

THE WALL STREET JOURNAL.

DOW JONES | News Corp

WEDNESDAY, JUNE 14, 2017 ~ VOL. XLI NO. 200

WSJ.com

ASIA EDITION

What's News

Business & Finance

Saudi Arabia is slashing its U.S. oil exports to a near three-decade low, intensifying its efforts to reduce a global supply glut that has been pummeling crude prices. **A1**

♦ Authorities are investigating the purchase of Coastal Energy, a deal that involved figures believed by investigators to be tied to the IMDB scandal. **B7**

♦ In the latest sign of stress in China's market, the yield on 10-year bonds fell to 3.55%, less than the one-year paper's 3.61%. **B1**

♦ Verizon announced it has completed its \$4.5 billion acquisition of Yahoo's core internet assets. **B1**

♦ The EU's executive arm proposed plans that could force clearinghouses that do a large chunk of business in euros to move to the EU. **B1**

♦ Two more bank CEOs got hooked by an email prankster trolling top Wall Street brass, exposing a gap in banks' cybersecurity armor. **B7**

♦ Eighteen employees of Australia's Crown Resorts will go to trial June 26 in Shanghai on gambling-related charges. **B3**

♦ Online lender Social Finance has asked federal officials to grant the company a banking license. **B7**

World-Wide

♦ North Korea released an American college student arrested during a visit last year and serving a 15-year prison term in North Korea. **A1**

♦ Despite Trump's fierce criticisms of the Fed during his campaign, the president and the leader of the central bank are off to a surprisingly smooth start. **A1**

♦ The EU launched legal proceedings against Poland, Hungary and the Czech Republic for refusing to take in asylum seekers. **A3**

♦ A drone believed to be from North Korea flew to the site of a U.S. missile-defense battery in South Korea to take photos. **A4**

♦ Rosenstein told a congressional panel that he wouldn't follow an order to fire Special Counsel Mueller if he deemed it illegal. **A6**

♦ Trump was sued by two attorneys general, who allege payments by governments to his businesses are unconstitutional. **A6**

♦ The Senate unveiled additional economic sanctions on Russia. **A6**

♦ Panama said it was severing diplomatic relations with Taiwan and establishing ties with China. **A4**

♦ Consumer prices in the U.K. rose in May. **A4**

Journal Report

Asian tech firms were once dismissed as copycats. Now they are being emulated in the West. **WSJ D.Live Asia, Pages R1-8**

CONTENTS Markets B10
Business News B3 Opinion A10-11
Crossword A12 Property Report B8
Head on Street B10 Technology B4
Journal Report R1-7 U.S. News A6-7
Life & Arts A9-12 Weather A12
Management B5 World News A2-4

China: RMB28.00; Hong Kong: HK\$23.00;
Indonesia: Rp25,000 (incl PPN);
Japan: Yen620 (incl JCT); Korea: Won4,000;
Malaysia: RM750; Singapore: S\$5.00 (incl GST)

KDN PP 9315/10/2012 (032725); MCI (P)
NO. 066/01/2017; SK MENPEN RI NO. 01/
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 03779920 4.12.00
9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

As of 12 p.m. ET DJIA 21308.34 ▲ 0.34% NIKKEI 19898.75 ▼ 0.05% STOXX 600 388.75 ▲ 0.55% BRENT 48.57 ▲ 0.58% GOLD 1262.50 ▼ 0.28% EURO 1.1201 ▼ 0.03% DLR \$110.08 ▲ 0.12%

Pyongyang Frees American Student

Release of Otto Warmbier comes as retired NBA star visits North Korea

North Korea released an American college student arrested during a visit last year and serving a 15-year prison

By Felicia Schwartz in Washington and Eun-Young Jeong in Seoul

term in North Korea, U.S. officials said Tuesday.

Otto Warmbier, a 22-year-old student at the University of

Virginia, was arrested for allegedly trying to remove a political poster from a hotel in January 2016 while on a tourist visit. In March 2016, Pyongyang had sentenced Mr. Warmbier to 15 years of hard labor.

The parents of Mr. Warmbier told the Associated Press on Tuesday that their son is in a coma and on a Medivac flight home. Fred and Cindy Warmbier said they were told their son has been in a coma since March 2016 but they had learned of his condition only one week ago.

They said: "We want the world to know how we and our son have been brutalized and terrorized by the pariah

Drone Drama
A drone believed to be from North Korea spied on a controversial U.S. missile-defense site in South Korea, according to Seoul. **A4**

regime" in North Korea, according to the AP.

Fred Warmbier didn't immediately respond to an email request to comment.

Secretary of State Rex Tillerson, testifying in Washington before the Senate Foreign Relations Committee, said he had "no comment on Warmbier's condition out of respect

to him and his family."

In February 2016, Mr. Warmbier appeared on North Korean state-run TV offering an apology. "I understand the severity of my crime," he said. Officials from Sweden, which is one of the few Western countries to have diplomatic relations with North Korea, made contact with Mr. Warmbier around that time.

State Department spokeswoman Heather Nauert said the release by Pyongyang wasn't related to a visit to North Korea under way Tuesday by former NBA player Dennis Rodman, who is on a private trip to meet North Korean leader Kim Jong Un.

Mr. Rodman, one of a handful of U.S. citizens known to have met Mr. Kim since his elevation to the North Korean leadership, told CNN at Beijing's airport on Tuesday that he was hoping to do "something that's pretty positive" with a sports-related "mission" in Pyongyang.

During Mr. Rodman's last visit to North Korea more than three years ago, he sang "Happy Birthday" to Mr. Kim.

Mr. Warmbier's release puts the number of Americans detained in North Korea at three. Kim Dong-chul, 62, a Korean-American businessman was sentenced to 10

Please see DETAIN page A4

A Weakened Leader Appears Before a New House of Commons



NEXT STEPS: U.K. Prime Minister Theresa May speaks at the first sitting of the House of Commons since last week's election, which left her party short of a majority. She met with the head of Northern Ireland's Democratic Unionist Party, seeking to complete a minority government deal. **A3**

Saudis Cut Oil Exports To U.S.

