tim Kuniskis, who heads Dodge's passenger-car brands, presented the 2018 Challenger SRT Demon in New York in April.

Fiat Chrysler Puts Muscle to Work

By Chester Dawson

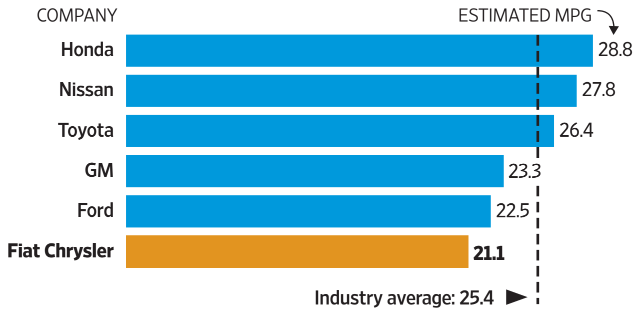
With crosstown rivals focusing on a future of electric cars and self-driving vehicles, Detroit's smallest auto maker has created a product line that is largely fixated on the rearview mirror.

Fiat Chrysler Automobiles NV's highest-profile launches for the new model year are the Dodge Challenger SRT Demon and Jeep Grand Cherokee Trackhawk. Both come loaded with the horsepower and sex appeal that put Motor City on the map decades ago.

Small cars, bread-and-butter family sedans and a long-range electric car are either hard to find at Fiat Chrysler dealerships or completely absent from its showrooms. Passenger cars, which help boost auto makers' average miles-per-gallon ratings, have fallen out of favor with buyers who prefer crossovers, sport-utility vehicles and trucks. Chief Executive Sergio Marchionne has said compact cars no longer make financial sense.

Running on Fumes

Fiat Chrysler trails among the Big 6 major manufacturers in estimated fuel-economy performance of 2017 model-year sales.



Note: Based on reported sales, EPA's corporate average fuel-economy ratings, and WardsAuto.com engine-installation estimates.
Source: WardsAuto

THE WALL STREET JOURNAL.

Last year, the company killed off its Chrysler 200 and Dodge Dart sedans, as well as the Patriot small SUV. Instead, the auto maker has doubled down on V-8 engine-powered SUVs and pickup trucks.

"The one thing not everyone has is performance, and people are willing to pay for it," Tim Kuniskis, a top Marchionne lieutenant in charge of passenger cars, said in a recent interview. "It's a quantifiable, easy-to-identify differentiator."

But it comes at a cost: Fiat Chrysler has the worst fuel-economy performance of any mainline car company. As of May, its vehicles averaged 21 miles per gallon, the lowest of any major automotive brand after sports-car specialist Porsche AG, according to WardsAuto.com, a data provider and trade publication.

Regulators say the auto maker might need to spend $2,613 per vehicle to meet proposed government fuel-economy standards planned over the next decade—44%

Please see AUTOS page B2

Uber Taps 14 Executives to Lead Company

By Greg Bensinger And Kelsey Gee

The decision by **Uber Technologies** Inc.'s chief executive to take an indefinite leave of absence will put management of the world's most valuable startup in the collective hands of more than a dozen managers—an especially problematic structure for a company that has favored a strong central leader and pitted executives against each other.

The ride-hailing firm said it would turn the company reins over to a group of 14 senior executives while CEO Travis Kalanick regroups following a punishing half-year of scandals and setbacks, capped by the death of his mother in a boating accident that left his father seriously hurt.

The recent exits of Mr. Kalanick's effective second-in-command, Emil Michael, and the previous deputy, Jeff Jones, and of several other direct reports to the CEO have left Uber with no real line of succession. The company now has made the unusual choice of having Uber run by the heads of legal, human resources, communications, products, operations and other units.

JUSTIN SULLIVAN/GETTY IMAGES

The ride-hailing firm has decided to have a group of executives manage the business while its CEO takes a leave of absence.

"A committee is very implausible," said Joseph Bower, a Harvard Business School professor emeritus of business administration. "You can't make decisions that way."

Uber said it had no immediate comment. Mr. Kalanick, in his note to staff announcing his leave, said "I will be available as needed for the most strategic decisions, but I will be empowering [the committee] to be bold and decisive in order to move the company forward swiftly."

Uber has been grappling with accusations of sexism and sexual harassment and on Tuesday rolled out reforms to upend its workplace culture after a monthslong investigation led by former U.S. Attorney General Eric Holder.

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INSIDE

ARAMCO'S IPO SLOWED OVER WHERE TO LIST

FINANCE & MARKETS, B5

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

China Approves Import Of 2 New Biotech Crops

China approved imports of two new varieties of genetically modified crops, clearing the way for U.S. agricultural companies to market new biotech seeds to farmers.

By Brian Spegele in Beijing and Jacob Bunge in Chicago

The decision, announced Wednesday, affects genetically engineered corn and soybean varieties developed by **Dow Chemical** Co. and **Monsanto** Co. It comes after Beijing agreed to speed reviews of biotechnology applications as part of a trade deal with the Trump administration last month.

For the U.S. farm sector, the move marks a step toward clearing a backlog of biotech seeds that have awaited approval from China.

Seed companies have long complained that China's regulatory approval process is slow-moving.

"We're very encouraged and glad to see the progress being made," said Joe Vertin, a senior seed official with Dow.

A Monsanto spokeswoman said the company welcomed Wednesday's approval of its Vistive Gold soybean, which Monsanto says produces more healthful vegetable oil.

BUSINESS & FINANCE

Activist Targets BHP Board

By Robb M. Stewart

MELBOURNE, Australia—Activist investor **Elliott Management** Corp. accused long-serving **BHP Billiton** Ltd. board members of standing by while billions of dollars in market value evaporated in recent years.

With a decision on a successor to Chairman Jac Nasser looming, the New York hedge fund urged the mining company to appoint an experienced replacement with a mandate to shake up the board. The board is set to meet this week in Chile.

A call for a "significant upgrade in directors" builds on Elliott's recent push for a sweeping BHP restructuring aimed at releasing shareholder value.

Another shareholder, Sydney hedge fund **Tribeca Investment Partners**, recently said it was holding private talks with potential candidates for BHP's board.

In addition, wealth-management firm **Escala Partners** has questioned the credentials of BHP board members who previously served at companies where shareholder value was lost. Escala is an adviser to some of Australia's richest families who also are BHP shareholders.

Elliott stopped short of supporting a specific chairman candidate, and a spokesman declined to comment on whether the hedge fund would push for board seats.

BHP declined to comment on Elliott's statement or the search for a successor to Mr. Nasser, who plans to retire in 2018 after eight years in the role.

Elliott said board members didn't prevent BHP from wasting billions of dollars by expanding into U.S. shale oil and gas as well as repurchasing shares at inflated prices.

It also wants an independent review of the company's petroleum division and would like BHP to explore spinning off its U.S. energy operations.

SIMON DAWSON/BLOOMBERG NEWS

BHP is meeting soon to discuss a successor to Jac Nasser.

The hedge fund said the naming of a new chairman was an opportunity to unlock about $10 billion in tax credits in Australia by unifying BHP's dual-listed structure.

Elliott, which first contacted BHP management last year, has a reputation for running dogged campaigns against its targets.

Elliott went public with its BHP spat in April. Executives say BHP regularly reviews its strategy and assets.

Last month, Chief Executive Andrew Mackenzie said the company was considering the sale of some shale assets and had recently shifted focus toward more conventional oil and gas. He also said BHP's current strategy could increase the company's value by up to 50% and nearly double its return on capital.

BHP has 11 people on its board. Several directors—including former Orica Ltd. Chief Executive Malcolm Broomhead and current Westpac Banking Corp. Chairman Lindsay Maxsted—were on the board for at least one of the two major shale-asset acquisitions in 2011.

Shareholders overwhelmingly supported each of the board members in last year's vote on directors.

AUTOS

Continued from the prior page

higher than the projected industry average. That reflects incremental costs to meet current standards through 2021 and a prospective target through 2025 contested by the auto industry.

Fiat Chrysler says its fuel-efficiency ratings are comparable to rivals within segments it competes in, adding that the proposed 2025 light-vehicle fuel-economy standards are unrealistic. The Trump administration has said it would reconsider the targets, which were approved late in President Barack Obama's tenure.

Mr. Marchionne has taken a more cautious approach to introducing electric-vehicle and self-driving technology than General Motors Co. and Ford Motor Co. He says the debt-saddled company must carefully consider the trade-offs between earning money today and investing in the future.

So far, that strategy appears to be working. Margins gradually are improving, including a record first-quarter performance since the 2009 merger of the Italian and U.S. auto makers. But even if Fiat Chrysler meets a goal of becoming debt-free by next year, the auto maker has no intention of competing with Silicon Valley to develop next-generation smart vehicles. "We cannot delude ourselves by believing we can replace or displace the technology giants," Mr. Marchionne said.

MARK KAUZLARICH/BLOOMBERG NEWS

The Jeep Grand Cherokee Trackhawk for the new model year is loaded with horsepower.

That pessimism sets Fiat Chrysler apart from its Detroit-based rivals. Before former Ford Chief Executive Mark Fields was fired in May, he had outlined heavy investments in electric vehicles and self-driving technology. But Ford's share price continued to slip amid uncertainty about the payoff for those ventures. His successor, Jim Hackett, is charged with accelerating innovation.

GM CEO Mary Barra also has laid several technology bets, including investing more than $1 billion last year in startups specializing in autonomous cars and ride sharing. The Chevrolet Bolt long-range electric car went on sale in January.

Fiat Chrysler, meanwhile, has outsourced its autonomous-technology research to Alphabet Inc.'s Waymo unit. Mr. Marchionne routinely points out that the company loses money on each Fiat 500e, the only pure electric car it sells in the U.S.—to the tune of about $20,000 a car. The auto maker said it would rely instead on hybrid technology, first popularized by Toyota Motor Corp.'s Prius nearly two decades ago, to catch up.

One of the auto maker's primary strategies to improve fuel efficiency—a line of EcoDiesel engines—has run into roadblocks. Fiat Chrysler has been sued by the U.S. Justice Department following allegations that Jeep and Ram trucks with those engines used software designed to cheat emissions tests.

Adding pressure, West Virginia University researchers found emissions discrepancies between on-road performance and lab tests, and the U.S. Environmental Protection Agency has delayed certification of the company's 2017 model-year vehicles with EcoDiesel engines. Fiat Chrysler has denied wrongdoing.

—Christina Rogers contributed to this article.

ZARA

Continued from the prior page

team in Spain whips up new ideas that go into production in days. Then the company's Spain-based logistics centers refresh stores with small batches of new designs.

Inditex is leveraging that model into a winning online strategy initiated in 2010.

Zara's quick processing from design to the rack means fresh fashions are constantly available—something that is particularly attractive to shoppers surfing the web for something new.

While other fast-fashion retailers are starting to source from suppliers that are closer, most still order the bulk of their clothes far from home and order them several months in advance.

"This works online as it works offline," says Andreas Inderst, an analyst with Macquarie Group. "People are drawn to the homepage of

> *Zara has tightly integrated its physical stores with its online platform.*

Zara because they offer newness, which most other fashion retailers are not able to offer because of long lead times and the slow reaction to current demand."

Inditex upgraded some of its technology platforms to accommodate online orders, which it processes at its logistics headquarters.

"The systems were always used to handling individual orders coming in from store managers, which in principle is similar to handling orders coming in from individual online customers," Société Générale analyst Anne Critchlow said.

Moreover, Zara has tightly integrated its physical stores with its online platform, giving it an edge in a business where free delivery and seamless returns are paramount. Today, about a third of online deliveries are made in Zara stores, which customers can use as well to return online purchases.

Zara also commands prices for its products that support its online business, analysts say. Its prices typically exceed those of fast-fashion rivals like Sweden's Hennes & Mauritz AB. For instance, the most frequently seen price of a dress at Zara in the U.K. is £29.99 (about $38), according to a survey by Société Générale, more than double that found at H&M. Prices at another rival, Primark, owned by Associated British Foods PLC, are so low that the retailer doesn't have an online business at all.

Zara's pricing, along with the efficiency of its design and logistics operations, helps preserve its margins and offset the free delivery and returns that online consumers expect.

Inditex doesn't break down its online sales, but Mr. Inderst estimates they account for about 7% of annual group sales, or around €1.7 billion. He expects the share to reach 12% of sales by 2020.

EURO

Continued from the prior page

in March 2015 from around $1.216 at the end of 2014.

This time around, the euro has rallied with inflows, and the currency's conventional relationship with interest rates and bond yields has weakened.

The gap between U.S. and German 10-year government bond yields has barely changed since the week before the first round of the French presidential election, when U.S. two-year yields were 2.07 percentage points above their German peers. On Monday, the yields were 2.06 percentage points apart. But during that time the euro has risen by more than 5% against the dollar, climbing above $1.12.

Currencies tend to track differences in bond yields because the yields work as a proxy for expected interest rates. Investors tend to move money to areas where interest rates are higher, driving the domestic currency higher.

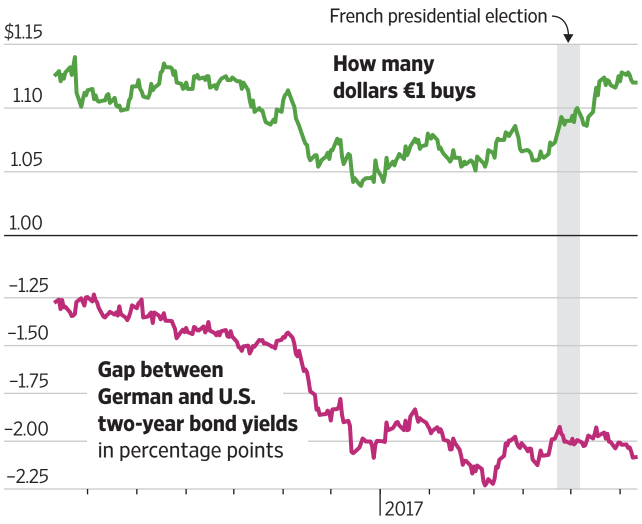
One reason why interest-rate expectations have barely budged despite investors having piled into European stocks is that growth seems to be firming more quickly than inflation in the eurozone. Without a pickup in inflation, the European Central Bank may feel in no rush to raise interest rates to meet its target for inflation near but below 2%.

"It drives capital inflows into equities if you see an economy doing well, but you have this divergence between growth and inflation," said Goldman Sachs strategist Christian Mueller-Glissmann. "It depends how much the ECB cares about growth, relative to how much they look at core inflation, which is still muted."

The ECB expects growth of 1.9% this year and 1.8% next year, but for inflation to reach just 1.2% and 1.4%, respectively.

Disconnect

The euro-dollar exchange rate usually moves closely with spreads in bond yields. In the last two months, it has broken away.



Source: FactSet THE WALL STREET JOURNAL.

The Commodity Futures Trading Commission says investors have the most bullish position against the euro in over six years.

DAVE KAUP/REUTERS

General Motors will idle its Chevrolet Malibu plant in Kansas for five weeks. Passenger-car sales are especially weak in the U.S.

GM Cuts Back as Sales Ebb

Auto maker extends summer shutdowns at plants amid signs U.S. market has turned

By Mike Colias

General Motors Co. will extend the typical summer shutdown at certain U.S. factories to deal with slumping sales and bloated inventory, a sign the industry's hot streak is grinding to a halt.

The No. 1 U.S. auto maker in terms of sales will idle its Chevrolet Malibu factory near Kansas City, Kan., for five weeks starting in late June, Vicky Hale, president of the United Auto Workers Local 31, said. Job cuts will be needed if GM is forced to slow production after the summer shutdown.

Additional downtime is also slated for a small-car factory in Lordstown, Ohio, that has already experienced deep layoffs amid a pullback in demand for passenger cars. A GM spokesman declined to comment on specific plans.

Auto makers traditionally schedule two-week factory breaks in midsummer, often to prepare for model changeovers. Car sales, however, are decelerating after a seven-year run, and most major car companies have responded by curtailing output ahead of summer months that usually are the busiest for the industry.

Ford Motor Co. has announced production slowdowns at certain plants. While Ford's trucks are selling at a brisk pace, its sedans are accumulating at dealers as gasoline prices remain low.

GM enters the summer with a glut of unsold inventory after running production lines at relatively high rates to prepare for factory downtime related to plant upgrades. WardsAuto.com estimates GM's production increased 2.9% over the first four months of 2017, even as the broader industry pulled back.

As a result, GM's inventory at the end of May was almost 44% higher than a year earlier. It has nearly one million vehicles sitting on dealer lots, WardsAuto.com estimates, representing 101 days' worth of supply, or 23.4% of total industry stock.

GM's holds about 17% market share. It is emerging from a tough May when Ford—traditionally the No. 2 seller—took a rare lead in the overall market due to its strong truck sales and a jump in fleet sales.

Workers at GM's car plants, including the 2,850 employees at the Malibu plant near Kansas City, are feeling the brunt of the pain. GM this year cut thousands of jobs to counter falling sales of family sedans and smaller cars.

The Lordstown plant, which cut a work shift earlier this year, will close for three weeks in July to curb Chevy Cruze production, said Robert Morales, president of a United Auto Workers local that represents some Lordstown factory workers.

A preference for trucks is only part of the industry's passenger-car problem.

People are now returning increasing numbers of sedans to dealerships as leases expire. That has created ample supply of cheap, late-model used cars, making new cars even tougher to sell.

Tommy Brasher, a Chevy dealer in Weimar, Texas, said his Malibu inventory is "a little heavy" and business has slowed across the board in recent months.

"We just haven't been seeing much foot traffic or internet traffic," he said. "April was slow, May was worse and June started the same."

Wall Street analysts say concerns about the market have weighed on GM's stock price, as investors study how the auto maker weathers the next downturn. RBC Capital estimates GM could slash up to $1 billion in annual labor costs if U.S. sales were to slip 20%.

GM executives expect an uptick in the second half of 2017, and as recently as April said industry sales in the U.S. will match the record 17.5 million light vehicles sold in 2016.

The auto maker, however, has said more flexible union contracts signed over the last decade give it more wiggle room. Nearly one-third of GM's U.S. hourly workforce, for instance, can be let go at relatively little cost.

In the past, "the manufacturing cost was very sticky," GM Chief Financial Officer Chuck Stevens told analysts in April. "That's not the case now."

Factory downtime will dent third-quarter results. Weak sedan sales could add further pressure, especially as an incentive war has driven down prices in the segment.

J&J Maps Research Plans for Actelion

By Denise Roland

Johnson & Johnson plans to build the soon-to-be acquired **Actelion** business into a drug discovery-to-commercialization organization dedicated to pulmonary arterial hypertension, according to Jane Griffiths, who will become head of the unit when the deal closes.

The U.S. drug giant in January agreed to acquire Allschwil, Switzerland-based Actelion Ltd. for $30 billion, in an unusual deal that will spin the Swiss company's early research and development organization into an independent company. The transaction is expected to close Friday.

The deal will hand J&J a clutch of promising new drugs that will bolster its portfolio of rare-disease treatments as its top-selling drug, Remicade, faces new competition. Actelion sells five PAH drugs, a gel for a rare form of skin cancer and a treatment for a rare genetic condition known as Gaucher disease. In addition to Actelion's marketed drugs, J&J will acquire a handful of late-stage research programs.