Saudi Arabia is slashing its U.S. oil exports to a near three-decade low for this time of the year, intensifying its efforts to reduce a global supply glut that has been pummeling crude prices.

By Alison Sider, Summer Said and Timothy Puko

State-owned Saudi Arabian Oil Co. expects its sales to the U.S. will drop below one million barrels a day in June, then slide to about 850,000 barrels a day in July, according to people familiar with the matter. The July figure would be its lowest export total to the U.S. for that month since 1988, based on figures from the U.S. Energy Information Administration.

Saudi Aramco expects its August exports to the U.S. to

Please see OIL page A2

Trump, Yellen Arrive at Uneasy Peace

By Nick Timiraos and Kate Davidson

Donald Trump's fierce criticisms of the Federal Reserve in the final weeks of the 2016 presidential campaign suggested the central bank would face a rough time with the new administration.

Instead, the nation's two most powerful economic-policy players—the president and the leader of the central bank—are off to a surprisingly smooth start.

Weeks after his inauguration, Mr. Trump held court with Fed Chairwoman Janet

Yellen in the Oval Office. Seated behind the office's Resolute desk, he told her she was doing a good job, according to people familiar with the exchange.

Ms. Yellen sat across from Mr. Trump in a chair next to Gary Cohn, Mr. Trump's chief economic adviser, who has emerged as the key intermediary in the unfolding relationship with the Fed.

The Republican president told Ms. Yellen he considered her, like himself, a "low-interest-rate" person. During a conversation that lasted about 15 minutes, they discussed how

economic policy might help the millions of U.S. citizens who felt left behind during the postcrisis recovery.

Two months later, in an interview with The Wall Street Journal, Mr. Trump said he hadn't ruled out nominating Ms. Yellen for a second term before her current one expires in February.

The White House's National Economic Council, led by Mr. Cohn, is about to begin the process that will decide whom to nominate as the next Fed leader, according to a senior White House official.

Ms. Yellen's reappointment

isn't an outcome many observers expect. An alternative could be the man who arranged her brief introduction to the president: Mr. Cohn, a former senior executive at Goldman Sachs Group Inc.

Still, Mr. Trump's April comments marked a reversal from last year, when he accused Ms. Yellen of keeping rates low to help Democrats.

Since taking office, the president and his advisers haven't publicly questioned the

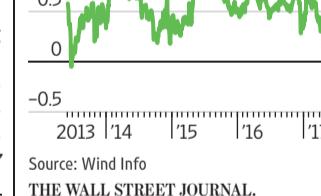
Please see FED page A7

♦ Rosenstein weighs in on Mueller issue..... A6

Spread Squeezed

China's short- and long-term government-bond yields are now little different. **B1**

Spread between one- and 10-year Chinese bond yields



Source: Wind Info

THE WALL STREET JOURNAL.

This Satanic Band Demands Better Work Conditions

* * *

Mask-clad ghouls bicker offstage over salaries, health food, stinky costumes

By John Jurgensen

Ghost, a Swedish heavy-metal band, built a cult following over a decade using demonic pageantry and rhyming lyrics like "hypnotizing horns of ram" and "paralyzing pentagram."

Band members perform in eerie masks and keep their identities secret, adding to the group's mystique.

It all worked like a charm—until a recent lawsuit unmasked the satanic musicians as a bunch of earthly beings.

In court papers and other documents, band members discuss such pedestrian matters as salaries, tour buses, laundry arrangements and how concert venues should prepare the bananas in their backstage spread.

"Don't put any fast food under our noses," the band

tells venues.

In a realm where celebrities market their personal lives as much as their music, Ghost's anonymity was an anomaly that fans flocked to. The band's lead singer, Papa Emeritus, pairs skeletal face makeup with a pope hat bearing an inverted cross.

He performs while flanked by musicians known as Nameless Ghouls who wear silver-horned, mouthless masks. Without revealing their faces, the band walked the red carpet at last year's Grammys and accepted an award with Papa proclaiming that "a nightmare has turned into a dream."

Four Nameless Ghouls are now suing Papa—a 36-year-old whose real name is Tobias Forge—in a Swedish court. They have accused him of financially shortchanging them

INSIDE



AUSTRALIA'S CHINA PREDICAMENT

CHINA'S WORLD, A2



THE TEENAGE SPIRITUAL CRISIS

LIFE & ARTS, A12

BETS PILE UP ON WALL STREET'S FEAR INDEX

The VIX, which tracks volatility, spawned a giant trading ecosystem that could magnify losses

By Asjylyn Loder and Gunjan Banerji

Wall Street's "fear gauge" has neared all-time lows this year. That hasn't stopped retail investor Jason Miller from making a nice chunk of change betting it will go even lower.

The Boca Raton, Fla., day trader says he has made \$53,000 since the start of the year by effectively shorting the CBOE Volatility Index, nicknamed the VIX. That includes a white-knuckle day on May 17, when the VIX spiked 46% following reports that President Donald Trump had pressured former FBI Director James Comey to drop an investigation into former National Security Advisor Michael Flynn.

Volatility—or the lack of it—has become the central obsession of the markets as the S&P 500 trades around its all-time high. Invented 24 years ago as a way to warn investors of an imminent crash, the VIX has morphed into a giant casino of its own.

Volatility trading has wormed its way into many corners of the investing universe, including insurance products that guarantee retirement income and mutual funds.

Please see FEAR page A8

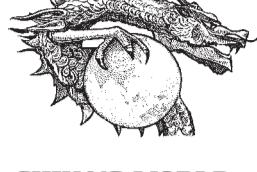


A Nameless Ghoul

Please see GHOST page A8

WORLD NEWS

Deep Ties to China Leave Australia in a Bind



CHINA'S WORLD

By Andrew Browne

SHANGHAI—In a moment of candor, former Australian Prime Minister Tony Abbott once admitted that his country's approach to China is driven by two emotions: fear and greed.