ARND WIEGMANN/REUTERS

Johnson & Johnson agreed to purchase Actelion for $30 billion.

J&J's pharmaceutical arm, Janssen, is organized into five units, each dedicated to a particular disease area. Actelion will become the sixth, focused on PAH, a rare artery disorder that causes breathing difficulties, Ms. Griffiths said.

Each of those units behaves like a self-contained drugmaker, spanning early-stage research and development through to commercial operations. Ms. Griffiths, currently group chairman at Janssen's Europe, Middle East and Africa business, said she wanted to "mirror that same therapeutic-area structure" with the Actelion business.

To begin with, the new unit will have only late-stage research and marketed drugs, but Ms. Griffiths said she planned to build drug-discovery and early-stage research operations, too. "The [drug-] discovery people have not come across, but we have some people with deep knowledge of PAH that can act as a nucleus," she said. "Or we may need to augment it."

Ms. Griffiths also said she would review the fate of two non-PAH drugs in Actelion's late-stage pipeline—one for multiple sclerosis and one for C. difficile infections—when she takes charge of the business.

"For the moment, they stay in Actelion," she said, adding that experts from elsewhere in Janssen will be looking at these drugs to help decide whether they would be better placed in another therapeutic-area unit.

Meanwhile, Actelion's early-stage research and development organization will become an independent company run by the Swiss company's cofounder, Jean-Paul Clozel.

Avon's Chief Nears Decision to Retire

By Dana Cimilluca and Sharon Terlep

Avon Products Inc. Chief Executive Sheri McCoy is expected to step down, according to people familiar with the matter, after her effort to turn around the beleaguered cosmetics seller faltered.

Ms. McCoy is near a decision to retire, according to the people, who cautioned that terms of her departure are still being worked out and no final decisions have been made. Either way, Ms. McCoy, who has run Avon since 2012, is expected to stay on for several more months. It isn't clear who might succeed her.

The move comes after Avon in early May posted a surprise loss that helped send its stock tumbling. That same day, shareholder activists Barington Capital Group LP and **NuOrion Partners** AG, which together own more than 3% of the company's stock, said Avon's turnaround needs to go faster and it should find a new CEO.

Avon in late 2015 agreed to two deals that gave troubled-firm investor Cerberus Capital Management a 17% stake in the company, three board seats and control of its struggling North American business. The business Ms. McCoy runs sells outside the U.S. and is London-based.

Those agreements were meant to give Ms. McCoy, 58 years old, time to execute a turnaround of the door-to-door sales operation, once one of the most prominent brands in the U.S. but which has been laid low by online competition and other factors. The company is roughly halfway through a three-year transformation plan started then.

Ms. McCoy's departure is the latest sign of distress for the 131-year-old company, whose revenue has been in decline for years—and came in at $5.7 billion in 2016. Its shares, which once traded above $40, changed hands for less than $3.50 Wednesday afternoon after having given up much of the gains they notched in the wake of the Cerberus deals. The stock dropped 22% on the day when Avon reported the surprise loss.

> *Terms are being worked out for Sheri McCoy's departure, with no final decisions made.*

Avon's shares were up 4.6% to $3.66 after The Wall Street Journal reported on Ms. McCoy's imminent departure Wednesday.

The company, which has lost legions of its signature door-to-door sales representatives, reported an adjusted first-quarter loss of seven cents a share, compared with an average analyst forecast of a one-cent gain.

Since January, the investors have helped push out the leaders of insurance giant American International Group Inc., railroad CSX Corp., aerospace-parts maker Arconic Inc., restaurant chain Buffalo Wild Wings Inc. and now Avon.

GE's Power Boss Moves On After Selection of CEO

By Thomas Gryta and Austen Hufford

Steve Bolze, once a leading candidate to be the next chief executive of General Electric Co., is leaving the company after not getting the top job.

Mr. Bolze, the head of GE's Power business, is the first high-profile executive to exit after the company disclosed Monday that John Flannery, who leads GE Healthcare, will succeed Chief Executive Jeff Immelt on Aug. 1. Like Mr. Flannery, Mr. Bolze is a GE lifer, and he told employees Wednesday that he had agreed to step aside if he didn't get the CEO job.

The 54-year-old executive has run the company's biggest unit for the past 11 years. "Some time ago, Jeff Immelt and I agreed that when the succession process was complete, and if I were not chosen, I would retire from GE and move on," Mr. Bolze wrote in a note to employees that he also posted on LinkedIn. He didn't disclose what he would do next and couldn't immediately be reached for comment.

The Boston-based company's succession-planning process was narrowed to four internal candidates in 2015: Mr. Flannery, Mr. Bolze, finance chief Jeff Bornstein, and Lorenzo Simonelli, head of the oil-and-gas business.

All four candidates had briefed the GE board at a meeting in May on their plans for running the conglomerate if they got the job, people familiar with the matter said.

The board selected Mr. Flannery at a meeting Friday, with the decision raising questions about the future of several senior GE executives. Mr. Immelt said he had prepared for potential departures among his lieutenants by grooming potential successors.

"In the last four or five years we have really filled in the next-generation jobs in the company," he said in an interview Monday. "This isn't really about four people but about 20 or 30 people at the top to get people positioned."

Mr. Immelt said on Monday that he hoped the transition would be smoother than when he became CEO and several other top contenders, including Robert Nardelli and James McNerney, left to run other businesses. The company gave Mr. Bornstein, who will continue to serve as finance chief, a special stock award and named him a vice chairman, but otherwise didn't disclose retention awards for senior leaders. Mr. Simonelli will run GE's oil-and-gas business, which is being merged with Baker Hughes Inc.

"I think we have done a great job of getting the next-generation team in place," Mr. Immelt said.

Russell Stokes, CEO of GE Energy Connections, will lead GE Power, which makes and services massive turbines used to produce electricity in power plants. It became the company's biggest division after the merger with Alstom SA's power business. A 20-year GE veteran, Mr. Stokes, 45, has led Energy Connections for the past 18 months; the unit, which supplies power-distribution equipment, will be folded into GE Power.

—Joann S. Lublin contributed to this article.

F. CARTER SMITH/BLOOMBERG NEWS

Steve Bolze, who led GE's Power business, last year. Mr. Bolze said he had agreed to step aside if he didn't get GE's top job.

Mattel Cuts Dividend, Pursuing Turnaround

By Paul Ziobro

Mattel Inc. is cutting its quarterly dividend by more than half, as new Chief Executive Margo Georgiadis looks to free up money to help the toy maker modernize its brands for the digital world and expand in emerging markets.

The El Segundo, Calif., company said it plans to pay 15 cents a share for its fiscal third quarter. Mattel paid 38 cents a share in previous quarters, but slumping profits have left it paying out more in dividends that it generated in earnings.

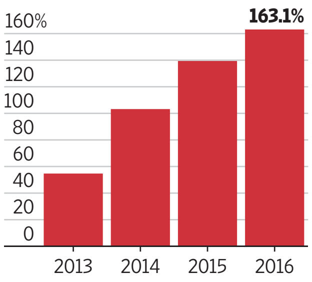
"We are right-sizing our dividend, which will provide us the flexibility to fund our investments and affect this transformation plan," Ms. Georgiadis said during a presentation Wednesday to analysts where she laid out her strategy for the maker of Barbie and Hot Wheels.

Chief Financial Officer Kevin Farr said Mattel will look to revert to a dividend payout ratio of between 50% and 60% of earnings. The company's ratio swelled to more than 160% last year. Recently, Mattel had the second-highest dividend payout ratio among S&P 500 companies.

Four months into her job, Ms. Georgiadis is setting Mattel on a course to correct what she called "execution gaps" that have cost Mattel sales, eaten into profits and caused shares to drop nearly 30% over the past year. The problems include mismanaging key brands like Monster High and American Girl dolls, losing the valuable Disney princess license to Hasbro Inc. and an excessive focus on short-term financial metrics.

Can Mattel Afford Its Dividend?

Percent of earnings paid to shareholders via dividend



Source: the company

THE WALL STREET JOURNAL.

"These gaps structurally compromised our revenue and margin trajectory," she said. She added that while the company cut hundreds of millions in costs, it didn't necessarily simplify how the business operates.

The former Google executive wants to modernize how Mattel approaches the development of toys, which she says "need to adapt" to the modern world.

She wants all of Mattel's key brands to be more than just physical toys, and plans to broaden them so they all have video content, game components, licensed goods and live experiences.

Mattel still has some problems to work through this year. The company lowered its sales outlook for the year to a low-single-digit rate, as several brands, including American Girl and other smaller ones, aren't seeing a quick pickup in sales.

Watson To Help Firms' Financial Oversight

By Gabriel T. Rubin

International Business Machines Corp. formally launched a Watson product for financial regulation, rolling out artificial-intelligence tools to help financial institutions comply with rules and detect possible financial crimes.

The technology company's entry into the regulatory-compliance space, in which a number of firms already use AI to manage immense amounts of data, comes after it purchased financial consulting firm Promontory Financial Group in September.

IBM is looking to build on the "Jeopardy"-winning Watson's presence in the health-care sector, in which the company has used partnerships with and acquisitions of health-care providers to improve care, particularly for cancer patients.

"We were very convinced after our experience in health care that it wasn't a technology-alone solution," Alistair Rennie, general manager of Watson Financial Services, said. "You need to partner with experts who know the process, who have the expertise."

The new tools help in regulatory compliance and detection of possible crimes.

Watson's move comes as financial firms continue to shift to AI and "machine learning" to manage data that must be analyzed for regulatory compliance and crime prevention.

IBM rolled out three Watson tools on Wednesday. One analyzes regulatory text to identify obligations that companies might face and help assess whether the company's compliance programs are sufficient to comply with the rules. Another assists banks in detecting suspicious customers or transactions, and a third seeks to make "big data" at financial firms more accessible to decision makers.

Other technology firms already provide similar services. **Digital Reasoning Systems** Inc., an artificial-intelligence firm based outside Nashville, Tenn., has contracts with Nasdaq Inc. for monitoring global trading and works with Goldman Sachs Group Inc. to prevent financial misconduct by traders. The firm counts Goldman and Credit Suisse Group AG as investors, among others.

The role of these companies, said Digital Reasoning founder and President Tim Estes, is to take the huge amounts of unstructured data from client firms and make it usable for compliance and surveillance purposes. "All the data is there; it's a bunch of crude oil in the ground. We're the refiners above ground," Mr. Estes said.

Unlike IBM, Digital Reasoning has less of a focus on anti-money-laundering compliance, at least for now, he said.

Eugene Ludwig, the chief executive of Promontory and a former U.S. comptroller of the currency under President Bill Clinton, said the new technology would benefit regulators, too.

"Regulators should be quite cheered by this," he said, pointing to anti-money-laundering compliance as an area in which both firms and regulators would mutually benefit. "To the extent that the [suspicious activity reports] filed by institutions are more accurate and usable, that's a huge help for regulators doing their job."

To be sure, Watson and other machine-learning technologies have a long learning process as they encounter more data and unfamiliar information. Some previous Watson projects in the health sector have struggled to meet their ambitious goal of transforming cancer care.

U.S. Is Warned on Laptop Policy

Europe's air-safety chief says device ban shouldn't be expanded without research

ANWAR AMRO/AGENCE FRANCE-PRESSE/GETTY IMAGES

Passengers at Beirut's airport. Security measures are being discussed by U.S., European officials.

Europe's top air-safety regulator issued the most explicit criticism yet of U.S. proposals to ban laptops from the cabins of more foreign airliners destined for American airports, even as officials in Washington indicated they may compromise by accepting less-sweeping security measures.

*By **Andy Pasztor** in Brussels and **Susan Carey** in Chicago*

Highlighting the extent of European opposition to an expanded ban on taking large electronic devices in carry-on bags—a measure intended to combat possible terrorist threats—Patrick Ky, head of the European Aviation Safety Agency, on Wednesday said months of laboratory tests likely are required to properly assess the potential fire hazards of flying large numbers of laptops with lithium batteries in cargo holds.

In remarks delivered during the kickoff of a joint Europe-U.S. safety conference in Brussels and in a subsequent interview, Mr. Ky warned that "we should be very careful" because "by dealing with the security risk we can increase the safety risk" stemming from the possibility of rechargeable lithium batteries catching fire or even exploding.

EASA's executive director vowed to play a greater role in current and future debates over such trade-offs. "This is going to be a very strong position on our side," he said.

The day before Mr. Ky's comments, John Kelly, the head of the Department of Homeland Security, suggested the likelihood of an extensive laptop ban was shrinking. He said at a conference in Washington that he had "a fair amount of confidence" that "we can raise the level overall of aviation security and not inconvenience the traveling public very much, if at all, in some cases."

A DHS spokesman said other alternatives to an outright laptop ban include requiring additional passenger information before takeoff and enhancing explosive-detection capabilities at overseas airports. However, he reiterated that a wider ban affecting flights to the U.S. is still possible.

Mr. Kelly told lawmakers at a hearing last week that the in-cabin electronics ban now imposed on flights to the U.S. from a limited number of Middle Eastern and African countries could be extended to flights from 71 other overseas airports.

But he also said DHS is trying to develop minimum security standards that airports and airlines could meet to avoid being put on that list.

The issues were slated to be discussed Thursday and Friday at a meeting of U.S. and European Union security officials in Malta, which the deputy DHS secretary will attend. The DHS spokesman also said the agency is working to get information from the Federal Aviation Administration on the risk of increased numbers of lithium batteries in cargo holds.

In the interview, Mr. Ky said experts from the FAA and EASA are running complementary tests to evaluate "how laptops behave in luggage" and what happens if a fire from one bag in the cargo hold spreads to adjacent luggage that also contains a laptop or other electronic device. "Today, we simply don't know," he said.

"We are looking at worst-case scenarios," Mr. Ky said after his speech.

Past tests by the FAA have shown that relatively few batteries, when packaged together for cargo shipment, can heat up rapidly and create a fire hot enough to melt aluminum structures used on aircraft.

On the sidelines of the conference, Mr. Ky said it would be crucial to glean lessons from Middle Eastern airlines subject to the existing ban, ranging from customer reaction to added operating costs for those carriers.

IBM in Deal to Help BMW Ride on Cloud

By Chester Dawson

International Business Machines Corp. said Wednesday it is pairing with **BMW** to provide cloud-based data management for the German auto maker's recently launched connected-car initiative, a move by the centenarian tech giant to deepen its move into passenger vehicles.

IBM is working to sign up auto makers for its cloud-computing platform and stake a claim in the burgeoning market for connecting passenger cars with customized services based on real-time vehicle performance. Last year, it announced a similar deal with **General Motors** Co.

Connected-vehicle data represent a rapidly emerging market for auto makers, which are cautiously moving to embrace the potential for revenue streams from service companies that are eager to tap into their large captive client base. For drivers, it opens the door to services tailored to their driving profiles.

The project with BMW, which is expected to start up this fall in Europe, lays the foundation for what IBM envisions as a global data hub that gathers information from many auto makers and matches vehicle owners with outside service providers such as auto insurers, repair shops and gas stations.

"We are the broker and the enabler for the third parties" beyond auto makers, said Dirk Wollschlaeger, IBM's general manager for global automotive, aerospace and defense in an interview.

A representative for BMW in the U.S. confirmed the company's plans to form a partnership with IBM, but didn't provide details.

BMW officially launched its CarData program last month. The program is designed to link approximately 8.5 million vehicles equipped to transfer data—and whose owners opt in—with third parties marketing customized and discounted products such as oil changes or insurance policies.

IBM's agreement with BMW isn't exclusive but provides an opportunity to showcase its Bluemix cloud platform.

Mr. Wollschlaeger said another European auto maker, which he declined to name, also plans to use Bluemix and that his company is in talks with several others.

MATTHIAS BALK/DPA/ZUMA PRESS

The deal will provide BMW with cloud-based data management.

The Armonk, N.Y., company plans to earn revenue from the spread between what it pays auto makers such as BMW and what it charges others for access to the data, he said.

SEBASTIAN GOLLNOW/DPA/ZUMA PRESS

The antitrust regulator is probing Nike, Sanrio and Universal Studios, licenser of 'Minions' rights.

EU Investigates Brand Licensers

By Natalia Drozdiak

BRUSSELS—The European Union's antitrust regulator on Wednesday opened three separate formal investigations into licensing and distribution practices by **Nike** Inc., **Sanrio** Co. and Universal Studios in Europe, the latest salvo by the watchdog in its bid to tear down barriers for consumers shopping online in the bloc.

The European Commission said it would investigate whether the three companies restrict traders from selling licensed merchandise online and across borders in Europe.

The companies license the rights for well-known brands. Nike licenses the rights for Fútbol Club Barcelona's merchandise, while Sanrio is the licensor of rights for Hello Kitty. Universal Studios, a unit of Comcast Corp.'s NBCUniversal, is the licenser of rights for the movies "Minions" and "Despicable Me," the EU said.

The probe comes after the commission's competition directorate in May published the findings of its two-year-long probe into the e-commerce sector.

The EU then reiterated previous warnings that consumer-product makers and digital-content owners could face antitrust probes for restricting the way retailers sell the companies' goods online.

Earlier in June, the commission launched an in-depth investigation into Guess Inc. to see whether the company's distribution agreements restrict authorized retailers from selling online to consumers or to retailers in other member states.

Nike said that it was "aware of the European Commission's investigation and will continue to cooperate with the authorities." Sanrio and Universal Studios didn't immediately respond to a request for comment.

UBER

Continued from page B1

Adding to the complexity, the company is seeking a laundry list of executives, including chief operating and chief financial officers, general counsel and a marketing chief. Board Director David Bonderman stepped aside Tuesday after making a sexist remark during a company all-hands meeting.

There is little precedent for Uber's transition of power in the corporate world, but some management experts say the closest approximation is "Game of Thrones," the television show depicting mythical fights for control among several clans.

"If your bet is that Travis will come back, you want to show that you're his man or woman," said Sydney Finkelstein, a management professor at Tuck School of Business at Dartmouth College and author of "Superbosses: How Exceptional Leaders Master the Flow of Talent."

The history of business successes where rule is split between more than a single CEO is spotty. **Oracle** Corp. has been operating with co-CEOs since 2014 when Larry Ellison relinquished the top job—the stock is up about 13% since then—and **Samsung Electronics** Co. remains the top global seller of smartphones by market share under three CEOs.

At other companies, the results have been less stellar. BlackBerry maker **Research In Motion** Ltd. battled investor discontent for years over its co-CEO structure and ultimately put in a single leader, though the business still plunged into irrelevance.

Similar co-CEO arrangements at **Citigroup** Inc., **Martha Stewart Living Omnimedia** Inc. and **Workday** Inc. were quickly scuttled.

Last year, **Whole Foods Market** Inc., too, eliminated the co-CEO structure after six years. **Amazon.com** Inc.'s Zappos unit has been experimenting with an unusual management philosophy called Holacracy, in which titles and bosses are eliminated, since 2013. But the structure sowed confusion and when the shoe seller offered severance in 2015 for those who wanted to quit, 14% took the offer.