Increasingly, Chinese money pays the bills. It was unflagging Chinese demand

for iron ore, coal and other commodities that kept Australian mines in business through the global financial crisis. China buys one-third of Australia's exports, and Chinese tourists are the biggest spenders Down Under.

Many colleges would struggle to make ends meet without Chinese students on full fees. Moreover, the country's long-term prospects have been greatly improved by an influx of Chinese migrants bringing investment and skills.

Yet some Australians are fearful. Greed breeds economic dependency—and, potentially, a political opportunity for Beijing to exploit.



A report last week by the Australian Broadcasting Corp. and Fairfax Media has stirred a public debate by mapping China's inroads into Australia's national politics and academia, as well as its Chinese-language media and student bodies.

The most explosive allegation is that the Australian Security Intelligence Organization had cautioned the major political parties about receiving donations from two billionaires of Chinese descent identified as having links to the Chinese

Communist Party. If true, those warnings went unheeded; the real-estate tycoons have handed out millions of dollars in political contributions.

It shouldn't be a surprise that Australia finds itself grappling with impossible tensions. The unsatisfactory solution is to hedge economic engagement with military deterrence. Australia is sending a powerful signal by hosting a squadron of U.S. F-22 Raptor stealth fighters.

The Australian predicament, however, is deepening. China is asserting its interests in countries in its neighborhood with mounting confidence.

In the wake of the investigative report, Rory Medcalf, the head of the National Security College at the Australian National University, wrote that "a picture is emerging of excessive [Chinese] influence through money, censorship and coercion."

Canberra has nodded to the concerns. "Just as modern China was based on an assertion of national sovereignty, so China should always respect the sovereignty of other nations, including, of course,

Bill Payer

China buys roughly a third of Australia's exports.

Year-over-year change in China's imports from Australia



Source: Wind Info

THE WALL STREET JOURNAL.

above all, migration flows.

More than one million Australians claim Chinese roots; almost half were born in China. Beijing targets them as part of a global project to construct what it calls "comprehensive national strength."

Around the world, said James Jian Hua To, an academic authority on overseas Chinese affairs, that means co-opting Chinese newspapers and radio stations, gaining the loyalty of ethnic Chinese tycoons, summoning Chinese students to shout down anti-China protests and keeping tabs on activists critical of Beijing's human-rights practices.

One voice calling for calm is former Foreign Minister Bob Carr. "It's an arrogant assumption," Mr. Carr writes in the Australian, "that the Chinese in Australia are so simple they can be corralled and marshaled by Chinese agents."

Mr. Turnbull's government is working on legislation to ban foreign donations to political parties. That would bring Australia into line with practice in the U.S., Britain and many other Western countries.

Australia's vulnerabilities to Chinese meddling are magnified by all the factors that give it economic vitality: geographical proximity, natural endowments that so perfectly match the Asian giant's industrial requirements and,

That is perhaps the greatest danger: a backlash against a Chinese population in a country that for decades pursued a "White Australia Policy" to keep out Asian immigrants.

Building Collapse Leaves Several People Missing in Kenya



JOHN MUCHUCHA/AGENCE FRANCE PRESSE/GETTY IMAGES
DEBRIS: At least four people were missing following the collapse of an eight-story building in a poor section of Nairobi, the Red Cross said.

OIL

Continued from Page One
decline by another 100,000 barrels a day, these people said, which would be the lowest export amount for that month since 2009.

Many oil traders have questioned whether production cuts by the Organization of the Petroleum Exporting Companies have done much to reduce a persistent global supply imbalance, in part because U.S. companies have rushed to fill any void left by OPEC.

U.S. crude prices tumbled 9% over the three weeks through Monday, leaving them down about 14% for the year, back near where they were before OPEC's deal was announced in November. U.S. crude was down a further 38 cents a barrel, or 0.8%, at \$45.70 at mid-day Tuesday in New York.

But some analysts say the reductions in Saudi exports to the U.S. could be a step toward ensuring that OPEC's cuts have the intended effect of reducing bloated inventories of oil around the world, and particularly in the U.S.

Declining exports to the U.S. show that Saudi Arabia is "getting serious" about addressing the supply glut, said Jan Stuart, global energy strategist at Credit Suisse Group AG. "And what we in the markets are looking for are concrete signs they are getting serious."

The fall in Saudi exports could reflect a number of other factors. Rising U.S. production means domestic refiners need less of Saudi Arabia's crude, and the end of

Aramco's refining joint venture with Royal Dutch Shell PLC leaves the Saudi company with fewer buyers of its crude output. Saudi exports usually fall during the hot summer months because the kingdom requires more crude to generate electricity.

But Aramco has also been raising prices to its U.S. custom-

ers as part of its effort to stop them from stockpiling so much oil in the world's most closely watched storage tanks. This month it boosted prices for its light and medium grades by 50 cents for July shipments.

OPEC's output rose 1% to over 32.14 million barrels in May, led largely by increases from three of its 14 members: Libya, Nigeria and Iraq, according to the cartel's closely watched monthly market report.

Summer Said

ers as part of its effort to stop them from stockpiling so much oil in the world's most closely watched storage tanks. This month it boosted prices for its light and medium grades by 50 cents for July shipments.

OPEC's cuts have struggled to bring about the desired results. When the cartel announced late last year that it would cut output in coordination with Russia and other major producers, many believed it would help work off the global glut relatively quickly. That briefly sent

crude prices rising. But U.S. producers quickly took advantage of those higher prices, and their output has increased rapidly. Global stockpiles have come down but remain well above the levels OPEC is targeting. Even the group's announcement last month that it would continue to curtail production through

OPEC's members have agreed with 10 nations outside the cartel to cap their production at roughly 1.8 million barrels a day lower than levels in October 2016. Their goal is to draw down historically high amounts of oil in storage, which represent a global oil supply that has kept prices between \$45 and \$55 a barrel for much of the year.