Rarer still are firms led by committee. Watch and jewelry maker **Cie. Financière Richemont** SA has been operating without a CEO since Richard Lepeu stepped down in March.

Top executives report into the chairman and decisions are made by consensus. **DPR Construction** has senior leaders rotate through an eight-member management committee. Employees at those firms said committees can sometimes make decisions painstaking and cause infighting.

At Uber, the transition will be particularly tricky since Mr. Kalanick has structured the San Francisco company to funnel big day-to-day decisions through him, say people familiar with the matter.

Mr. Kalanick, known for his relentless and punishing will to win, was also reluctant to be challenged as CEO and could lash out at what he felt was insubordination, these people say.

Without a central leader, executives may jockey to be atop the heap in deference to Uber's 14 leadership principles, which include "always be hustlin'" and "toe stepping." (Mr. Holder's recommendations included reformulating those principles.)

Uber said it would divide the management committee into four units: business; people and organization; product and engineering; and legal safety and policy and communications.

Mr. Finkelstein of Dartmouth said he expects two or three managers to rise to the top of Uber's new committee of leaders.

Saudi Divide Slows Aramco's IPO Effort

Ruling family and executives of oil firm differ over New York versus London listing

A divide between Saudi Arabia's ruling family and executives of the kingdom's oil company over where to list the company's shares is slowing the march toward a planned 2018 initial public offering, according to people familiar with the matter.

By Ben Dummett, Summer Said and Maureen Farrell

An offshore Saudi oil field. Below, Deputy Crown Prince Mohammed bin Salman has long favored a listing in New York.

SAUDI ARAMCO (TOP); FAISAL AL NASSER/REUTERS

Executives at **Saudi Arabian Oil** Co., known as Saudi Aramco, are pushing Saudi Arabia's king and his son, Deputy Crown Prince Mohammed bin Salman, on the merits of listing the state-owned oil company on the London Stock Exchange. Executives believe that listing in the U.S. would expose the company to greater legal risks, including from potential class-action shareholder lawsuits, according to these people.

But the Saudi Arabian royal court favors the New York Stock Exchange, according to the people familiar with the matter, in part because of the kingdom's longstanding political ties to the U.S., and because the U.S. market represents the deepest pool of capital in the world.

A listing in New York, along with one on Saudi Arabia's Tadawul exchange, has long been the favored listing option for Prince Mohammed, who is driving the IPO as part of a broader push to overhaul and diversify the country's economy.

For months, the New York and London exchanges, along with other major global exchanges, have been pitching the merits of their trading venues, in some cases touting their existing crop of energy stocks and the breadth of their country's energy sector to win the listing of what is likely to be the largest IPO in history.

The IPO could value Saudi Aramco as high as $2 trillion. In addition to fees generated, such a listing for an exchange promises to attract international investors looking for a piece of the giant oil producer, and that interest would generate greater trading volumes, the lifeblood of any stock market.

The prestigious listing would also give the winning exchange bragging rights that it can use to help lure whatever might be the next big IPO.

During a cabinet meeting late Monday night in Jeddah attended by both the prince and King Salman, senior Saudi Aramco executives pressed their case for London as the safer bet, according to two people familiar with the matter.

"London is definitely the front-runner for them and the legal team," one of those people said, of the executives who discussed the options at the cabinet meeting.

A Saudi Aramco company spokesman said that no decision on a venue beyond the Tadawul has been taken and that "all options continue to be held under consideration." A representative for the royal court didn't respond to requests for comment.

LSE Chief Executive Xavier Rolet accompanied British Prime Minister Theresa May on her visit to Saudi Arabia in April, and they met with Saudi Aramco Chairman Khalid al-Falih.

Similarly, NYSE Group President Thomas Farley joined a group of U.S. executives who accompanied President Donald Trump on his recent visit to Saudi Arabia.

Mr. Trump's visit helped to cement the prince's preference for New York, according to one of the people familiar with the decision-making process. "The deputy crown prince wants New York, and he has been pushing for it more and more in recent weeks."

A decision on the venue is now expected next month, according to one of the people familiar with the matter, but as with prior milestones in the process, that timing could slip. According to people familiar with the timeline, a decision on the venue had originally been expected by some to come before the Islamic month of Ramadan, which started in late May.

Proceeds from the sale of up to 5% of Saudi Aramco are to be invested as part of the economic diversification plan being spearheaded by the deputy crown prince.

The run-up to the huge listing has taken twists and turns that make this deal unique when compared with other nations' efforts to privatize assets. That is due in large part to the secretive royal family's involvement in decision making and to the connections between the family, the company and the kingdom's government.

For some of the bankers involved, the slow pace of decision making has been a frustration, because settling on the venue is a key step in moving the IPO process toward regulatory requirements for a listing.

The company's size has also made the listing unique. The prince has pegged the value of the energy giant at $2 trillion, and some officials working on the deal put its worth closer to $1.5 trillion. Even at the lower end of that valuation, Saudi Aramco would stand to raise at least $75 billion from the issue.

In recent weeks, the London exchange has signaled to Saudi Aramco that even though U.K. rules require 25% of the company's shares to be held by public investors for a so-called premium listing, which means a company meets the highest corporate governance and regulatory standards, it would consider lowering that threshold for the company or creating an international segment for some foreign companies including Saudi Aramco. U.K. rules give the regulator the ability to lower the 25% requirement for such a listing.

"London is trying hard to accommodate Aramco," said one of the people familiar with the matter.

NYSE declined to comment, as did the LSE.

Continuing to weigh the options and talking further with the two exchanges during the next month may yield better results for Saudi Aramco by heightening the contest between New York and London, some of the officials who attended Monday night's meeting acknowledged, according to one of the people familiar with the discussions.

The choice of venue is complicated by the Royal Court's reluctance to potentially put key economic relationships at risk by rejecting the exchanges of countries with which Saudi Arabia wants to court for investment or trade, according to another of the people familiar with the matter.

The NYSE, which is owned by Atlanta-based Intercontinental Exchange Inc., and the LSE represent two of the deepest pools of capital and are both home to the largest publicly traded oil and gas companies. NYSE energy listings include Exxon Mobil Corp. and ConocoPhillips, while LSE's large energy stocks include Royal Dutch Shell PLC and BP PLC.

Any effort to relax U.K. rules for the Saudi listing may be met with investor protest. "We will be lobbying strongly against any concessions being granted should there be a formal attempt to IPO Aramco in the U.K.," Ashley Hamilton Claxton, corporate-governance manager at Royal London Asset Management, said in a statement on June 8.

"As long-term investors in the U.K. equity market, we fear this precedent could lead to a slippery slope," he said. Royal London oversees about £104.5 billion ($133 billion) in assets.

Saudi Aramco's concerns about the NYSE center mostly around the more litigious climate in the U.S. Last year there were 300 securities class-action lawsuits filed in U.S. federal courts, up 32% from 2015 and the most since 2001, according to NERA Economic Consulting.

Some officials have also expressed concern about a U.S. law that allows American terror victims to sue Saudi Arabia.

—Bradley Hope and Alexander Osipovich contributed to this article.

Fed May Ease Swaps-Market Rule

By Andrew Ackerman

WASHINGTON—An esoteric requirement that bankers and some U.S. officials have long said discourages firms from participating in the derivatives market—and makes the financial system less safe—is on the regulatory chopping block.

At a private meeting in Washington this spring, senior bankers from **J.P. Morgan Chase** & Co., **Goldman Sachs Group** Inc. and other large U.S. financial firms pressed policy makers for changes to the rule. Their concerns were highlighted in a blueprint for a broad regulatory overhaul released by the Trump administration late Monday. The report from the Treasury Department recommends "significant adjustments" to the capital requirement in question, among other changes to capital rules.

The Federal Reserve, amid pressure from banks and some U.S. officials, has already begun laying the groundwork to ease the rule, according to people familiar with the central bank's thinking. The Fed, which helped craft the rule, has yet to reach a decision on how exactly to refashion it, but is taking a fresh look at the measure, holding staff-level discussions with other regulators and teeing up a potential rollback late this year, as the Trump administration continues to fill regulatory posts with officials amenable to easing Obama-era rules. No decision is imminent, these people said.

The rule calls for banks to hold additional capital against collateral, known as margin, that they collect from clients on certain swaps transactions. Banks and some U.S. officials say the rule makes it uneconomical for banks to participate in such transactions.

Swaps are derivatives contracts in which two parties agree to exchange payments based on fluctuations in certain benchmarks. Companies use these contracts to hedge risks or make bets in such areas as fuel prices or interest rates.

The swaps at issue are routed through clearinghouses, entities that take fees to guarantee swaps transactions should one side of a trade go belly up. Banks, which pay to be members of clearinghouses, post margin to a clearinghouse on behalf of their customers. Banks manage the margin for the duration of the swap, which can be several years.

The Commodity Futures Trading Commission, which oversees the multitrillion-dollar swaps market, hosted the April meeting in which the bank officials and regulators raised concerns about the capital rule's effects on the swaps market. CFTC officials have warned for years that the existing requirements are driving banks away from the low-margin business of managing customers' cleared swaps.

As fewer banks offer such services, that could increase prices for businesses that enter into these contracts to hedge business risks, CFTC officials say. As banks stop serving smaller clients because it doesn't make sense for them financially, the officials say, that undermines a key plank of the 2010 Dodd-Frank financial-overhaul law requiring that most swaps be cleared.

The rule the Fed is now thinking of relaxing is called the "supplementary leverage ratio," which the central bank and two other banking regulators completed in 2014. The leverage ratio is one way of curbing bankers' risk-taking. It measures capital—funds that banks raise from investors, earn through profits and use to absorb losses—as a percentage of assets. By holding banks to a minimum ratio, regulators effectively restrict banks from making too many loans without adding new capital.

Under the leverage ratio, U.S. banks must maintain capital equal to roughly 3% to 6% of any asset, including loans, investments and real estate. That includes the margin that banks hold for their customers' cleared swaps transactions.

The leverage ratio itself has broad support, but many U.S. officials and industry executives have come to believe that the U.S. version is too strict when it comes to swaps margin. U.S. firms point out that the margin is legally "segregated,"—meaning banks can't touch the cash. Nevertheless, the leverage ratio increases the amount of capital banks must use to fund swaps clearing activities.

Acting CFTC Chairman J. Christopher Giancarlo has urged banking regulators to change the rule, saying collateral from bank customers should be excluded from the leverage calculation. He estimated easing the rule would significantly reduce capital costs for banks' clearing units, though he said those changes would translate into only a small capital reduction at the bank holding company level.

"This dramatic reduction in costs on a service imperative to managing systemic risk in swaps is entirely worth the trade-off of a minuscule reduction in balance sheet protection," he said in a speech at an industry conference in Lisbon last month. "The financial system will be safer and more stable for it."

Mr. Giancarlo's message—echoed by his Obama-appointed predecessor, Timothy Massad—has resonated with some at the Fed, including Jerome Powell, who recently took over as the central bank's regulatory point person. In public remarks, Mr. Powell has said the Fed ought to take another look at how the rule is calibrated, warning it can lead to excess costs at banks.

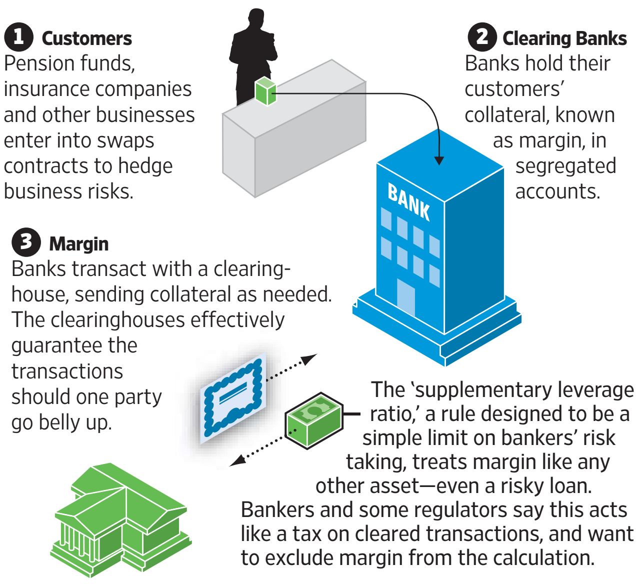
"We're kind of undermining that clearing mandate and the ability of smaller customers to get their products centrally cleared or to have access at all to hedging," Mr. Powell said at an April industry conference in Washington. "I think we need to look again at the calibration of the leverage ratio in the United States for the large institutions, and I think there are a number of ways to get at that."

The Treasury Department agrees.

In its report Monday, the administration recommended a series of possible changes to the capital requirements, from excluding customer margin from the leverage ratio to recalibrating the ratio so that it imposes less of an overall burden on banks.

Swapping Out Leverage

Regulators are laying the groundwork to ease a rule affecting a central plank of postcrisis regulation—clearing for most swaps transactions.



THE WALL STREET JOURNAL.

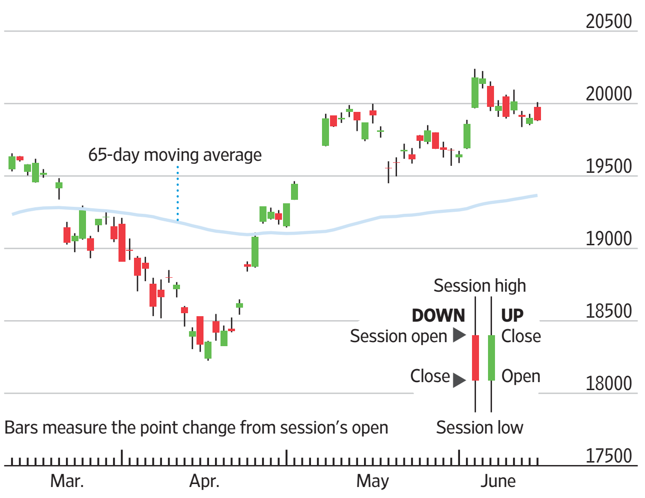
MARKETS DIGEST

Nikkei 225 Index

19883.52 ▼15.23, or 0.08%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲4.02%	
52-wk high/low	20177.28	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

387.58 ▼1.17, or 0.30%

High, low, open and close for each trading day of the past three months.

Year-to-date	▲7.24%	
52-wk high/low	396.45	308.75
All-time high	414.06	4/15/15

S&P 500 Index

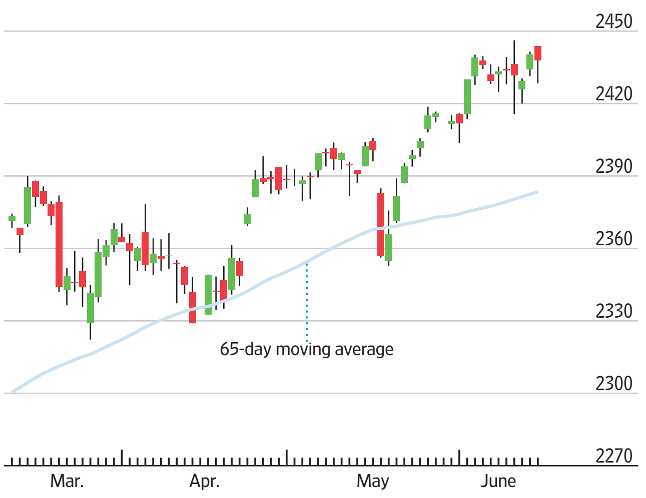
Data as of 4 p.m. New York time

2437.92 ▼2.43, or 0.10%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	24.15	24.29
P/E estimate *	18.97	17.92
Dividend yield	1.95	2.16
All-time high:	2440.35, 06/13/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 4 p.m. New York time

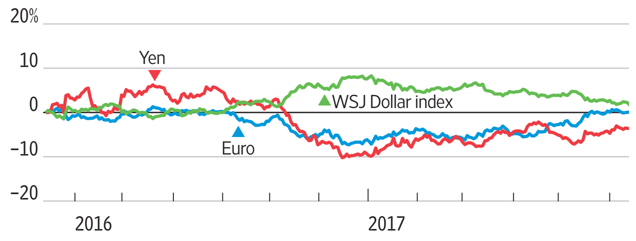
Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2777.60	–4.87	**–0.18**	2193.75	2793.87	9.9
	MSCI EAFE	1896.81	1.04	**0.05**	1471.88	1956.39	10.5
	MSCI EM USD	1013.86	4.08	**0.40**	691.21	1044.05	27.7
Americas	**DJ Americas**	585.13	–1.01	**–0.17**	480.90	587.15	8.3
Brazil	**Sao Paulo Bovespa**	61894.49	65.50	**0.11**	48066.67	69487.58	2.8
Canada	**S&P/TSX Comp**	15172.58	–207.17	**–1.35**	13609.58	15943.09	–0.8
Mexico	**IPC All-Share**	49305.31	278.48	**0.57**	43902.25	50154.33	8.0
Chile	**Santiago IPSA**	3707.17	–2.08	**–0.06**	3061.18	3786.05	15.0
U.S.	**DJIA**	21374.56	46.09	**0.22**	17063.08	21391.97	8.2
	Nasdaq Composite	6194.89	–25.48	**–0.41**	4574.25	6341.70	15.1
	S&P 500	2437.92	–2.43	**–0.10**	1991.68	2446.20	8.9
	CBOE Volatility	10.38	–0.04	**–0.38**	9.37	26.72	–26.1
EMEA	**Stoxx Europe 600**	387.58	–1.17	**–0.30**	308.75	396.45	7.2
	Stoxx Europe 50	3172.67	–19.47	**–0.61**	2626.52	3279.71	5.4
Austria	**ATX**	3133.51	–40.29	**–1.27**	1981.93	3212.50	19.7
Belgium	**Bel-20**	3902.48	–8.38	**–0.21**	3127.94	4055.96	8.2
France	**CAC 40**	5243.29	–18.45	**–0.35**	3955.98	5442.10	7.8
Germany	**DAX**	12805.95	40.97	**0.32**	9214.10	12921.17	11.5
Greece	**ATG**	800.97	3.84	**0.48**	517.10	802.96	24.4
Hungary	**BUX**	35985.82	397.12	**1.12**	25126.36	36018.02	12.4
Israel	**Tel Aviv**	1428.98	3.66	**0.26**	1372.23	1490.23	–2.8
Italy	**FTSE MIB**	20960.55	–128.23	**–0.61**	15017.42	21828.77	9.0
Netherlands	**AEX**	521.71	–1.68	**–0.32**	409.23	537.84	8.0
Poland	**WIG**	60381.07	–137.17	**–0.23**	42812.99	62666.49	16.7
Russia	**RTS Index**	1013.78	–17.21	**–1.67**	884.83	1196.99	–12.0
Spain	**IBEX 35**	10775.80	–106.30	**–0.98**	7579.80	11184.40	15.2
Sweden	**SX All Share**	592.65	–0.29	**–0.05**	443.66	598.08	10.9
Switzerland	**Swiss Market**	8849.40	–17.67	**–0.20**	7475.54	9136.95	7.7
South Africa	**Johannesburg All Share**	51489.16	–135.91	**–0.26**	48935.90	54716.53	1.6
Turkey	**BIST 100**	99636.27	336.60	**0.34**	70426.16	100000.79	27.5
U.K.	**FTSE 100**	7474.40	–26.04	**–0.35**	5788.74	7598.99	4.6
Asia-Pacific	**DJ Asia-Pacific TSM**	1636.55	5.94	**0.36**	1308.52	1643.59	15.0
Australia	**S&P/ASX 200**	5833.90	61.10	**1.06**	5103.30	5956.50	3.0
China	**Shanghai Composite**	3130.67	–23.07	**–0.73**	2854.29	3288.97	0.9
Hong Kong	**Hang Seng**	25875.90	23.80	**0.09**	20038.42	26063.06	17.6
India	**S&P BSE Sensex**	31155.91	52.42	**0.17**	25765.14	31309.49	17.0
Japan	**Nikkei Stock Avg**	19883.52	–15.23	**–0.08**	14952.02	20177.28	4.0
Singapore	**Straits Times**	3253.43	–4.09	**–0.13**	2729.85	3271.11	12.9
South Korea	**Kospi**	2372.64	–2.06	**–0.09**	1925.24	2381.69	17.1
Taiwan	**Weighted**	10072.46	–55.69	**–0.55**	8458.87	10226.84	8.9

Source: SIX Financial Information;WSJ Market Data Group

Currencies

London close on June 14

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Wed in US$	Wed per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0630	15.8678	**–0.01**
Brazil real	0.3049	3.2793	**0.7**
Canada dollar	0.7571	1.3208	**–1.7**
Chile peso	0.001517	659.10	**–1.6**
Colombia peso	0.0003419	2925.20	**–2.6**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0558	17.9255	**–13.6**
Peru sol	0.3057	3.2707	**–2.5**
Uruguay peso-e	0.0353	28.300	**–3.6**
Venezuela bolivar	0.100150	9.99	**–0.1**
Asia-Pacific			
Australia dollar	0.7619	1.3125	**–5.5**
China yuan	0.1472	6.7917	**–2.2**
Hong Kong dollar	0.1282	7.7986	**0.6**
India rupee	0.0156	64.0700	**–5.7**
Indonesia rupiah	0.0000754	13269	**–1.9**
Japan yen	0.009163	109.14	**–6.7**
Kazakhstan tenge	0.003159	316.58	**–5.1**
Macau pataca	0.1244	8.0357	**1.5**
Malaysia ringgit-c	0.2349	4.2580	**–5.1**
New Zealand dollar	0.7303	1.3693	**–5.2**
Pakistan rupee	0.0095	104.800	**0.4**
Philippines peso	0.0202	49.415	**–0.4**
Singapore dollar	0.7290	1.3717	**–5.2**
South Korea won	0.0008949	1117.44	**–7.5**
Sri Lanka rupee	0.0065359	153.00	**3.1**
Taiwan dollar	0.03323	30.090	**–7.3**
Thailand baht	0.02954	33.850	**–5.5**
Europe			
Bulgaria lev	0.5766	1.7342	**–6.7**
Croatia kuna	0.1524	6.563	**–8.5**
Euro zone euro	1.1278	0.8867	**–6.7**
Czech Rep. koruna-b	0.0431	23.184	**–9.7**
Denmark krone	0.1517	6.5938	**–6.7**
Hungary forint	0.003690	271.00	**–7.9**
Iceland krona	0.010006	99.94	**–11.5**
Norway krone	0.1195	8.3673	**–3.2**
Poland zloty	0.2690	3.7171	**–11.2**
Russia ruble-d	0.01749	57.181	**–6.7**
Sweden krona	0.1157	8.6416	**–5.1**
Switzerland franc	1.0347	0.9665	**–5.1**
Turkey lira	0.2870	3.4839	**–1.1**
Ukraine hryvnia	0.0385	25.9985	**–4.0**
U.K. pound	1.2805	0.7809	**–3.6**
Middle East/Africa			
Bahrain dinar	2.6511	0.3772	**0.01**
Egypt pound-a	0.0556	17.9997	**–0.7**
Israel shekel	0.2846	3.5141	**–8.7**
Kuwait dinar	3.2975	0.3033	**–0.8**
Oman sul rial	2.5973	0.3850	**0.01**
Qatar rial	0.2730	3.663	**0.6**
Saudi Arabia riyal	0.2667	3.7501	**–0.02**
South Africa rand	0.0795	12.5863	**–8.1**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	87.77	–0.54	–0.61	**–5.56**

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
5.250	**Australia** 2	**1.633**	**29.8**	25.1	38.7	**87.5**	**1.619**	1.682	**1.601**
4.750	10	**2.413**	**27.5**	19.8	31.4	**44.4**	**2.410**	2.642	**2.058**
3.000	**Belgium** 2	**-0.587**	**-192.2**	-193.9	-183.1	**-122.6**	**-0.572**	-0.537	**-0.500**
0.800	10	**0.560**	**-157.8**	-162.7	-153.5	**-130.4**	**0.586**	0.793	**0.311**
0.000	**France** 2	**-0.518**	**-185.3**	-187.3	-174.6	**-116.4**	**-0.505**	-0.451	**-0.438**
1.000	10	**0.587**	**-155.1**	-160.4	-148.5	**-118.7**	**0.609**	0.843	**0.428**
0.000	**Germany** 2	**-0.716**	**-205.1**	-208.4	-196.7	**-130.3**	**-0.717**	-0.672	**-0.577**
0.250	10	**0.229**	**-190.9**	-194.4	-193.3	**-161.5**	**0.269**	0.394	**0.000**
0.300	**Italy** 2	**-0.298**	**-163.3**	-164.6	-147.6	**-66.1**	**-0.279**	-0.181	**0.065**
2.200	10	**1.930**	**-20.8**	-23.6	-7.6	**-17.3**	**1.977**	2.251	**1.442**
0.100	**Japan** 2	**-0.113**	**-144.8**	-147.9	-147.1	**-100.5**	**-0.112**	-0.176	**-0.279**
0.100	10	**0.064**	**-207.4**	-214.8	-228.3	**-178.2**	**0.065**	0.044	**-0.168**
4.000	**Netherlands** 2	**-0.687**	**-202.2**	-204.8	-189.7	**-127.2**	**-0.680**	-0.603	**-0.546**
0.750	10	**0.438**	**-170.0**	-173.5	-172.5	**-147.8**	**0.478**	0.603	**0.136**
4.750	**Portugal** 2	**0.013**	**-132.2**	-130.1	-99.0	**-25.8**	**0.066**	0.305	**0.468**
4.125	10	**2.823**	**68.5**	71.4	103.2	**175.9**	**2.927**	3.360	**3.374**
2.750	**Spain** 2	**-0.294**	**-162.9**	-167.6	-155.6	**-70.3**	**-0.308**	-0.262	**0.023**
1.500	10	**1.366**	**-77.2**	-79.5	-71.2	**-7.3**	**1.418**	1.615	**1.542**
4.250	**Sweden** 2	**-0.735**	**-207.0**	-209.9	-194.8	**-127.9**	**-0.731**	-0.654	**-0.553**
1.000	10	**0.395**	**-174.3**	-180.8	-173.0	**-116.1**	**0.405**	0.597	**0.454**
1.750	**U.K.** 2	**0.089**	**-124.6**	-122.0	-118.4	**-37.6**	**0.148**	0.110	**0.350**
4.250	10	**0.933**	**-120.5**	-117.7	-123.8	**-46.7**	**1.036**	1.089	**1.148**
1.250	**U.S.** 2	**1.335**	**...**	...	...	**...**	**1.367**	1.295	**0.726**
2.375	10	**2.138**	**...**	...	...	**...**	**2.213**	2.328	**1.615**

Commodities

Prices of futures contracts with the most open interest — 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 6/13/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	376.75	-4.25	-1.12%	393.75	360.75
Soybeans (cents/bu.)	CBOT	939.25	0.25	0.03%	1,034.50	915.50
Wheat (cents/bu.)	CBOT	443.25	-1.75	-0.39	488.75	416.00
Live cattle (cents/lb.)	CME	118.150	-2.725	-2.25	127.650	99.400
Cocoa ($/ton)	ICE-US	2,077	21	1.02	2,281	1,767
Coffee (cents/lb.)	ICE-US	127.95	-0.70	-0.54	163.75	127.55
Sugar (cents/lb.)	ICE-US	13.85	-0.17	-1.21	20.50	13.61
Cotton (cents/lb.)	ICE-US	70.96	-0.86	-1.20	75.72	69.81
Robusta coffee ($/ton)	ICE-EU	2040.00	18.00	0.89	2,283.00	1,871.00
Copper ($/lb.)	COMEX	2.5625	-0.0340	-1.31	2.8400	2.4725
Gold ($/troy oz.)	COMEX	1263.00	-5.60	-0.44	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.905	0.138	0.82	18.725	16.060
Aluminum ($/mt)*	LME	1,883.50	-9.00	-0.48	1,972.00	1,688.50
Tin ($/mt)*	LME	19,150.00	195.00	1.03	21,225.00	18,760.00
Copper ($/mt)*	LME	5,693.00	-90.00	-1.56	6,156.00	5,491.00
Lead ($/mt)*	LME	2,061.00	-34.00	-1.62	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,454.00	-61.50	-2.44	2,958.50	2,450.50
Nickel ($/mt)*	LME	8,790.00	-190.00	-2.12	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	195.50	10.20	5.50	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2,421.00	23.00	0.96	2,966.00	2,390.00
Crude oil ($/bbl.)	NYMEX	44.97	-1.70	-3.64	58.30	44.45
NY Harbor ULSD ($/gal.)	NYMEX	1.4194	-0.0354	-2.43	1.7930	1.3922
RBOB gasoline ($/gal.)	NYMEX	1.4336	-0.0659	-4.39	1.8859	1.4292
Natural gas ($/mmBtu)	NYMEX	2.956	-0.033	-1.10	3.5750	2.9100
Brent crude ($/bbl.)	ICE-EU	47.32	-1.73	-3.53	60.18	47.02
Gas oil ($/ton)	ICE-EU	419.25	-6.75	-1.58	529.00	415.75

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on Jun 14

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3125	1.6810	1.3581	0.0120	0.1683	1.4804	0.9938	...
Canada	1.3208	1.6913	1.3665	0.0121	0.1694	1.4895	...	1.0061
Euro	0.8867	1.1355	0.9175	0.0081	0.1137	...	0.6714	0.6756
Hong Kong	7.7986	9.9860	8.0697	0.0715	...	8.7948	5.9046	5.9417
Japan	109.1360	139.7700	112.9300	...	13.9950	123.0800	82.6400	83.1400
Switzerland	0.9665	1.2376	...	0.0089	0.1239	1.0900	0.7318	0.7363
U.K.	0.7809	...	0.8080	0.0072	0.1001	0.8807	0.5913	0.5950
U.S.	...	1.2805	1.0347	0.0092	0.1282	1.1278	0.7571	0.7619

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.17167%**	0.44605%
Three month	**1.25033**	0.65635
Six month	**1.42600**	0.94290
One year	**1.73622**	1.26525
Euro Libor		
One month	**-0.40286%**	-0.35900%
Three month	**-0.37143**	-0.28257
Six month	**-0.29929**	-0.16457
One year	**-0.17971**	-0.03400
Euribor		
One month	**-0.37300%**	-0.35300%
Three month	**-0.33100**	-0.26200
Six month	**-0.27100**	-0.15900
One year	**-0.15200**	-0.02100
Yen Libor		
One month	**-0.03821%**	-0.09800%
Three month	**-0.01093**	-0.04100
Six month	**0.01771**	-0.01829
One year	**0.12786**	0.07007
	Offer	Bid
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2000**	1.1000
Six month	**1.3500**	1.2500
One year	**1.6000**	1.5000
	Latest	52 wks ago
Prime rates		
U.S.	**4.00%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.50**	1.00
Fed-funds target	**0.75-1.00**	0.25-0.50
Call money	**2.75**	2.25
Overnight repurchase rates		
U.S.	**1.04%**	0.54%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

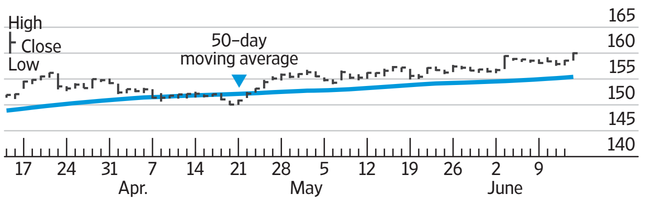
Top Stock Listings

4 p.m. New York time

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK$	AIAGroup	**1299**	55.95	-0.18	27.89
¥	AstellasPharma	**4503**	1360.00	-0.26	-16.23
AU$	AustNZBk	**ANZ**	28.62	0.81	-5.92
AU$	BHP	**BHP**	23.69	0.08	-5.47
HK$	BankofChina	**3988**	3.83	...	11.34
HK$	CKHutchison	**0001**	98.90	-0.40	12.51
HK$	CNOOC	**0883**	8.75	0.69	-9.79
AU$	CSL	**CSL**	142.04	3.19	41.46
¥	Canon	**7751**	3887.00	0.13	17.97
¥	CentralJapanRwy	**9022**	18200	0.94	-5.36
HK$	ChinaConstructnBk	**0939**	6.45	0.62	8.04
HK$	ChinaLifeInsurance	**2628**	24.80	-0.40	22.77
HK$	ChinaMobile	**0941**	84.25	0.42	2.49
HK$	ChinaPetro&Chem	**0386**	6.48	1.41	17.82
AU$	CmwlthBkAust	**CBA**	82.30	1.44	-0.13
¥	EastJapanRailway	**9020**	11040	1.52	9.31
¥	Fanuc	**6954**	21565	0.65	8.83
¥	Hitachi	**6501**	668.50	-1.26	5.78
TW$	Hon Hai Precisn	**2317**	102.00	...	21.14
¥	HondaMotor	**7267**	3064.00	0.23	-10.28
KRW	HyundaiMtr	**005380**	169000	2.74	15.75
HK$	Ind&Comml	**1398**	5.21	0.39	12.04
¥	JapanTobacco	**2914**	4105.00	0.10	6.79
¥	KDDI	**9433**	2999.00	-0.83	1.33
¥	Mitsubishi	**8058**	2275.00	-0.78	-8.63
¥	MitsubishiElectric	**6503**	1597.50	-0.28	-1.96
¥	MitsubishiUFJFin	**8306**	729.30	-0.64	1.26
¥	Mitsui	**8031**	1527.00	-0.39	-4.98
¥	Mizuho Fin	**8411**	200.30	-0.35	-4.53
¥	NTTDoCoMo	**9437**	2670.50	-1.00	0.28
AU$	NatAustBnk	**NAB**	30.31	0.63	-1.17
¥	NipponTeleg	**9432**	5243.00	-0.13	6.74
¥	NissanMotor	**7201**	1081.00	0.56	-8.04
¥	Panasonic	**6752**	1476.00	-0.57	24.09
HK$	PingAnInsofChina	**2318**	51.25	-0.97	32.09
$	RelianceIndsGDR	**RIGD**	42.45	3.41	34.55
KRW	SamsungElectronics	**005930**	2268000	-0.09	25.86
¥	Seven&I Hldgs	**3382**	4731.00	0.60	6.24
¥	SoftBankGroup	**9984**	8988.00	-0.99	15.75
¥	Sony	**6758**	4060.00	0.57	23.97
¥	Sumitomo Mitsui	**8316**	4245.00	-0.89	-4.82
HK$	SunHngKaiPrp	**0016**	120.70	0.17	23.16
TW$	TaiwanSemiMfg	**2330**	207.00	-0.48	14.05
¥	TakedaPharm	**4502**	5586.00	-0.27	15.53
HK$	TencentHoldings	**0700**	277.40	1.84	46.23
¥	TokioMarineHldg	**8766**	4969.00	-0.28	3.61
¥	ToyotaMtr	**7203**	5859.00	-0.26	-14.82
AU$	Wesfarmers	**WES**	40.91	0.42	-2.92
AU$	WestpacBanking	**WBC**	31.32	1.66	-3.93
AU$	Woolworths	**WOW**	26.29	0.81	9.09
Stoxx 50					
CHF	ABB	**ABBN**	24.36	-0.29	13.41
€	ASMLHolding	**ASML**	116.70	...	9.42
€	AXA	**CS**	24.05	-0.23	0.25
€	AirLiquide	**AI**	108.60	-1.41	2.79
€	Allianz	**ALV**	173.95	0.40	10.80
€	AB InBev	**ABI**	101.20	-0.10	0.65
£	AstraZeneca	**AZN**	5301.00	0.76	19.46
€	BASF	**BAS**	86.18	-0.19	-2.41
€	BNP Paribas	**BNP**	62.40	-1.50	3.06
£	BT Group	**BT.A**	297.70	0.30	-18.86
€	BancoBilVizAr	**BBVA**	7.31	-1.44	15.11
€	BancoSantander	**SAN**	5.93	-2.13	19.58
£	Barclays	**BARC**	203.50	-1.36	-8.93
€	Bayer	**BAYN**	121.45	1.29	22.52
£	BP	**BP.**	461.60	-1.82	-9.42
£	BritishAmTob	**BATS**	5446.00	0.59	17.84
€	Daimler	**DAI**	65.71	-0.29	-7.08
€	DeutscheTelekom	**DTE**	16.80	-0.50	2.69
£	Diageo	**DGE**	2331.50	0.32	10.50
€	ENI	**ENI**	13.85	-1.07	-10.47
£	GlaxoSmithKline	**GSK**	1684.50	0.03	7.84
£	Glencore	**GLEN**	286.65	-2.60	3.35
£	HSBC Hldgs	**HSBA**	680.70	-1.09	3.62
€	INGGroep	**INGA**	15.03	-1.44	12.38
£	ImperialBrands	**IMB**	3583.00	0.65	1.14
€	IntesaSanpaolo	**ISP**	2.58	-0.31	6.27
€	LVMHMoetHennessy	**MC**	227.90	0.11	25.63
£	LloydsBankingGroup	**LLOY**	67.90	-1.01	8.62
€	LOreal	**OR**	188.10	0.40	8.48
£	NationalGrid	**NG.**	1015.50	-0.25	-2.18
CHF	Nestle	**NESN**	80.65	-0.12	10.40
CHF	Novartis	**NOVN**	78.55	-0.32	6.01
DKK	NovoNordiskB	**NOVO-B**	292.00	0.38	14.64
£	Prudential	**PRU**	1768.00	-0.95	8.63
£	ReckittBenckiser	**RB.**	7865.00	-0.18	14.22
£	RioTinto	**RIO**	3142.50	-2.33	-0.51
CHF	RocheHldgctf	**ROG**	250.10	-0.24	7.52
£	RoyDtchShell A	**RDSA**	2101.50	-1.31	-6.29
€	SAP	**SAP**	94.25	0.71	13.81
€	Sanofi	**SAN**	84.86	-0.56	10.35
€	SchneiderElectric	**SU**	66.92	-0.93	1.23
€	Siemens	**SIE**	126.75	...	8.52
€	Telefonica	**TEF**	9.75	-2.78	10.56
€	Total	**FP**	44.76	-1.57	-6.29
CHF	UBSGroup	**UBSG**	15.60	-0.95	-2.19
€	Unilever	**UNA**	49.15	-0.49	25.66
£	Unilever	**ULVR**	4242.00	-0.34	28.84
€	Vinci	**DG**	78.55	1.11	21.41
£	VodafoneGroup	**VOD**	222.90	-0.40	11.53
CHF	ZurichInsurance	**ZURN**	286.90	0.24	2.32
DJIA					
$	AmericanExpress	**AXP**	80.87	0.35	9.17
$	Apple	**AAPL**	145.16	-0.98	25.33
$	Boeing	**BA**	192.42	0.70	23.60
$	Caterpillar	**CAT**	104.71	-0.98	12.91
$	Chevron	**CVX**	106.62	-1.40	-9.41
$	CiscoSystems	**CSCO**	31.60	-0.32	4.57
$	Coca-Cola	**KO**	45.30	0.60	9.26
$	Disney	**DIS**	106.14	-0.39	1.85
$	DuPont	**DD**	82.84	-1.24	12.86
$	ExxonMobil	**XOM**	82.08	-1.06	-9.06
$	GeneralElec	**GE**	28.69	0.84	-9.21
$	GoldmanSachs	**GS**	226.60	1.07	-5.37
$	HomeDepot	**HD**	156.76	1.80	16.92
$	Intel	**INTC**	35.53	-0.98	-2.04
$	IBM	**IBM**	153.83	-0.27	-7.33
$	JPMorganChase	**JPM**	87.09	-0.21	0.93
$	J&J	**JNJ**	132.77	0.57	15.24
$	McDonalds	**MCD**	150.67	0.57	23.78
$	Merck	**MRK**	63.36	0.14	7.63
$	Microsoft	**MSFT**	70.27	-0.54	13.08
$	Nike	**NKE**	54.65	0.63	7.52
$	Pfizer	**PFE**	32.70	0.37	0.68
$	Procter&Gamble	**PG**	88.45	0.44	5.20
$	3M	**MMM**	210.04	0.44	17.62
$	Travelers	**TRV**	128.00	1.51	4.56
$	UnitedTech	**UTX**	120.03	-0.02	9.50
$	UnitedHealth	**UNH**	182.34	0.71	13.93
$	Visa	**V**	95.31	0.24	22.16
$	Verizon	**VZ**	46.70	0.51	-12.52
$	Wal-Mart	**WMT**	79.91	0.49	15.61