Crude prices fell after report and were trading roughly flat for the day on Tuesday afternoon in London trading.

Brent crude was up 0.04% at \$48.31 and WTI was down 0.17% at \$46.

Summer Said

March failed to excite investors. Some analysts say OPEC has undermined its own efforts. Members ramped up production at the end of the year as they negotiated their new production caps.

Once the cuts went into effect and OPEC members curtailed output, they continued to ship oil around the world. That became a source of consternation to those oil traders who have been watching anxiously for signs that the production cuts were bringing global supplies down.

Traders are increasingly focused on U.S. inventories, in part because data there are easier to come by than in other places. When the EIA reported an unexpected increase in U.S. oil supplies last week, prices fell by more than 5%.

Analysts say OPEC is getting more serious about holding crude back from the global market. U.S. imports from Saudi Arabia declined to 1.17 million barrels a day in March from 1.34 million barrels a day in January. ClipperData, a vessel tracking firm, said they averaged about 1.1 million barrels a day in April and May.

"I know the last two weeks there have been reports to the contrary, but if you look at it not on a weekly basis, but monthly averages, you will see Aramco exports declining measurably into the U.S.," Saudi Energy Minister Khalid al-Falih told reporters last month.

Aramco raised the prices it charges its Asian customers even more than it did to the U.S., lifting its official selling price by 60 cents a barrel for July shipments to Asian refiners. But it is more difficult for market participants to get a clear picture of the level of oil in inventories in Asia, so the effect of increasing prices there may not be felt as clearly as in the U.S.

Even with the falling exports, many analysts remain skeptical after years of oversupply. "The market will only believe it when they see it," said Amrita Sen, chief oil analyst at Energy Aspects. "Right now sentiment is very bearish. It's going to take awhile to turn this around."

Andres Bonifacio, one of the leaders of the Philippines's 19th-century revolt against Spanish rule, favored the term Katagalugan, which can be loosely translated as Nation of the Tagalogs, or those who settle by the river.

Late dictator Ferdinand Marcos supported changing the name to Mahariika, originally a reference to an ancient warrior caste and a close relation to the term "merdeka," or freedom, in Indonesian and Malaysian languages.

Some people in the present-day Philippines, notably those living in the Muslim-majority areas in the south of the country, don't consider themselves to be Filipino at all. They consider it as a term for those who submitted to King Philip II and the Roman Catholic Church. A rebellion has long simmered in the southern parts of the country after

"The origin of the name is from Philip, one of the 12 apostles of Christ," said one commentator, Edgar Villanueva. "We should be proud of that name as we are the only country named after a disciple of Jesus Christ."

Still, there is a glimmer of a precedent. In 1962, the Philippines's Independence Day was switched from July 4—as in the U.S.—to June 12, which marks the Philippines's declaration of independence from Spain in 1898.

THE WALL STREET JOURNAL.
Dow Jones Publishing Company (Asia)
25/F, Central Plaza, 18 Harbour Road,
Hong Kong
Tel: 852 2573 7121 Fax 852 2834 5291

Andrew Dowell, Asia Editor
Troy McCullough, Senior News Editor, Asia
Daren Everson, International Editions Editor

Hugo Restall, Editorial Page Editor
Mark Rogers, Advertising Sales
Jacky Lo, Circulation Sales
Jacqueline Drostoff, Communications
Simon Wan, Technology

Jonathan Wright,
Managing Director Asia & Publisher

Advertising through Dow Jones Advertising
Sales: Hong Kong: 852-2831 2504; Singapore:
65-6415 4300; Tokyo: 81-3 269-2701;
Frankfurt: 49 69 29725390; London: 44 207
842 9600; Paris: 33 1 40 17 17 01; New York:
1-212 659 2176.
Or email: MarkRogers@wsj.com

Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd.,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia; ROC No: 0488856;
Singapore: Singapore Posts Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under
license from Dow Jones & Co.
©2017 Dow Jones & Company, All rights reserved.
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd.,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia; ROC No: 0488856;
Singapore: Singapore Posts Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd.,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia; ROC No: 0488856;
Singapore: Singapore Posts Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd.,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia; ROC No: 0488856;
Singapore: Singapore Posts Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd.,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia; ROC No: 0488856;
Singapore: Singapore Posts Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.
USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1,
Tai Ping Industrial Centre, 57 Ting Kok Road, Tai
Po, Hong Kong; Indonesia: PT Gramedia Printing
Group, Jalan Palmerah Selatan 22-28, Jakarta
10270; Japan: The Mainichi Newspapers Co., Ltd.,
1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051;
Korea: JoongAng Ilbo, 100 Seosom-ro, Jung-gu,
Seoul, 100-814; Publisher: Song, Pil-Ho;
Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan
Sepana 15/3, Off Persiaran Selangor, Seksyen 15,
4020 Shah Alam, Selangor, Malaysia; ROC No: 0488856;
Singapore: Singapore Posts Holdings Limited, 82
Genting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under
license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.
USPS 337-350; ISSN 0377-9920

WORLD NEWS

May Presses for a Deal to Stay in Power

British prime minister meets with DUP leader in bid to secure working majority

BY JENNY GROSS
AND PAUL HANNON

British Prime Minister Theresa May met with the head of a small Northern Irish party as she sought to complete an agreement that would enable her to govern with a minority in Parliament but one that could be a risk to peace in Northern Ireland.

Mrs. May gambled by calling last week's snap election, but it backfired and her Conservative Party lost seats, falling short of a parliamentary majority.

She is now seeking to negotiate an agreement to win support in key votes from the mainly Protestant Democratic Unionist Party, whose leader, Arlene Foster, was in London on Tuesday for talks.