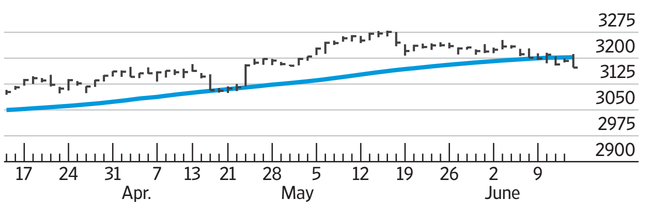
Asia Titans 50

Last: **159.98** ▲ 1.43, or 0.90% — YTD ▲ **13.5%**



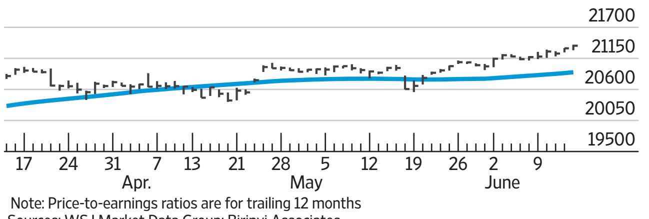
Stoxx 50

Last: **3172.67** ▼ 19.47, or 0.61% — YTD ▲ **5.4%**



Dow Jones Industrial Average

Last: **21374.56** ▲ 46.09, or 0.22% — P/E: 21 — YTD ▲ **8.2%**



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

Dimon Gets Much Of What He Wants In Treasury Report


ANDREW HARRER/BLOOMBERG NEWS

J.P. Morgan Chase Chief Executive James Dimon

The Trump administration's proposal to rethink many of the rules governing the U.S. financial sector sounded a lot like bankers' wish lists.

In particular, **J.P. Morgan Chase** & Co. Chief Executive James Dimon's vocal suggestions over the past several months had much overlap with the 147-page report released by the Treasury Department on Monday evening. Here are some of the similarities and areas of overlaps between Mr. Dimon's annual shareholder letter released in April and the new report overseen by Treasury Secretary Steven Mnuchin.

Mr. Dimon, the head of the nation's largest bank by assets, doesn't have the power to change these rules. But he does sit on President Donald Trump's business council of roughly a dozen top executives and knows some of Mr. Trump's high-level finance advisers.

Capital planning via stress tests:

Dimon: "While we firmly believe banks should have a proper assessment of their qualitative abilities, this should not be part of a once-year stress test."

Treasury: The "process should be adjusted to a two-year cycle, which will not compromise quality in the stress-testing results are forecast over a nine-quarter cycle."

Living wills forcing banks to plan for their own demise:

Dimon: "While they have some positive elements, they have become unnecessarily complex and costly, and they need to be simplified."

Treasury: "The agencies should be held accountable to develop specific, clear, and accountable guidance for living-will submissions."

Supplementary leverage ratio:

Dimon: Rules here "need to be modified." These rules, which limit the amount of borrowed money a bank can use in relation to its overall assets, often penalize "fairly risk-free activity" and should instead promote lending and liquid capital markets.

Treasury: "Consideration of adjustments to the Supplementary Leverage Ratio (SLR) and enhanced Supplementary Leverage Ratio (eSLR) is important to address unfavorable impacts these requirements may have on market liquidity and low-risk assets."

Operational risk capital:

Dimon: This should be "significantly modified, if not eliminated" since it isn't always calculated fairly or in coordination with other capital rules.

Treasury: "Also, a more transparent, rules-based approach should be used in the calculation of operational risk capital."

Mortgage market reforms:

Dimon: Though some reforms to the mortgage market since the housing meltdown have been helpful, the market has been "unusually slow to recover." The regulatory changes resulted in "a complex, highly risky and unpredictable operating environment that exposes lenders and servicers to disproportionate legal liability and materially increases operational risks and costs." That includes "an inhibition of the return of private capital to the housing industry."

Treasury: "Beyond small business lending, the growth of mortgage loans on bank balance sheets has also been slow....More broadly, credit availability in the residential mortgage market is constrained...The objective of the reforms is to increase the viability of private-sector lending."

Bank Plan Augurs Era's End

By Ryan Tracy

WASHINGTON—The Trump administration's new plan for bank oversight is raising industry expectations that a postcrisis era of heightened regulation is over.

A report from the Treasury Department, released Monday, contains dozens of specific recommendations that can be executed by financial regulators.

Bankers and analysts said they expect the proposal will be a catalyst for changes to the Wall Street rule book once President Donald Trump's banking-oversight nominees are confirmed.

The report shows a desire by officials to take a lighter touch after years of new restrictions adopted in response to the 2008 financial crisis and the severe recession that followed.

It fleshes out statements in recent months by Mr. Trump and Treasury Secretary Steven Mnuchin, a former banker who has said the administration won't throw out bank rules wholesale but that many aspects of the current regulatory landscape are too restrictive.

"The greatest impact would be it would allow management and our board to go back to running and planning for the future of the company, as opposed to spending lots of mandated, repetitive hours reviewing and updating regulatory matters," William Demchak, chief executive of **PNC Financial Services Group** Inc., said.

He added that some changes, such as narrowing the scope of liquidity rules, could free up the Pittsburgh-based firm to do more lending.

Many of the Treasury's proposed changes dovetail with bankers' previous recommendations, for instance in **J.P. Morgan Chase** & Co. Chief Executive James Dimon's shareholder letter this year.

"The road ahead remains long given the sluggish pace of personnel shifts, but these recommendations should be viewed as an undeniably positive policy signal for banks," said Isaac Boltansky, an analyst with Compass Point Research & Trading LLC, in a note to clients.

Craig Phillips, the counselor to the Treasury secretary who played a central role in drafting the report, presented the recommendations to a conference hosted by two bank trade groups Tuesday.

"This is not a plan to help banks," but rather ideas meant to boost economic growth, he said. "There is a lot to do with regulatory overlap, fragmentation and duplication. This is one of the biggest issues," he added.

Mr. Phillips told the assembled crowd to expect additional reports on other topics, including unwinding failed firms, designating companies systemically important, nonbank financial services and markets oversight.

Liberal lawmakers and advocacy groups said the recommendations would undermine protections against fraud and excessive risk-taking. Sen. Sherrod Brown of Ohio, the top Democrat on the Senate Banking Committee, said that of roughly 300 entities that the Treasury Department said it consulted for the report, 244 came from the banking industry. The report says officials met with the banks of all sizes as well as consumer groups and others.

"Too many hardworking Americans still haven't fully recovered from the financial crisis, and Washington should be focused on protecting them by holding Wall Street accountable, not doing its bidding," Mr. Brown said in a news release Monday.

Senate Banking Committee Chairman Mike Crapo (R., Idaho) in a statement Tuesday welcomed "reasonable and meaningful recommendations to the existing, and all too often, one-size-fits-all regulatory landscape."

Mr. Crapo appeared at the banking conference and said he believed some of the report's recommendations requiring congressional approval could win bipartisan support, especially those affecting small and medium-size banks.

Mr. Crapo also said he was open to a new idea raised in the Treasury's report: granting more power to the Financial Stability Oversight Council. The council was created by the 2010 Dodd-Frank financial overhaul and empowered to watch over the stability of the financial system.

The council includes the most powerful U.S. economic officials: the Treasury secretary, the head of the Federal Reserve, and other top regulators.

Republicans for years have talked about hamstringing or abolishing the council. The Treasury report said Congress should grant it the power to assign a "lead regulator" to make decisions about policy matters involving multiple federal agencies.

Mr. Mnuchin has already used his position as chairman of the council to push regulators to begin a review of the Volcker rule, a Dodd-Frank provision banning banks from certain types of trading, according to people familiar with the matter.

That rule is enforced by five regulatory agencies, all of which have seats on the council.

—Andrew Ackerman and Rachel Witkowski contributed to this article.

ZACH GIBSON/BLOOMBERG NEWS

Sen. Mike Crapo says he's open to granting more power to the Financial Stability Oversight Council.

MARKETS

U.S. Firms Embrace Euro

More companies issue debt in foreign currencies; ECB and lower costs are a lure

By Ben Eisen

Move over Benjamin Franklin. It's all about the euros.

American companies have sold $108.5 billion of bonds in other currencies this year to date, the most for any comparable period in a decade, according to data provider Dealogic. U.S. companies have done hefty issuance of euro-denominated debt but have also sold bonds in Canadian dollars and British pounds in 2017, Bank of America Merrill Lynch data show.

The issuers are some of the best-known firms. **General Electric** Co. issued $8.7 billion of euro bonds last month, one of the largest sales in the market's history. And **AT&T** Inc. sold $7.9 billion of euro bonds last week, according to Dealogic.

This debt, known as reverse Yankee bonds, has become popular in recent years as companies look to diversify their bond portfolios, particularly if they have a lot of it or plan to take on a lot to do a deal.

Issuance was especially strong in May.

"Most companies should be interested in diversifying their funding bases, especially in situations where you have large M&A transactions," said Hans Mikkelsen, a credit strategist at Merrill Lynch. "You can do a little bit here and there instead of doing the entire deal in one currency."

At the moment, companies are benefiting from a favorable set of market conditions, analysts say.

One thing that has lubricated the euro-denominated debt market recently: The European Central Bank has continued to buy corporate bonds as part of its stimulus policies. That has maintained a source of strong demand for euro-denominated corporate debt. At last week's ECB policy meeting, the bank didn't announce plans to curtail its bond buying.

The ECB waded into the corporate-bond market last year.

But the environment wasn't as friendly for U.S. companies selling debt abroad because, in many cases, they had to pay high costs to swap that funding back to dollars. That's important for companies with mostly U.S. operations. AT&T gets the vast majority of its revenue in the U.S.

Last year, the added cost of swapping euros for dollars rose sharply as investors contended with a crunch in that market. Cross-currency swap costs have turned lower this year, making it cheaper to issue in euros and end up with dollars, according to **Wells Fargo** & Co.'s securities unit.

"This is the first time where you have a combination" of both falling swap costs and strong demand for corporate bonds from the ECB, both of which are supporting issuance, said Nathaniel Rosenbaum, a director of credit strategy at Wells Fargo.

To be sure, the added hedging costs can still complicate issuance of bonds denominated in other currencies. Merrill Lynch estimates that it likely cost AT&T about 0.1 percentage point more to issue in euros than in dollars if the company were to send the money back to the U.S. and hedge the currency risk. But for a big issuer like AT&T, unlocking new buyers in other currencies may be worth it, strategists say.

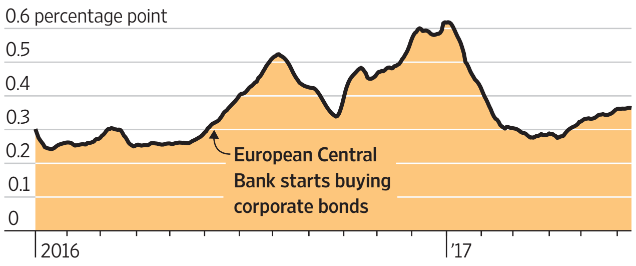
Possible changes to the U.S. tax code could help keep the momentum going for these bonds, if they come to fruition.

The idea of removing the tax deductibility of interest has been discussed, but was not included in a White House plan unveiled in April. If that happened, some U.S. companies might be pushed to issue more debt abroad to lessen that additional tax burden, Morningstar has said.

Looking Abroad

A decline this year in the cost to borrow in euros and swap back to dollars is helping to fuel the issuance of bonds by U.S. companies in other currencies, or 'reverse Yankee bonds.'

Premium on three-month cross-currency basis swaps

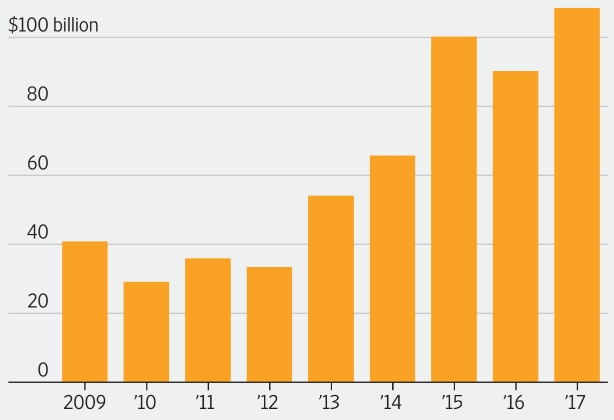


Biggest reverse Yankee bond deals since the beginning of 2016

Company	Value (in billions of dollars)	Date
General Electric	8.7	May 10, 2017
AT&T	7.9	June 7, 2017
Bank of America	4.8	Jan. 31, 2017
Johnson & Johnson	4.6	May 11, 2016
Honeywell International	4.5	Feb. 15, 2016
Goldman Sachs Group	4.4	July 20, 2016
Pfizer	4.2	Feb. 28, 2017
Verizon Communications*	4.1	Oct. 26, 2016
Bank of America*	4.0	July 25, 2016
Wells Fargo	3.9	April 18, 2016

*Issued in euros and British pounds. All other deals issued exclusively in euros.
Sources: Dealogic (debt); Thomson Reuters (premium) THE WALL STREET JOURNAL.

Issuance of bonds by U.S. companies in other currencies, through June 13 of each year



Source: Dealogic THE WALL STREET JOURNAL.

Dow Industrials Gain After Fed Raises Rates

By Riva Gold and Aaron Kuriloff

U.S. blue-chip stocks managed some gains late Wednesday in choppy trading after the Federal Reserve decided to raise interest rates.

WEDNESDAY'S MARKETS

The Fed's move was widely expected by analysts and investors, many of whom are skeptical that the U.S. central bank will act aggressively going forward after a recent patch of soft U.S. economic data.

U.S. government-bond yields and the dollar were under pressure, and major U.S. stock indexes swung between gains and losses after the announcement.

The Dow Jones Industrial Average closed up 46.09 points, or 0.2%, at 21374.56. The S&P 500 fell 0.1% and the Nasdaq Composite declined 0.4%.

In Europe, the Stoxx Europe 600 slipped 0.3% to 387.58.

Bonds rallied and the dollar weakened earlier Wednesday after the Labor Department said consumer prices fell slightly in May, while data from the Commerce Department showed monthly retail sales posted their steepest decline since January 2016.

"We've had a string of economic data that have been released suggesting inflation is moving in the wrong direction," said Quincy Krosby, chief market strategist at Prudential Financial.

Fed officials lowered their projections for inflation this year, though they still expect annual price gains to reach their 2% target by the end of 2018. The Fed said in a statement it was "monitoring inflation developments closely."

The WSJ Dollar Index was down 0.2%, paring earlier declines, while the yield on the benchmark 10-year Treasury note was 2.138%, up slightly from its level before the announcement but down from 2.206% Tuesday.

Brett Ewing, chief market strategist at Tallahassee, Fla.-based First Franklin Financial Services, said that even with some soft economic data, "I don't think anything's changed with the rate hike."

"We're ho-hum growth and low inflation, but the Fed passed the spotlight to Congress since the beginning of the year," he said. Investors have hoped that policy shifts such as tax breaks and regulatory rollbacks will boost corporate profits and lift markets since the U.S. election.

U.S. consumer prices fell slightly in May, sending bond prices higher.

Investors sold technology shares with the Nasdaq losing ground and tech stocks in the S&P 500 falling 0.7%. Apple and Intel both lost more than 1%, and Microsoft fell 0.9% by late afternoon. A selloff in tech shares buffeted major indexes Friday and Monday, before the sector regained some ground Tuesday.

Energy stocks fell nearly 2% in the S&P 500 by late afternoon as U.S. crude prices fell 3.7% to $44.73 a barrel amid signs of a persistent global oil glut.

—Akane Otani contributed to this article.

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Alexion Cleans Up Its House

A beleaguered drugmaker is showing signs of getting its act together. **Alexion Pharmaceuticals** said Tuesday that Paul Clancy will join as chief financial officer next month. Mr. Clancy has served as finance chief at **Biogen** for 10 years. Alexion shares were up 8.9% Wednesday afternoon.

There is good reason for that rally: The rare-disease specialist has struggled with a late securities filing, a slew of executive departures, disclosures of aggressive marketing practices for its main drug, Soliris, and a high-priced acquisition that turned sour.

Investors shouldn't expect the bad news to stop entirely, though. For example, it is likely that the company will have to write down its 2015 purchase of Synageva for $8.4 billion, a deal that has resulted in almost no incremental revenue.

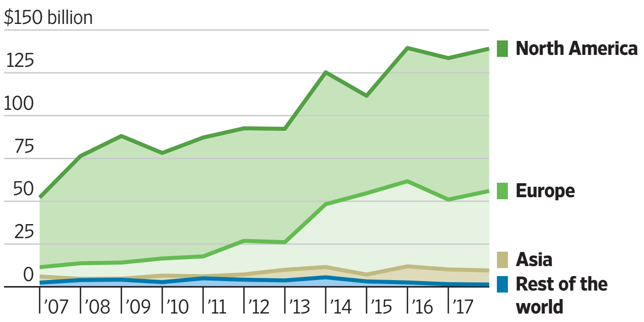
That doesn't mean the rally has to stop here, though. For starters, there is no clear competitor for Soliris coming to market soon. The stock trades at roughly 20 times forward earnings. That is hardly dirt cheap but not unreasonable if long-term growth turns out to be, say, 5% instead of 10%.

The company also has a clean balance sheet. Alexion carries less than $1 billion in net debt on its books and generates significant cash flow. Despite that financial condition, share repurchases were just $68 million in the first quarter. Alexion could likely buy back stock at a much more aggressive pace if it wanted.

That means Mr. Clancy and the rest of the new management team have options to deal with hiccups down the road. *—Charley Grant*

Well Armed

Total money in institutional funds waiting to be invested in private debt



Note: 2017 is totals as of mid-May
Sources: Preqin; Ruters (photo) THE WALL STREET JOURNAL.

Dell raised a $20.6 billion leveraged loan in September.

Leveraged Loans Go Wild

Investors are desperate for decent income, and riskier companies are taking full advantage. The upshot is that the world of leveraged loans appears to be going slightly mad.

Loan sales are running ahead of the pace of the past three years, fueled by a rush of money into the sector. Retail investors have piled back into U.S. funds that specialize in loans, with more than $25 billion of inflows over the past year after two years of outflows, according to Lipper.

Total assets in retail U.S. loan funds have risen to $95 billion, although that is below 2014's peak of $112 billion. Big managers in the sector include well-known names such as **BlackRock**, **Fidelity** and **Pimco**.

The return of investors has helped companies such as **Dell International**, which last September raised a $20.6 billion leveraged loan to help fund its takeover of EMC, the biggest in 2016, according to Thomson Reuters. Deals this year include financing for **Lone Star**'s $2.3 billion purchase of German materials company, Xella, from PAI Partners and Goldman Sachs.

Borrowing costs also have declined. European yields on new deals are at record lows of less than 4%, and U.S. yields are at 5%, their lowest in two years, according to S&P Global Market Intelligence.

Leveraged loans are popular because they pay higher yields than investment-grade bonds, are secured against borrower assets and give investors protection from changes in underlying interest rates. But they are also relatively risky because borrowers are usually heavily indebted.

Lenders used to get extra protection by attaching conditions to the loan, known as covenants, which allow them to take action if a borrower's earnings deteriorate, for example. These days, most loans are "covenant lite," meaning lenders get less influence over a borrower's actions.

This was a big concern before the financial crisis, during the last credit boom. In 2007, almost 30% of U.S. loans and not quite 8% of European loans were covenant lite, according to S&P Global Market Intelligence's LCD research unit. Last year, almost 60% of European deals and 75% of U.S. deals were covenant lite.

Huge competition to invest in loans is the culprit. In addition to retail loan funds, specialist debt funds for institutional investors have also grown strongly. Such funds globally are sitting on more than $200 billion of cash they are yet to invest, according to Preqin, a research firm. That dry powder has grown by 56% since 2012 as funds have kept raising new money faster than they can put it to work. Most of that is in U.S. funds too, but dry powder at European funds has more than doubled since 2012 to $56 billion.

This isn't new in the U.S., but it is increasingly coming to Europe too. Data are scarce on exactly how much the funds are borrowing, but some bankers worry that it is growing. The most aggressive fund managers can borrow up to three times the value of their funds, according to research house bfinance, but the average is about 1.25 times the fund.

For indebted companies, this is great: They can refinance with cheaper or more aggressive terms while so much money is sloshing around. But investors ought to be careful: It looks very much like they might be storing up trouble for the future.

—Paul J. Davies

China's Banks Get OK for Another Lending Binge

China's banking regulator should know better by now: loosen the reins and debt soon piles up.

While Beijing is carrying out a high-profile campaign to reduce leverage in its financial markets with one hand, with the other it is encouraging more potentially reckless borrowing. This week, the regulator put pressure on the country's big banks to lend more to small companies and farmers, while the government announced tax breaks for financial institutions that lend to rural households. That follows recent guidance that banks should set up "inclusive finance" units.

If the goal of lending to poorer customers sounds noble, the concern is that the execution will only worsen Chinese banks' existing problems, namely high levels of bad loans and swaths of mispriced credit. Bank lending to small companies is already growing pretty rapidly, with nontrivial sums involved: It jumped 17% in the year through March to 27.8 trillion yuan ($4.084 trillion). That compares favorably with the 7% rise in loans to large- and medium-size companies over the same period.

But lending standards are set to get even looser. Banks have been told they should tolerate higher nonperforming-loan ratios for small companies and agriculture-related lending, meaning they need to worry less about credit quality. The regulator also asked banks to keep interest rates on such loans at an "appropriate" level—effectively allowing banks to ignore the proper pricing of risk.

This all flies in the face of efforts to cull bad credit from the economy. Chinese banks are already given plenty of leeway to classify loans how they like: The new measures may only encourage them to avoid writing off bad debt. It isn't clear, either, how allowing small businesses and farmers to borrow even more will help China Inc. cure its addiction to debt-fueled growth.

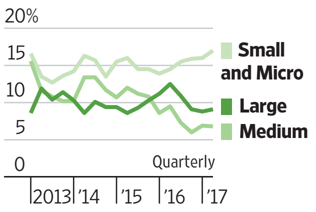
If banks were free to price loans in line with credit risk, more lending to poorer parts of the economy might improve their net interest margins. Chinese banks typically charge small- and medium-size enterprises around 8% to 12% on loans, well above the benchmark rate. But if banks prove more lenient on lending rates, in line with the regulator's demands, even that benefit will be mixed.

China's big banks have rallied an average 10% so far this year and are trading at 0.7 times to 0.8 times their book value. With a stream of risky borrowers headed the banks' way, investors may be giving them too much credit.

—Anjani Trivedi

Small Is the New Big

Year-over-year growth rate of loans to companies, by size



Source: Wind Info.
THE WALL STREET JOURNAL.

TECH COMPANIES TO WATCH

THE WALL STREET JOURNAL. | Thursday, June 15, 2017 | R1

25 Companies That Are Young, Growing—and the Talk of Technology

A new Wall Street Journal ranking identifies today's startups that may be leaders of tomorrow

BY DAVE PETTIT

AN ONLINE DOLLAR STORE. Two services that link doctors and patients by video chat. A cybersecurity company that keeps hackers out of cars.

These startups are part of the eclectic mix that makes up The Wall Street Journal's ranking of 25 technology companies to watch—companies that show signs of becoming emerging leaders in some of the most dynamic parts of the tech industry.

The Journal 25 have all attracted the attention of the tech community, as well as cash from venture-capital investors. They have had growing workforces and, in some cases, have founders with prior success launching a company. They are also young—all founded in the past six years—and far from billion-dollar valuations.

Preview of coming disruptions

Looking at emerging companies provides insight into technologies that may have influence more broadly on business and markets, says Venky Ganesan, managing director at Menlo Ventures, a venture-capital firm. "You get insights into the big trends. You see the disruptions that are going to happen," Mr. Ganesan says. For investors, he says, "sometimes it's equally important to know who is going to lose and who is going to win."

The starting point of the ranking was a survey of technology-industry watchers and experts. Nominations were taken from prior attendees of technology conferences run by The Wall Street Journal and Founders Forum, a London firm that organizes events for a network of tech entrepreneurs and investors. (The Journal and Founders Forum have a business relationship.) Survey participants were asked to identify young companies that are innovative, growing fast and expected to continue to grow fast.

A data analysis was conducted on the nominated firms to assess their founders' experience, the investments the companies have attracted, the prior success of their biggest investors, the growth of their workforces, and the buzz they have begun to generate. Equal weight was assigned to these five criteria to calculate overall scores for the companies.

No. 1 on the list was **Hollar** Inc., a Commerce, Calif., company that runs a website that sells low-price household goods. It was the idea of Brian Lee, who co-founded Honest Co. with actress Jessica Alba, and David Yeom, another Honest Co. veteran. Mr. Lee, who stepped down as Honest's CEO earlier this year, is executive chairman of Hollar. Mr. Yeom is its chief executive officer. The ranking methodology rewards companies founded by people who have founded other companies, particularly if those other companies went on to go public or be acquired.

David Singer, managing partner of Maverick Ventures in San Francisco, says the founders' background is the most important factor he considers when deciding whether to make an investment. "That is where we spend most of our thinking," he says. "You are really dependent on this person."

The ranking methodology also gives founders credit if they have had high-level experience at other venture-backed companies. Mr. Singer says prior experience makes the transition from an idea to an operating company more effective, in terms of building an executive team and making decisions.

Maverick Ventures is an investor in the No. 2 company in the ranking, **Collective Health** Inc., San Francisco, which allows companies and employees to manage health-care information. It is one of four health-care companies in the ranking, including two that allow patients to see a doctor over a video app: **Doctor on Demand** Inc., based in San Francisco, and **Babylon Healthcare Services** Ltd., based in London.

The expertise of the venture-capital firms that sit on a startup's board is factored in the scores companies received in the ranking. Credit is given to companies for having on their boards VC firms that have made sizable investments and that have invested in companies that have later gone public or been sold. The analysis used data from Dow Jones VentureSource.

Clever Inc., the No. 4 company on the list, benefited from having on its board representatives from Sequoia Capital and Lightspeed Venture Partners, two large VC firms. Clever is a San Francisco company that developed a way for schools to organize the many software applications that are used by teachers and students.

WSJ Tech Companies to Watch 2017

Lightspeed also is on the board of two other ranked companies: Hollar and **Zola** Inc., a New York company that operates an online wedding registry. Zola has traditional registry functions plus other features such as a way to manage when gifts are delivered, and a way for couples to collect monetary gifts for things like a honeymoon or down payment on a house.

Board impact

Board members offer advice to startup executives and assist in recruiting and fundraising, says Mr. Ganesan of Menlo Ventures. The names on a company's board also assist in making sales to business customers. "If you are at J.P. Morgan and are looking at a cybersecurity startup, you want to know who invested in it," he says.

Four cybersecurity companies are in the ranking, including two with headquarters in Tel Aviv: **Argus Cyber Security**, which makes products to counter attacks on systems in cars and commercial vehicles, and **Illusive Networks**, which creates cyberdefenses by tricking intruders with fake data.

Consumer hardware and gadgets are well-represented on the list, including two companies that create connected devices to manage home security, **August Home** Inc. and **Ring**, which formerly used the name Bot Home Automation. Also in the ranking is **Eero** Inc., which makes a system to improve home Wi-Fi signals; **Tile** Inc., which makes a device to help keep track of everyday things such as keys and the TV remote; and **Jibo** Inc., which is developing a robot.

Jibo's robot, whose release has been delayed, will become available before the end of 2017, says a company spokesman. The device will perform tasks similar to those done by Amazon.com Inc.'s Alexa and Apple Inc.'s Siri. It will recognize faces and voices and be more interactive than the others, the spokesman says. A price hasn't been announced.

The staying power of new consumer-device startups can be uncertain. "These are either home runs or strikeouts," says Mr. Ganesan. "There aren't a lot of singles and doubles."

Whether a disruptive startup continues to grow or fades away often comes down to whether it continues to evolve, says Dharmesh Thakker, a general partner at Battery Ventures. Many startups "think the IPO is the end goal and they stop innovating. Companies that don't innovate tend to end up getting disrupted themselves by another startup."

Mr. Pettit is a Wall Street Journal editor in New York. Email dave.pettit@wsj.com.

The Dollar-Store Concept Goes Online

At Hollar Inc., the median price of items is $5, and nothing costs more than $10

BY YULIYA CHERNOVA


HOLLAR

Hollar's co-founders come mostly from humble backgrounds. From left, CTO Thanh Khuu, CEO David Yeom, and COO Jonathan Um.

DAVID YEOM WAS RAISED by a single mom in East Los Angeles, and trips to the local dollar store were both a necessity and a "treasure hunt," he says.

Now Mr. Yeom runs **Hollar** Inc., which he says is an online version of a dollar store. Many items sell for $1, the median price is $5, and nothing costs more than $10.

Mr. Yeom, who used to run marketing at Honest Co., an e-commerce startup for baby and other consumer products, says he and Brian Lee, the former CEO at Honest, got the idea for Hollar at a Carl's Jr. restaurant in Santa Monica, Calif.

Hollar has hit on two trends—the large market for low-price goods and the consumer shift to online shopping. Companies like Dollar General and Dollar Tree have held up much better than other brick-and-mortar retailers amid the e-commerce onslaught. The dollar stores, however, have little presence online. That is a void Hollar is trying to fill.

"Nobody is going after this [market segment] in online retail, and I think it's wide open," says Greg Girard, an analyst at IDC Retail Insights, part of the Framingham, Mass., research firm IDC. Other e-commerce companies pursue the more well-off segments of society, Mr. Girard says.

The median household income of a Hollar customer is $50,000, according to Mr. Yeom. And 80% of Hollar's orders are from outside California and New York.

It is easier and cheaper to acquire customers for Hollar than it used to be for Honest Co., Mr. Yeom says, because while at Honest, most products were more expensive than alternatives, at Hollar they are all a deal.

Most of the co-founders of Hollar come from humble backgrounds, and several immigrated to the U.S. as children, Mr. Yeom says. The other co-founders are Jonathan Um, formerly a director of strategy at 99 Cents Only Stores and a former captain in the U.S. Marine Corps; Thanh Khuu, former chief technology officer at startup ShoeDazzle; and Eddie Rhyu, a former creative director at ShoeDazzle. Mr. Lee is executive chairman of the company.

Hollar has two million active monthly users.

Hollar shipped its first order in November 2015. It hit $1 million in revenue in less than six months. Mr. Yeom declines to disclose current revenue. Hollar is currently gross-margin positive, he says. The company has raised some $47.5 million so far and has about 220 employees.

It offers tens of thousands of different items on its website. They are stocked at a facility in Commerce, Calif., which was formerly used by 99 Cents Only.

Besides daily household items like toothpaste, the company's biggest seller has been Glow Pets, pillows shaped like an animal, such as a unicorn, with LED lights. The pillows sold for $2 each.

The company has about two million active monthly users, and more than a million have downloaded its app.

"It is a significant opportunity, but they've got a big challenge, which is the logistics," says Mr. Girard of IDC. "Whether something costs $1 or $100, it could cost the same to ship."

Mr. Yeom says the company is using several strategies to improve margins. Even though each item is inexpensive, order carts average $30, and the minimum order is $10.

"When you create an environment where everything is a great deal, and nothing breaks the bank, it's interesting the psychology that takes over people, and they just load up," Mr. Yeom says.

Hollar also doesn't stock large or heavy items, which keeps packaging small and affordable. The average package it ships weighs 5 pounds, Mr. Yeom says. It often sources from third-party vendors who specialize in closeout deals, and being close to the Port of Long Beach helps, Mr. Yeom says.

The company next plans to start a marketplace where other merchants can sell their products through Hollar. The company also hopes to expand internationally.

Ms. Chernova is a special writer for The Wall Street Journal in New York. She can be reached at yuliya.chernova@wsj.com.

INSIDE

Technology Companies to Watch

The Wall Street Journal ranks 25 emerging leaders in hot corners of the tech industry

Rankings Methodology | See a summary of the methodology on page R6. For more detail, go to to wsj.com/techlist.

1. HOLLAR INC.

WEBSITE: hollar.com
LOCATION: Commerce, Calif.
SCORE: 72.0
FOUNDED: 2015
FOUNDERS: Thanh Khuu, Brian Lee, Eddie Rhyu, Jonathan Um, David Yeom
DESCRIPTION: E-commerce retailer selling wide variety of consumer household goods and personal products. In many ways, it is akin to an online dollar store. Minimum order size is $10.
INVESTORS: Bam Ventures, Comcast Ventures, Forerunner Ventures LLC, Greycroft Partners, Index Ventures, Kleiner Perkins Caufield & Byers, Lightspeed Venture Partners, Pritzker Group Venture Capital
TOTAL FUNDING: $47.5 million
EMPLOYEES: 220

2. COLLECTIVE HEALTH INC.

WEBSITE: collectivehealth.com
LOCATION: San Francisco
SCORE: 70.1 **FOUNDED:** 2013
FOUNDERS: Rajaie Batniji, Ali Diab, Kent Keirsey
DESCRIPTION: Provides online system that allows employers and their employees to manage information about health, vision and dental plans.
INVESTORS: Citizen.VC, Formation8 Partners LLC, Founders Fund LLC, Great Oaks Venture Capital LLC, GV, Maverick Ventures, New Enterprise Associates Inc., Redpoint Ventures, Rock Health, RRE Ventures LLC, Signatures Capital LLC, Social Capital LP, Subtraction Capital Management LLC
TOTAL FUNDING: $150 million
EMPLOYEES: 259

3. AUGUST HOME INC. ›

WEBSITE: august.com
LOCATION: San Francisco
SCORE: 69.4 **FOUNDED:** 2012
FOUNDERS: Yves Behar, Jason Johnson
DESCRIPTION: Makes a "smart lock" for doors that works with a smartphone, and a doorbell camera that lets you see and speak to visitors remotely.
INVESTORS: Bessemer Venture Partners, CAA Ventures, Center Electric LLC, Comcast Ventures, Cowboy Ventures, Dolby Family Ventures, Global Brain Corp., Industry Ventures LLC, KDDI Corp., Liberty Mutual Strategic Ventures, Maveron LLC, Qualcomm Ventures, Rho Ventures, SanDisk Ventures, SingTel Innov8 Pte. Ltd., SoftTech VC
TOTAL FUNDING: $65.71 million
EMPLOYEES: 85

4. CLEVER INC.

WEBSITE: clever.com
LOCATION: San Francisco
SCORE: 67.4
FOUNDED: 2012
FOUNDERS: Tyler Bosmeny, Dan Carroll, Rafael Garcia
DESCRIPTION: Corrals educational-technology apps used by students, teachers and administrators in one centralized location. Schools assign access to apps, and users need just one password.
INVESTORS: Bessemer Venture Partners, Floodgate, GSV Capital Corp., GV, Kapor Capital, Lightspeed Venture Partners, Sequoia Capital, SoftTech VC, Start Fund, Streamlined Ventures, SV Angel, Ulu Ventures, Y Combinator
TOTAL FUNDING: $43.3 million
EMPLOYEES: 111

5. EERO INC. ›

WEBSITE: eero.com
LOCATION: San Francisco
SCORE: 67.0
FOUNDED: 2014
FOUNDERS: Nate Hardison, Amos Schallich, Nick Weaver
DESCRIPTION: Sells a Wi-Fi system that delivers a signal all around your home by placing units in multiple places, rather using than a single router. Three-component pack is $399.
INVESTORS: AME Cloud Ventures, First Round Capital, Great Oaks Venture Capital LLC, Homebrew Ventures, Index Ventures, Initialized Capital, Menlo Ventures, Playground Global LLC, Redpoint Ventures, Shasta Ventures Management LLC
TOTAL FUNDING: $90 million
EMPLOYEES: 150

6. JIBO INC.

WEBSITE: jibo.com
LOCATION: Boston
SCORE: 65.8 **FOUNDED:** 2012
FOUNDERS: Jerilyn Asher, Cynthia Breazeal
DESCRIPTION: Developing an interactive robot, with voice and face recognition; launch has been delayed.
INVESTORS: Acer Group, CRV, Dentsu Ventures, Fairhaven Capital Partners, Fenox Venture Capital, Flybridge Capital Partners, Formation8 Partners LLC, Haitong Capital, KDDI Corp., LG Uplus Corp., NetPosa Technologies Ltd., Ningbo GQY, Osage University Partners, Pags Group, Riverside Partners LLC, Roundview Partners LLC, RRE Ventures LLC, Samsung Venture Investment Corporation, Two Sigma Investments LP
TOTAL FUNDING: $84.08 million
EMPLOYEES: 95

7. RING

WEBSITE: ring.com
LOCATION: Santa Monica, Calif.
SCORE: 62.5
FOUNDED: 2013
FOUNDER: James Siminoff
DESCRIPTION: Makes video-connected home security camera and doorbell systems that let users remotely see and communicate with people visiting their property.
INVESTORS: American Family Ventures, CRV, DFJ, First Round Capital, Goldman Sachs Group Inc., Grishin Robotics, Kleiner Perkins Caufield & Byers, Qualcomm Ventures, QueensBridge Venture Partners, Shea Ventures, True Ventures, Upfront Ventures
TOTAL FUNDING: $209 million
EMPLOYEES: 1,000

8. (Tie) DARKTRACE LTD.