Mrs. Foster, in a statement from her Twitter account, said that discussions were "going well" and that she hoped they would soon come to a successful conclusion.

Mrs. May will have to navigate the agreement carefully. A deal with the DUP risks complicating the fragile peace in Northern Ireland, where the British and Irish governments act as impartial mediators be-



Democratic Unionist leader Arlene Foster, left, and her deputy, Nigel Dodds, arrived at 10 Downing St. for talks on Tuesday.

tween the main Protestant and Catholic parties.

Mrs. May will likely have to agree to concessions in exchange for the DUP's support in no-confidence and budget votes essential to keeping a minority government in power. Typically under such agreements, support in other votes would be on a case-by-case basis.

John Major, a former Conservative British prime minister who helped pave the way

for the 1998 Good Friday agreement that put an end to three decades of violent confrontation, said he is worried about the implications for peace.

"A fundamental part of that peace process is that the U.K. government needs to be impartial," he said. "That was always the intention. The danger is that, however much it tries, it will not be seen to be impartial if it is locked into a deal with one of the parties."

Mr. Major said that while he doesn't believe there is any immediate threat of a return to violence, the peace process is "fragile."

The deal with Northern Irish lawmakers will likely have significant implications for Brexit, raising the prospect that Mrs. May will be pressured by lawmakers to pursue a closer relationship with the European Union than she had set out before the election.

The DUP, which won 10 seats in last week's election, is a socially conservative party that supports Britain's exit from the EU but wants to keep a "frictionless" border with the Republic of Ireland after Brexit.

This aim may be incompatible with Mrs. May pre-election stance in Brexit negotiations, in which she said the U.K. wouldn't agree to staying in the EU's customs union or single market, or to the bloc's principle of guaran-

teeing free movement of people from EU countries.

Aside from Brexit, the DUP, a pro-British party that has strong support from working-class voters in Northern Ireland, may also push for less-severe cuts in public services.

Data released on Tuesday showed consumer prices in the U.K. in May rising at the fastest annual rate for almost four years, intensifying a squeeze on households. Consumer prices have risen since last year's Brexit vote caused a sharp fall in the pound, while wage growth hasn't kept pace.

Northern Ireland has been without a government since February after Sinn Féin, the mainly Catholic nationalist party that wants the province to leave the U.K. and join the Republic of Ireland, withdrew from a power-sharing agreement with the DUP. Talks over a new agreement resumed on Monday after the election.

Gerry Adams, leader of Sinn Féin, said an agreement between the DUP and the Conservatives wouldn't alter his basic lack of trust in the British government.

David Trimble, who was awarded the Nobel Peace Prize as one of the leading unionist politicians who paved the way for the agreement and the peace that followed, said he didn't believe a Conservative-DUP deal would upend the peace process.

EU Raises Heat Over Asylum Refusal

BY VALENTINA POP

BRUSSELS—The European Union's executive on Tuesday launched legal proceedings against Poland, Hungary and the Czech Republic for refusing to take in asylum seekers, reigniting a fight that is likely to widen as the bloc seeks unity in Brexit negotiations with the U.K.

The former communist countries that joined the EU about a decade ago have almost no experience integrating Muslim populations. Poland and Hungary refused to take any asylum seekers, while the Czech Republic took 12 last year. It recently said it would quit the program.

Legal proceedings against member states can end up in the EU's top court and bring financial penalties unless the countries reverse course.

The British vote last year

to leave the EU has brought vows of unity from other countries, but the dispute exposes cracks that the bloc has sought to paper over in the past year.

Brussels opens legal proceedings against nations that refuse to accept refugees.

The commission's decision comes on top of existing disputes with Hungary and Poland over what critics say are efforts to erode democratic rights in the two countries. EU officials have acknowledged

the U.K. might use such divisions to drive a wedge in the bloc and seek a better deal.

Austria said this year it would drop out of the program, but EU commission officials say the government promised to take 50 minors from Italy. The move kept Austria off the sanctions list.

None of the three countries have indicated they would change their minds. Czech Prime Minister Bohuslav Sobotka tweeted after the commission's announcement that "quotas are not working, they incentivize further illegal migration and have lowered citizens' confidence in the EU."

European Commission chief Jean-Claude Juncker has warned that refusing to admit



Hungarian police push back migrants at the Serbian border.

refugees, might result in Central and Eastern European states receiving less financial support. "Those who want to benefit from solidarity, such as in the form of EU cohesion funds, must be prepared to show solidarity," Mr. Juncker

said in Prague last week.

Polish Foreign Minister Witold Waszczykowski said that the threat of funding cuts amounted to "blackmail" and questioned the legality of such a move. "We will keep on defending our principles," he said.

Doctors Flee Desperate Venezuela to Work in Safer Places

BY RYAN DUBE

ANCUD, Chile—On a recent day in this remote island town, Dr. Jhomar Yansen rushed to operate on a man who had been kicked in the gut by a sheep and was suffering severe internal bleeding.

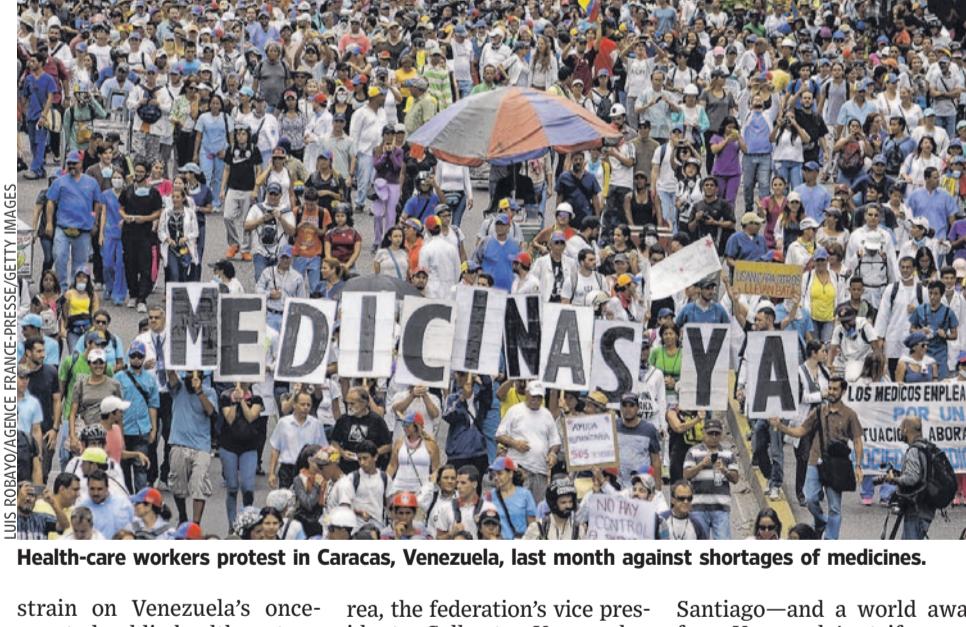
The surgeon worked in his native Venezuela on patients with gunshot and knife wounds until last year, when he fled the chaotic, impoverished country like thousands of other professionals. Now he finds himself as part of a cluster of Venezuelan physicians caring for fishermen and shepherds on a green archipelago in the frigid Southern Pacific.

"This isn't exactly where I thought I'd work," said Dr. Yansen, who lives here with his wife, also a doctor, and their infant daughter. "But thank God I'm here. I didn't want my daughter to grow up in such a hostile environment."

Nearly 2 million Venezuelans have fled their country since the late strongman Hugo Chávez took office in 1999 and put his country on the path to socialist revolution, according to Tomás Pérez, a sociologist at Venezuela's Central University.

The numbers have accelerated since President Nicolás Maduro took over in 2013, Mr. Pérez said, with businessmen, university professors, farmers and oil workers abandoning a country riven by authoritarian rule and protests. Venezuelans are flooding particularly into neighboring Colombia and Brazil. They have boarded boats bound for Caribbean islands. In the U.S., their asylum requests have surged, while the sight of them selling cornmeal cakes known as arepas has become a commonplace in the Peruvian capital, Lima.

The exodus of doctors is exacerbating the already serious



Health-care workers protest in Caracas, Venezuela, last month against shortages of medicines.

strain on Venezuela's once-vaunted public-health system, which has been crippled by dilapidated hospitals and shortages of medical supplies.

Figures released last month by the country's health ministry showed maternal mortality there increased by 66% last year; infant mortality, which rose by 30% last year, is now higher in Venezuela than in war-torn Syria. Malaria and diphtheria rates are soaring amid shortages of insect repellents, vaccinations, and public health funding.

The Venezuelan Federation of Doctors estimates that some 16,000 doctors have left in 12 years, moving as far away as Spain and Australia.

"If this wave of migration of doctors to other countries continues, a moment is going to arrive...when they aren't going to have enough capacity to run hospitals," said Juan Cor-

rea, the federation's vice president. Calls to Venezuelan health authorities seeking comment weren't returned.

Venezuela's loss is helping places like Ancud on Chiloé, a tranquil island of green rolling hills, penguins and wooden churches 760 miles south of

Santiago—and a world away from Venezuela's strife.

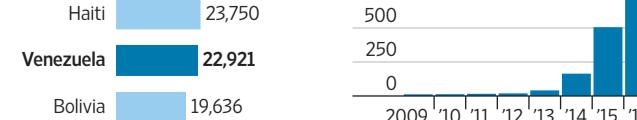
"We've had, I would say, a blessing with doctors of such good technical quality," said Luis Hernán Vallejos, a Chilean physician who runs the Ancud hospital's emergency unit.

Venezuelans have arrived to

Doctors Without Borders

Instability in Venezuela has made it one of the largest sources of immigrants to Chile, with physicians migrating at a growing pace.

Chilean visas issued, by top countries of origin, 2016



Source: Chile's immigration office; Beltrán Mena, director of the Eunacom exam

U.S. Ruling Boosts Corporate Claims

A U.S. court ruled that a Canadian mining company can seek to seize Venezuelan assets, a step forward for dozens of companies pursuing legal claims against the South American country.

Crystalex International Corp. is trying to collect on a \$1.4-billion judgment from last year against Venezuela. In 2002, the company gained the exclusive right to develop a large gold reserve in Venezuela. It filed for bankruptcy protection in 2011 after the Venezuelan government expropriated the project beginning in 2008.

On Friday, U.S. District Judge Rudolph Contreras didn't rule on which assets Crystalex could legally seize but opened the door

for the mining company to argue that assets owned indirectly by Venezuela, such as oil refiner Citgo Holdings Inc., can be seized in lieu of payment.

To claim Citgo, Crystalex has to prove the U.S.-based refiner and its parent are thinly disguised arms of the Venezuelan government, or "alter egos" in legal terms, of Venezuela.

The ruling helped push forward a process by which courts can determine which assets can be up for grabs to Venezuela's creditors, who are making claims as the nation spirals closer to defaulting on its sovereign bonds.

Citgo is owned by Petróleos de Venezuela SA, or PdvSA, the state-owned oil company. A PdvSA spokesman and attorneys representing Venezuela didn't respond to requests for comment.

—Julie Wernau

kidnapped and a neighbor's car was stolen with her baby in the back seat.

"In no way did I want my son to grow up in an environment with so much violence," the fertility expert said.

In the past 18 months, about a dozen other doctors—including surgeons, gynecologists, and anesthesiologists—have found work in Ancud's small 72-bed hospital.

These exiles sometimes listen to Venezuela's folk music, recalling memories of home.

"At times you want to cry," said Karina Castilla, a gynecologist from Caracas. "You're in a country that has welcomed you, but it isn't your country and it will never be."

Still, they don't see a future in Venezuela. "I have no problem living here," emergency-room physician Daniel Arocha said as he watched his daughter play in a park.