WEBSITE: darktrace.com
LOCATION: Cambridge, U.K., and San Francisco
SCORE: 62.2
FOUNDED: 2013
FOUNDERS: Nicole Eagan, Poppy Gustafsson, Dave Palmer, John Richardson, Jack Stockdale, Nick Trim
DESCRIPTION: A cybersecurity company that aims to detect malicious activity on enterprise networks. Darktrace uses machine learning to differentiate between normal and potentially hostile user behavior.
INVESTORS: Hoxton Ventures, Invoke Capital, Kohlberg Kravis Roberts & Co., Samsung & Co., Softbank Corp., Summit Partners, Talis Capital, Ten Eleven Ventures
TOTAL FUNDING: $96.5 million
EMPLOYEES: 390

8. (Tie) TILE INC. ›

WEBSITE: thetileapp.com
LOCATION: San Mateo, Calif.
SCORE: 62.2
FOUNDED: 2012
FOUNDER: Nick Evans, Michael Farley
DESCRIPTION: Sells gadgets to keep track of keys, TV remotes, etc. Sounds an alarm to find a phone lost in the couch cushions, and helps locate a dropped wallet or stolen bike.
INVESTORS: AME Cloud Ventures, Bessemer Venture Partners, GGV Capital, Khosla Ventures, Lead Edge Capital Management, Maveron LLC, Rothenberg Ventures, Slow Ventures, Tandem Management Services LLC, Tencent Collaboration Fund
TOTAL FUNDING: $59.2 million
EMPLOYEES: 125

10. LEMONADE INC.

WEBSITE: lemonade.com
LOCATION: New York
SCORE: 59.1
FOUNDED: 2015
FOUNDERS: Daniel Schreiber, Shai Wininger
DESCRIPTION: Sells renters' and homeowners' insurance and pays claims through an app and website, rather than brokers. Money that is left over after paying claims and covering costs goes to charities.
INVESTORS: Aleph LP, Allianz SE, General Catalyst Partners, GV, Sequoia Capital, Thrive Capital, Tusk Ventures, XL Innovate
TOTAL FUNDING: $60 million
EMPLOYEES: 30

11. ILLUSIVE NETWORKS LTD.

WEBSITE: illusivenetworks.com
LOCATION: Tel Aviv and New York
SCORE: 55.0
FOUNDED: 2014
FOUNDER: Ofer Israeli
DESCRIPTION: Defends against cybersecurity threats, creating a fake version of a company's data. The alternate reality is a decoy, making it difficult for attackers to distinguish dummy data from real data.
INVESTORS: Bessemer Venture Partners, Cisco Investments, Citi Ventures, Innovation Endeavors, Marker Financial Advisors LLC, Microsoft Ventures, New Enterprise Associates Inc., Team8
TOTAL FUNDING: $30 million
EMPLOYEES: Confidential (figure provided for data analysis)

12. DOCTOR ON DEMAND INC.

WEBSITE: doctorondemand.com
LOCATION: San Francisco
SCORE: 54.4
FOUNDED: 2012
FOUNDERS: Adam Jackson, Jay McGraw, Phil McGraw
DESCRIPTION: Company provides virtual house calls via an app, connecting patients with physicians, psychologists or psychiatrists. A video-connected visit with a medical doctor costs $75.
INVESTORS: Andreessen Horowitz, Dignity Health, GV, Jump Capital, Lerer Hippeau Ventures, Qualcomm Ventures, Rock Health, Rosemark Capital Group, Shasta Ventures Management LLC, Sherpa Capital, Tenaya Capital Inc., Venrock
TOTAL FUNDING: $86.75 million
EMPLOYEES: 116

13. ALTSCHOOL

WEBSITE: altschool.com
LOCATION: San Francisco
SCORE: 54.2
FOUNDED: 2013
FOUNDER: Max Ventilla
DESCRIPTION: Runs small, pre-K to 8th grade tuition-funded private schools in New York City and the San Francisco Bay Area. Also, creates partnerships with other schools that use its technology.
INVESTORS: Andreessen Horowitz, Baseline Ventures, Collaborative Fund, Emerson Collective, First Round Capital, Founders Fund LLC, Harrison Metal Capital, Learn Capital Venture Partners, Omidyar Network Commons LLC, Silicon Valley Community Foundation
TOTAL FUNDING: $173 million
EMPLOYEES: 150

14. CYBEREASON INC.

WEBSITE: cybereason.com
LOCATION: Boston
SCORE: 54.0
FOUNDED: 2012
FOUNDERS: Lior Div, Yossi Naar, Yonatan Striem-Amit
DESCRIPTION: Cybersecurity firm that tracks a company's network to find malicious activity. Using machine learning, it aims to find threats as they enter a network, so they can be addressed quickly.
INVESTORS: CRV, Lockheed Martin Corp., Softbank Corp., Spark Capital
TOTAL FUNDING: $88.6 million
EMPLOYEES: 275

15. ANDELA INC.

WEBSITE: andela.com
LOCATION: New York
SCORE: 53.6 **FOUNDED:** 2014
FOUNDERS: Iyinoluwa Aboyeji, Ian Carnevale, Jeremy Johnson, Christina Sass
DESCRIPTION: Recruits software developers in Africa to work for mostly U.S.-based technology companies. The developers, on four-year contracts, work full time from Uganda, Kenya and Nigeria.
INVESTORS: Chan Zuckerberg Initiative, CRE Venture Capital, Founder Collective, GV, Learn Capital Venture Partners, Melo7 Tech Partners LLC, Omidyar Network Commons LLC, Peak Venture Partners LLC, Rothenberg Ventures, SparkLabs Global Ventures, Susa Ventures
TOTAL FUNDING: $38 million
EMPLOYEES: 530

16. COLOR GENOMICS INC. ›

WEBSITE: color.com
LOCATION: Burlingame, Calif.
SCORE: 51.0
FOUNDED: 2013
FOUNDERS: Nish Bhat, Elad Gil, Othman Laraki, Taylor Sittler
DESCRIPTION: Tests saliva samples collected with a home kit to analyze your genetics and assess risk for common hereditary cancers. A test and genetic counseling costs $249.
INVESTORS: 8VC, Emerson Collective LLC, Formation8 Partners LLC, General Catalyst Partners, Innovation Endeavors, Khosla Ventures
TOTAL FUNDING: $60 million
EMPLOYEES: 100

17. EARNEST INC.

WEBSITE: earnest.com
LOCATION: San Francisco
SCORE: 50.1
FOUNDED: 2013
FOUNDERS: Louis Beryl, Benjamin Hutchinson
DESCRIPTION: Makes personal loans for things such as home improvements or vacations and refinances student loans. Uses data on things such as savings habits and education to help evaluate applications.
INVESTORS: Accomplice, Adams Street Partners LLC, Andreessen Horowitz, Atlas Venture, Battery Ventures, Collaborative Fund, First Round Capital, Maveron LLC, Wildcat Venture Partners LP
TOTAL FUNDING: $96 million
EMPLOYEES: 170

18. ZOLA INC.

WEBSITE: zola.com
LOCATION: New York
SCORE: 50.0
FOUNDED: 2013
FOUNDERS: Shan-Lyn Ma, Nobu Nakaguchi, Kevin Ryan
DESCRIPTION: Wedding registry that allows couples to specify gifts they'd like, as well as do things such as manage gift deliveries and raise money for a honeymoon vacation or a house.
INVESTORS: Female Founders Fund, BBG Ventures LLC, Canvas Venture Fund, Forerunner Ventures LLC, Thrive Capital, Lightspeed Venture Partners, Comcast Ventures
TOTAL FUNDING: $46.52 million
EMPLOYEES: 52

19. FLEXPORT INC.

WEBSITE: flexport.com
LOCATION: San Francisco
SCORE: 46.8 **FOUNDED:** 2013
FOUNDERS: Ryan Petersen, Trae Stephens
DESCRIPTION: Provides services for companies to import and export goods.
INVESTORS: 7percent Ventures, Acequia Capital Management LLC, A-Grade Investments LLC, Bloomberg Beta, Box Group LLC, Cherubic Ventures, Felicis Ventures, Fenway Summer Ventures, First Round Capital, FJ Labs, Founders Fund LLC, Fuel Capital, FundersClub Inc., GV, Initialized Capital, Lianchuang Ceyuan Investment Consulting, Lunch Van Fund, Susa Ventures, TYLT Ventures, Winklevoss Capital, Y Combinator
TOTAL FUNDING: $94 million
EMPLOYEES: 350

20. BRANCH METRICS INC.

WEBSITE: branch.io
LOCATION: Palo Alto, Calif.
SCORE: 44.3 **FOUNDED:** 2014
FOUNDERS: Alex Austin, Dmitri Gaskin, Mike Molinet, Mada Seghete
DESCRIPTION: Provides services to improve and measure how mobile apps are used. The technology makes it easier to link from things like websites and email to content deep inside an app.
INVESTORS: Cowboy Ventures, Danhua Capital, Founders Fund LLC, Greylock Partners, Lightspeed Venture Partners, Madrona Venture Group Inc., New Enterprise Associates Inc., Pear Ventures, Playground Global LLC, Redpoint Ventures, Samsung Ventures America, TriplePoint Capital
TOTAL FUNDING: $113 million
EMPLOYEES: 95

21. VIA TRANSPORTATION INC.

WEBSITE: ridewithvia.com
LOCATION: New York
SCORE: 43.9
FOUNDED: 2012
FOUNDERS: Daniel Ramot, Oren Shoval
DESCRIPTION: Ride-hailing app that groups passengers heading to the same destination. Available in Chicago, New York City and Washington, D.C. In Washington, rides cost $2.95. A monthly pass there is $85.
INVESTORS: 83North Ltd., C4 Ventures, Ervington Investments Ltd., Expansion Venture Capital LLC, Hearst Ventures, Kapor Capital, Keolis, Pitango Venture Capital, Poalim Capital Markets Ltd., RiverPark Ventures
TOTAL FUNDING: $137.1 million
EMPLOYEES: 150

22. ACORNS GROW INC.

WEBSITE: acorns.com
LOCATION: Irvine, Calif.
SCORE: 43.6 **FOUNDED:** 2012
FOUNDERS: Jeffrey Cruttenden, Walter Cruttenden
DESCRIPTION: App lets users deposit small amounts that are automatically invested in exchange-traded funds.
INVESTORS: Capital Group, Cruttenden Partners, eVentures, Garland Capital Group, Great Oaks Venture Capital LLC, Greycroft Partners, Groundswell Investments, JAM Equity Partners LLC, Math Venture Partners LLC, PayPal Inc., Point72 Ventures, Rakuten FinTech Fund, Sound Ventures, Steelpoint Capital Partners LP
TOTAL FUNDING: $63.3 million
EMPLOYEES: Confidential (figure provided for data analysis)

23. LIFE ON AIR INC. ›

WEBSITE: lifeonair.com
LOCATION: San Francisco
SCORE: 42.9
FOUNDED: 2013
FOUNDERS: Ben Rubin, Itai Danino, Sima Sistani, Roi Tirosh
DESCRIPTION: Creator of Houseparty, a social app that connects groups through live video chat. Used as a virtual hangout.
INVESTORS: Aleph LP, Broadway Video Ventures, CAA Ventures, Comcast Ventures, Entree Capital, Graph Ventures LLC, Greylock Partners, Sequoia Capital, Sherpa Capital, Slow Ventures, Universal Music Group, WME Venture Capital
TOTAL FUNDING: $68.2 million
EMPLOYEES: Confidential (figure provided for data analysis)

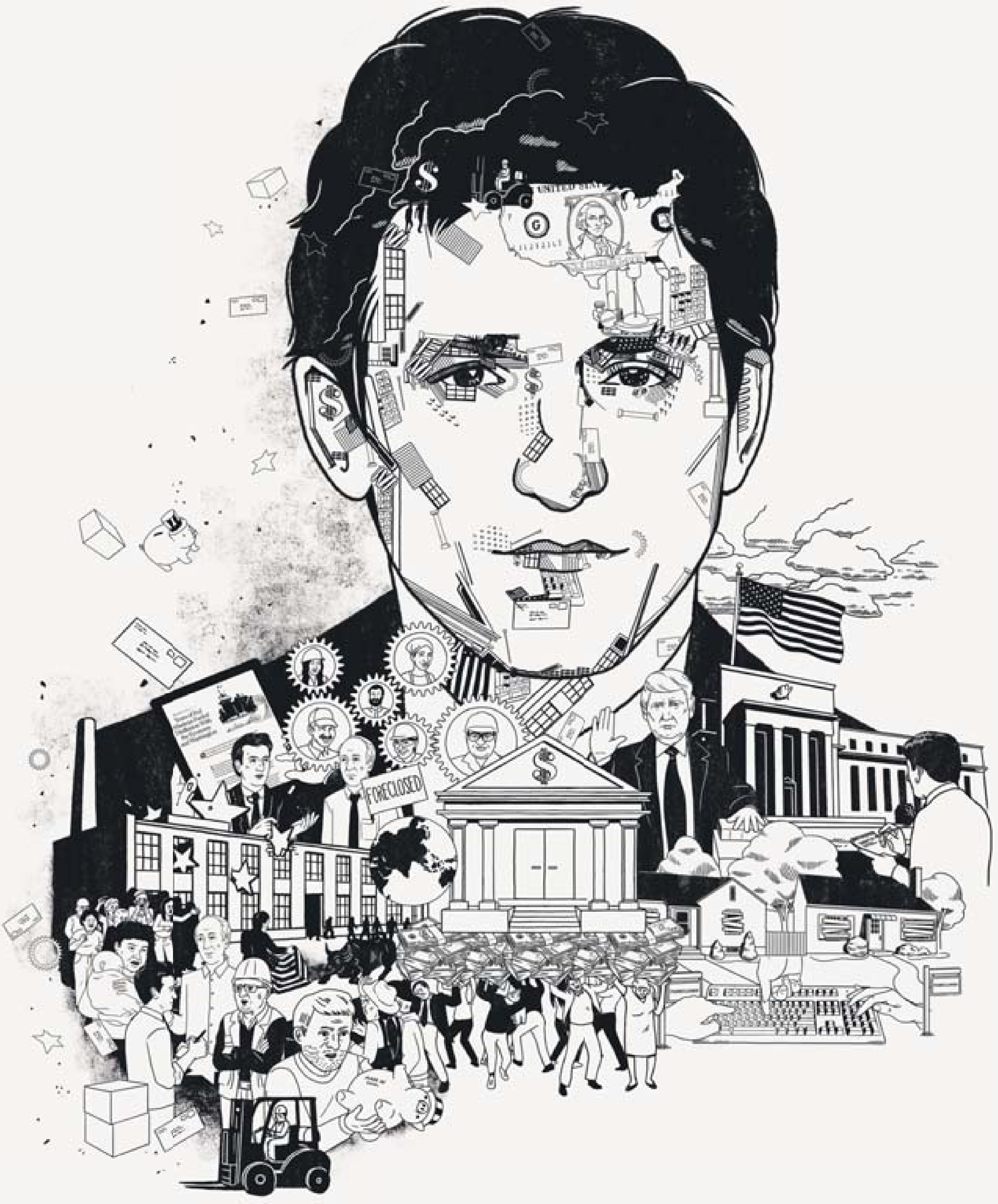
24. ARGUS CYBER SECURITY LTD.

WEBSITE: argus-sec.com
LOCATION: Tel Aviv
SCORE: 42.8
FOUNDED: 2013
FOUNDERS: Yaron Galula, Oron Lavi, Ofer Ben-Noon
DESCRIPTION: Makes products to protect cars and commercial vehicles from cybersecurity threats associated with onboard electronics and communications systems. Its customers include car companies and suppliers.
INVESTORS: Allianz SE, Magma Venture Partners, Magna International Inc., SBI Group, Vertex Venture Capital
TOTAL FUNDING: $30 million
EMPLOYEES: 50

25. BABYLON HEALTHCARE SERVICES LTD.

WEBSITE: babylonhealth.com
LOCATION: London
SCORE: 42.3
FOUNDED: 2013
FOUNDER: Ali Parsa
DESCRIPTION: Provides health-care service that connects patients with doctors via text or video, using an app. Patients also can order prescriptions and tests, and can receive automated health information.
INVESTORS: BXR Global Investment Group, Hoxton Ventures, Kinnevik AB, NNS Holdings, Vostok New Ventures Ltd.
TOTAL FUNDING: $85 million
EMPLOYEES: 170

Sources: Dow Jones VentureSource, the companies, investment firms


FORECLOSED

Medical Benefits That Work

Collective Health says insurance can be less costly for employers and less frustrating for workers

BY BRIAN GORMLEY

2 AS COSTS FOR health care keep rising, **Collective Health** Inc. is counting on companies turning to it for better ways to spend their medical dollars.

Collective Health administers health benefits for businesses that self-insure, meaning they cover their employees' medical claims themselves instead of paying premiums to an insurer. Most large and many small and mid-size companies self-insure because it lets them customize their benefits and save money in the long term.

Collective Health uses enterprise software that boasts strong analytics that can help its customers yield insights from their own data and so better manage costs. It says its system also helps clients connect their employees with resources to manage budding health concerns before they worsen, and its call-center staff have incentives to not just answer questions but to guide plan members to the right care.

Since securing its first customer in 2015, Collective Health has grown to handle health benefits for 77,000 employees and their dependents across 15 clients, including eBay Inc., Activision Blizzard Inc. and Palantir Technologies Inc.