WORLD NEWS

Drone Manages To Photograph South Korea Site

BY JONATHAN CHENG

A drone believed to be from North Korea flew to the site of a controversial U.S. missile-defense battery in South Korea to take photos, a spokesman for Seoul's defense ministry said.

Tuesday's disclosure highlights North Korea's growing capabilities with unmanned aerial vehicles. The drone, which South Korea's Ministry of National Defense had identified last week after it crashed in eastern South Korea, carried a Sony camera and a 64-gigabyte memory chip that contained about 10 photos of the site where the U.S. has deployed the Terminal High-Altitude Area Defense system, according to a spokesman for the ministry.

The site, on a golf course in Seongju, is 170 miles south of the demilitarized zone that separates the two Koreas. With a wingspan of about 8 feet, the drone traveled undetected before crashing just south of the demilitarized zone, the spokesman said. It is unclear how far it flew or where its journey began.

Separately, a spokesman for the South's defense ministry said late Tuesday that a North Korean soldier had defected across the demilitarized zone. Few details were immediately available, but while tens of thousands of North Koreans have defected to the South through third countries including China, it is relatively rare for soldiers to cross the heavily fortified DMZ by land, given the large number of land mines, barbed-wire fences and artillery on both sides.

News that the drone flew

deep into South Korea is a potential source of embarrassment for its defense ministry. Two weeks ago, President Moon Jae-in—a liberal who took office last month after the impeachment of his conservative predecessor—criticized the ministry for failing to inform him of the arrival of additional components for the system, known as Thaad.

The drone development adds to the drama of the deployment. In recent months, Thaad has become a magnet for geopolitical tension. China, Russia and North Korea strongly oppose its deployment, which Mr. Moon has suspended to review the decision-making process.

The review, together with U.S. President Donald Trump's remark that South Korea should pay for the \$1 billion system, has generated tension between allies Washington and Seoul.

Still, the White House announced the dates of an expected visit by President Moon to Washington, set for June 29-30. The two leaders are expected to discuss economic issues and also "coordinate on North Korea-related issues, including countering the growing North Korean nuclear and missile threats," according to the statement.

Experts fear North Korea may soon have the capability to launch a nuclear missile capable of hitting U.S. targets. Since taking office Mr. Trump has sought to win more cooperation from China in getting North Korea to forsake its nuclear-weapons program.

—Peter Nicholas
in Washington
contributed to this article.

Contributed to this article.

News that the drone flew



This drone carried a memory chip that contained about 10 photos of the site where the U.S. deployed its Thaad defense system.

DETAIN

Continued from Page One
years of hard labor in April last year on charges of spying and stealing trade secrets.

The other two detainees are affiliated to a university in Pyongyang set up by Christian Korean-American businessman Tony Kim, an accounting professor, was detained in April of this year. Kim Hak-song, the other detained U.S. citizen, was arrested by North Korean officials in May.

Mr. Tillerson said in his statement: "The Department of State continues to have discussions with the DPRK regarding three other U.S. citizens reported detained," and added that the Trump administration wouldn't comment further.

PotCoin, a digital-payment network for marijuana transactions that is sponsoring Mr. Rodman's trip, nonetheless

trumpeted his ties to President Donald Trump as well as Mr. Kim, declaring in a release that the trip's purpose is to promote "peace and understanding."

"I'm really looking forward to spending time with the wonderful people of North Korea and of course, visiting with the Supreme Leader, Kim Jong Un," the news release quotes Mr. Rodman as saying.

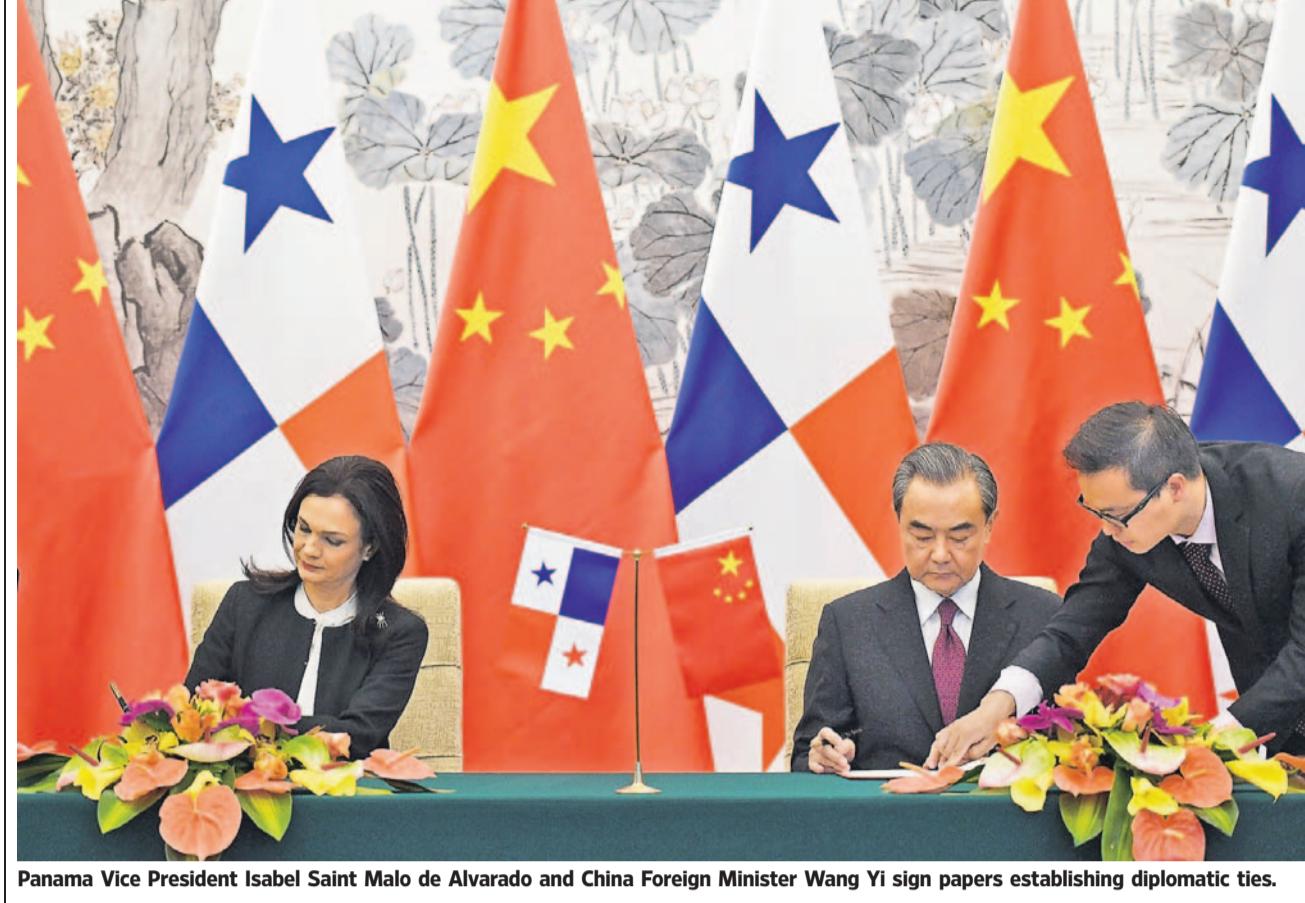
Mr. Rodman appeared on Mr. Trump's "Celebrity Apprentice" reality television show before Mr. Trump's election as U.S. president.