Chief Executive Ali Diab has raised $150 million in venture capital for the San Francisco company, whose self-proclaimed ambition is to make people love their health-insurance plan.

"What Ali's really done well is he's built a mission-driven company," says Mohamad Makhzoumi, a general partner with New Enterprise Associates, which invested in Collective Health.

Mr. Diab co-founded the company in October 2013 after experiencing a personal health crisis earlier that year. On a March afternoon he was sitting at his desk in San Francisco when he felt a sharp pain in his abdomen that would land him in the hospital for emergency surgery to treat an intestinal illness.

When he returned home, his insurer denied most of his hospital claims, saying the surgical procedure was experimental and resulted in a longer-than-normal hospital stay.


PETER SAMUELS

Ali Diab, left, and Rajaie Batniji co-founded Collective Health with a mission to make people love their health-insurance plan.

"I felt like I got the world's best care," the 43-year-old Mr. Diab says. "But the experience of understanding how I should pay for my care, what was covered, what was not covered, felt like a world apart." Mr. Diab, a technology entrepreneur, decided to use his experience to make health insurance better.

Much bigger companies, such as insurer UnitedHealth Group, are administering benefits and processing claims for self-insured companies, too. But Collective Health executives believe their execution and tech infrastructure will help them stand out.

Explanations of benefits are written to be easy to grasp.

For instance, Collective Health says its benefits statements are written at a third-grade reading level to reduce frustration for patients trying to understand what their insurer is telling them. Collective Health's platform, meanwhile, was built with data and analytics in mind, so that employers can look at claims data to predict costs more quickly, says Mr. Diab, who previously led product management and business operations for mobile-advertising startup AdMob Inc.

Mr. Diab's tech savvy and the medical expertise of physician and co-founder Rajaie Batniji are what sold Collective Health investor Blake Byers, a general partner with GV, the venture-capital arm of Google parent Alphabet Inc.

Dr. Byers says he was impressed with Mr. Diab's frankness about the difficulties their startup would face. Measured in his words and projections, Mr. Diab doesn't fit the archetype of the fast-talking Silicon Valley entrepreneur, Dr. Byers says.

"I had an immediate high degree of trust in the statements he was making," Dr. Byers says.

Mr. Gormley is a reporter for The Wall Street Journal in Boston. He can be reached at ***brian.gormley@wsj.com.***

A House Key? That's So Yesterday

August Home hopes it has the key to success with its smart locks

BY PATIENCE HAGGIN

3 OVER A LUNCH in 2012, friends and serial entrepreneurs Jason Johnson and Yves Behar swapped stories about changing their housecleaning services but never getting their house keys back.

"We both said, 'There's got to be a better way to give people access to your home, and then revoke it,'" Mr. Johnson says. On the spot, they dreamed up a smart lock, and **August Home** Inc. was born.

Their solution goes beyond keypad-based home-security systems by allowing homeowners to grant access to specific people only during agreed-to periods. After homeowners install August's $229 smart lock on the inside of their door, they can lock and unlock the door using the app on their smartphone. They can allow their housecleaners access for a specific day and time, or set a regular schedule, like every day from 8 a.m. to noon. The house-cleaner must have an August account and the smartphone app to unlock the door. If the owner stops using that cleaner, he or she can stop the cleaner's access to the house.

Security is paramount, August's CEO says.

August also sells an accessory keypad for owners who prefer to give guests access codes. And the homeowner still has the option to lock and unlock the door with a key.

The San Francisco startup has raised more than $65 million. Its latest round of investment valued the company at about $150 million, according to an estimate by PitchBook Data. It sold about 44,000 smart locks in 2016, the tech-market-research firm Parks Associates estimates, and has about 85 employees.

For Mr. Johnson, who is chief executive, August is his fifth startup, but it could be his first hit. Mr. Behar, the chief creative officer, is a career designer who also co-founded consumer-electronics startup Jawbone in 2003, last valued at $1.5 billion.

August hopes to unlock what analysts say is a promising market for smart-home devices. Some 8.7 million U.S. households have a smart-home device, according to data from Forrester Research, which forecasts that number will top 20 million by 2021.

August's main competition is traditional lock makers that have their own connected versions. According to NPD Group, **Schlage**, an **Allegion** PLC company, captured 51% of the retail revenue of smart-lock sales from May 2016 to April 2017. August was second with 37%. Kwikset, owned by **Spectrum Brands Holdings** Inc., had 8%. August is fighting to differentiate itself from its competitors by emphasizing sleek app design and ease of use.


AUGUST HOME (3)

August Home co-founders Yves Behar, above at left, and Jason Johnson. Above right, August's Smart Lock, Smart Keypad and Doorbell Cam. Below, an August Smart Lock installed in a home.

"August plays in a portion of the smart-lock market that's more in the retail and online-retail segment," says Tom Kerber, a director of Internet of Things strategy at Parks Associates. A partnership August announced last year with **Comcast** Corp.'s home-security business, Xfinity Home, may help it boost sales, because most smart locks are sold as part of home-security packages, Mr. Kerber says.

Last year August started selling another home-security product, a doorbell video camera, to compete with a similar product from **Ring**, formerly Bot Home Automation Inc. The doorbell camera, which allows users to see and hear visitors on their doorstep through an app, may help August get over the threshold into more homes, as consumers are more likely to buy a connected camera than a lock as their first smart-home device, says NPD analyst Benjamin Arnold.

As the largest tech companies battle to own the smart home, August is determined to stay competitive, in part by being operational with different platforms. August products can work with Apple HomeKit, Google Home and Amazon Alexa. The company also has partnerships with Airbnb and HomeAway, offering special features for home-sharing, such as giving the Airbnb guest the ability to grant other guests access during their stay.

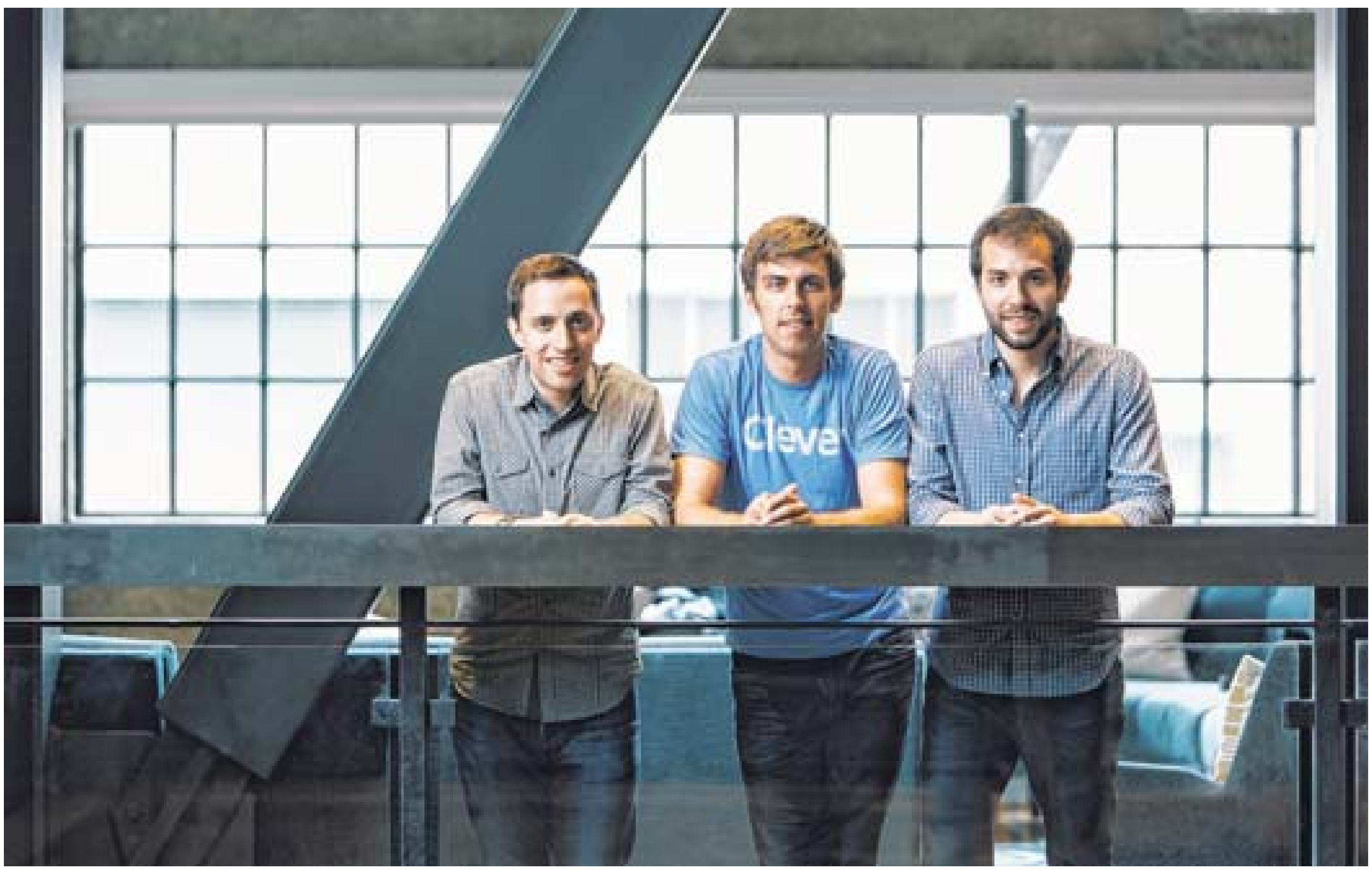
Security is paramount for August, Mr. Johnson says. The company hires an independent team to do constant penetration testing, and has never seen its systems compromised, the chief executive says. Among its security features, the company uses "rolling" cryptographic codes. With this kind of system, "the cryptographic element is never the same. It's always changing," says Mr. Johnson.

In a rolling-codes system, a series of codes is needed for the lock to open, Mr. Kerber says, so it is very good at frustrating hackers. If one of the codes is broken, he says, it's only "a very small piece of the system."

Ms. Haggin is a reporter for The Wall Street Journal in San Francisco. She can be reached at ***patience.haggin@wsj.com.***

Making Logins as Easy as ABC

Clever Inc. aims to help students and teachers access multiple apps through one easy step



HANH NGUYEN

Clever Inc.'s co-founders, from left, Tyler Bosmeny, Dan Carroll and Rafael Garcia, say their company was born out of an 'unsexy problem.'

BY OLGA RAZUMOVSKAYA

4 WHEN TYLER BOSMENY was a high-school student in Tucson, Ariz., he gained a reputation as a savvy businessman by importing Bubbaloo bubble gum from Mexico and selling it to his fellow students.

Now he's pitchman No. 1—and chief executive—at **Clever Inc.**, an education-software startup that had the bright idea to make it easier for students and teachers to access all the apps they need with one login and one password.

Mr. Bosmeny co-founded Clever with close friends and fellow Harvard graduates Dan Carroll and Rafael Garcia, who all reunited after Mr. Carroll finished a volunteer stint with Teach for America. At the school where Mr. Carroll worked, he had noticed how frustrating it was for students and teachers to access the multiple learning apps that were being used in class.

Schools across the U.S., from kindergarten to 12th grade, are using an increasing number of apps to help students in areas such as reading, math and Spanish. But with a growing number of apps and a constant flux of students, schools often must rely on a cluttered array of Post-it Notes or Excel spreadsheets to keep a record of the multiple accounts, logins and passwords for the dozens of applications being used.

Clever was born out of this "unsexy problem," its founders say.

The company was formally founded in 2012. Mr. Garcia is chief technology officer, and Mr. Carroll chief product officer.

The San Francisco-based startup now helps students and teachers access multiple applications through one easy step. It creates one account for each user, who then has access to all of the apps offered at his or her school.

Another advantage the company offers is for the learning-app developers themselves, who find it easier designing products for a widely used platform than having to negotiate the system requirements of many different customers. With this in mind, Clever's software is free for the schools that use it, but the company charges the app developers for the service it provides. Developers pay $10 to $20 a month to Clever for each school where students connect to their apps through Clever's platform.

Clever at this point has no direct competitor. Its software is used in about 70,000 public and private schools across the U.S., according to the company, which is roughly half of the schools in the U.S. Its introduction of single-login technology to education in a way parallels what Okta Inc. has done for businesses. Okta, based in San Francisco, recently went public and has a market capitalization of roughly $2.3 billion.

Comparisons are sometimes made in the news media between Clever and **LearnSprout** Inc., an education-technology startup, because both tackle the issue of improving access to online educational resources. But LearnSprout, acquired by Apple Inc. last year, is a platform for apps that help educators track students' performance, while Clever tries to solve more logistical issues.

Spending on education software for the K-12 market is expected to grow 23.3% to $7.26 billion in 2020 from $5.89 billion this year, says research firm Gartner Inc., though Clever's addressable market is only a portion of that.

"The education-technology industry has evolved from a niche market to a multibillion-dollar endeavor attracting serious investment," says Bridget Foster, managing director of the Education Technology Industry Network of the Software & Information Industry Association.

Clever at this point doesn't have a direct competitor.

Given recent activity in the sector, investors seem to like its prospects. Coursera Inc., a leading provider of massive online open courses, just raised $64 million to reach a $800 million valuation. AltSchool Inc., a personalized learning provider, has attracted investors such as Andreessen Horowitz, First Round Capital and Learn Capital. Learn Capital is an investor in Coursera.

While Clever's focus is on improving the classroom experience, the company says its platform could one day be used to help school districts determine which apps are the most effective, or which work best for different learning styles. To do that, Clever will need to build new products and features and work with its app partners, Mr. Bosmeny says.

Meanwhile, Clever measures its growth in the number of connections it makes between a school and a particular educational app. It has reached more than 200,000 connections in 2017, up 50% from last year, according to the company. A school district uses on average 10 apps, says Mr. Bosmeny, adding that he expects that number to grow to 40 and 50 apps in years to come.

Clever has raised $43.3 million in funding in total and has a valuation of more than $250 million. Investors include Ashton Kutcher and Peter Thiel. The company has 111 employees.

Ms. Razumovskaya is a reporter for The Wall Street Journal in San Francisco. Email her at olga.razumovskaya@wsj.com

A Tool to Get Rid of Internet Dead Spots

After a rough start, Eero believes its independence will give it an edge over traditional Wi-Fi router companies

EERO

Eero founders CTO Nate Hardison, CEO Nick Weaver and VP of Engineering Amos Schallich.

BY PATIENCE HAGGIN

5 AFTER A LIFETIME of repairing internet connections for friends and family, Nick Weaver had seen it all.

"I've been the guy who's had to fix the internet for my friends and family my entire life," Mr. Weaver says.

One huge improvement equipment makers could make, he recognized soon after Wi-Fi came along, would be to fix the gaps in service that people experience in their homes, causing dead spots that people have to avoid if they want to stay connected when using their computers or phones.

While an associate at **Menlo Ventures** from 2012 to 2014, Mr. Weaver had looked for a product to bring mesh networking—the linking of multiple routers to eliminate gaps in Wi-Fi coverage—to a consumer product that would be easy to use.

When he couldn't find it, he got together with two college buddies to form **Eero** Inc. He, Chief Technology Officer Nate Hardison and Vice President of Engineering Amos Schallich quit their jobs in early 2014 and began working on a Wi-Fi router that promised to do away with "dead spots" in the home.

Their solution was Eero's sleek, white router the size of a sandwich. With a traditional router, the Wi-Fi signal weakens the further one gets from the original router, even when using a booster signal. Each Eero device, however, is a direct access point to the Wi-Fi network, so each provides a top-strength signal. Consumers can place a few throughout their home so they can move from room to room without having to reconnect their devices. The company also collects data on the devices' performance and regularly updates its software to improve connectivity.

The startup began taking preorders in February 2015, while the product was still in development, and had $2.5 million of sales in two weeks.

Eero promised to ship those orders in the summer of 2015. But things didn't go according to plan, says Mr. Weaver, the company's chief executive. Eero didn't ship until February 2016, a delay Mr. Weaver attributes to unforeseen complications and inexperience. None of the company's three co-founders had shipped a hardware product before.

EERO

Each Eero device is a direct link to the Wi-Fi network.

"I think most of our preorder customers have probably forgiven us," he says.

San Francisco-based Eero, which so far has raised some $90 million and has about 150 full-time employees, earlier this month launched a second-generation cordless version of its router. Its latest product starts with a $299 package that includes an Eero router and a smaller-format router called a "beacon." Eero's routers are more expensive than traditional Wi-Fi routers, which can cost about $100. They also are pricey for mesh routers. **Alphabet** Inc.'s Google Wifi mesh router costs $129.

In addition to the new hardware, Eero has expanded into subscription services. For $10 a month or $100 a year, Eero Plus provides features including enhanced security and tools for parents to manage their children's internet use by limiting access and filtering content. An Eero rival, **Luma**, which has raised about $20 million, has had parental-control features since its debut last year.

Mr. Weaver disputes the suggestion that Eero added the service to match **Amazon**-backed Luma. "This is stuff that we've been working on since the inception of the company," Mr. Weaver says.

Experts say Eero's stiffest competition comes not from rival startups but from bigger foes: the traditional router makers that partner with internet service providers, and the tech giants that are battling to control the smart home. **Netgear** Inc. holds 44% of the retail market for wireless routers, according to market-research firm NPD Group. Linksys holds 19%, and a few other traditional router makers follow. Eero holds 4%, and Google Wifi holds 3%. Luma has less than 1%.

In addition to its hardware, Eero has expanded into subscription services.

An Eero spokesperson says the market-share figures are misleading because they include traditional routers and mesh systems.

"I would say that the large tech companies have a huge advantage at this point, especially with their device strategies," says NPD Executive Director Ben Arnold. A giant like Google gains an edge by offering a suite of other smart-home devices, he says, and it's easy to imagine rivals like **Apple** and Amazon stepping into the mesh-router market.

ISPs as well will likely start offering mesh-network-based routers, says Tom Kerber, a director of Internet of Things strategy at technology market-research firm Parks Associates. Some traditional router makers, like Linksys, already have.

Nevertheless, Mr. Weaver believes Eero's independence will give it an edge. Consumers tend to want a hodgepodge of smart devices in their home—such as an iPhone from Apple, Amazon's Echo speaker and a Nest thermostat—so they will want to have a router made by an independent company to ensure it integrates with all their products, he says. They will also want one that isn't tied to their ISP so they can easily switch providers, he adds.

Ms. Haggin is a reporter for The Wall Street Journal in San Francisco. She can be reached at patience.haggin@wsj.com.

HOW THE RANKINGS WERE COMPILED

The Tech Companies to Watch list is based on nominations from technology experts and watchers, and a data analysis of nominees in these areas: founders' experience, investor track record, amount of venture capital raised, growth of workforce, and buzz about the company. These five factors were given an equal weighting to calculate a maximum score of 100. Companies were included in the analysis only if they were less than six years old and had a valuation of $50 million to $500 million. Data sources include the companies, Dow Jones VentureSource and Dow Jones Factiva. Nominations were based on a survey of participants in Wall Street Journal and Founders Forum conferences. See the full methodology at **wsj.com/techlist**.

WSJ Tech Companies to Watch 2017

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