Lecturing at the U.S. Military Academy at West Point, N.Y., in March, Mr. Rodman said he would go back to North Korea "if it meant helping...our president." He added that Mr. Kim had expressed a desire to come to the U.S. to watch the New York Knicks play.

—Jonathan Cheng in Seoul
contributed to this article.



American student Otto Warmbier arriving for his trial in Pyongyang in 2016. He was sentenced to 15 years in jail.



Panama Vice President Isabel Saint Malo de Alvarado and China Foreign Minister Wang Yi sign papers establishing diplomatic ties.

GREG BAKER, PRESS POOL

Panama Cuts Taiwan Ties, As China Pressures Taipei

BY EVA DOU AND JENNY W. HSU

BEIJING—Panama said it was severing diplomatic relations with Taiwan and establishing ties with China, reflecting a victory for Beijing in its efforts to isolate Taipei.

Chinese Foreign Minister Wang Yi and Isabel Saint Malo de Alvarado, Panama's vice president, signed the joint communiqué in Beijing on Tuesday establishing diplomatic relations, according to China's official Xinhua News Agency.

Taiwan's Foreign Ministry expressed "anger and regret" over Panama's decision and said Taipei would immediately end all foreign aid and bilateral cooperation with the Central American country.

A joint statement carried by Xinhua and posted on the Panamanian president's website said that the "government of the Republic of Panama recognizes that there is only one China" and that Taiwan formed "an inalienable part of Chinese territory."

Panama's decision, which is effective immediately, comes against the backdrop of a campaign by Beijing to put pressure on Taiwanese President

Tsai Ing-wen, whose Democratic Progressive Party advocates independence for the island.

Beijing considers Taiwan a breakaway province and renews formal ties with countries that recognize the island as a country.

Ms. Tsai's phone call in December congratulating President Donald Trump on his election victory broke with

Wu said during a press conference that Beijing's latest move "pushes cross-Straits ties from peace to confrontation" and that Taiwan would reassess the cross-Straits situation.

Ms. Tsai has yet to publicly acknowledge an agreement the two sides made in 1992 that there is only "one China."

The agreement didn't clearly lay out what that term means but allowed the two rivals to

China's heft has pushed Taiwan's allies to switch their diplomatic ties to Beijing.

longstanding diplomatic protocol and raised the ire of Beijing.

Taiwan condemned Beijing for "tempting" Panama to cut off relations with Taipei, saying China's continual effort to marginalize the island is provocative and endangers the stability in the region.

"It's another way of turning the screws on the Taiwan government," said William Stanton, the top U.S. diplomat in Taipei from 2009 to 2012.

Taiwanese Presidential Office Secretary-General Joseph

end decades of hostilities. "This is happening because Beijing is disappointed in Tsai Ing-wen for not respecting the 92 Consensus," said Jin Canrong, a Beijing-based foreign-relations professor at Renmin University.

In recent years, China's growing economic heft has pushed more of Taiwan's allies to switch their diplomatic recognition to Beijing.

In a televised statement also posted on Twitter, Panamanian President Juan Carlos Varela said China was the sec-

ond most important user of the Panama Canal and the No. 1 supplier of goods in the Colon free-trade zone.

"The role the People's Republic of China plays at the regional and global level is important," he said.

He said, in an apparent reference to the absence of ties with Beijing until now, "this is a situation no responsible leader could allow to continue."

Following Panama's decision, Taiwan will have only 20 formal diplomatic allies, mainly small nations in the Pacific and the Caribbean.

Taiwanese political experts said Beijing's pressure appeared likely to continue.

"This is a harsh reality we have to face in Taiwan that we are going to lose diplomatic allies in the next few years," said Chen-sher Yen, a research fellow at the Institute of International Relations at Taiwan's National Chengchi University.

Last month, China blocked Taiwan's attendance at a meeting of the World Health Assembly, the decision-making body of the World Health Organization.

—Sofia McFarland
contributed to this article.

WORLD WATCH

UNITED KINGDOM

More Britons Seek EU Citizenship

The number of Britons applying for citizenship in several European Union countries has risen sharply since the U.K. voted to leave the bloc.

Figures released on Tuesday showed 2,865 British citizens had obtained German citizenship in 2016—up from 622 in 2015 and the highest number since Germany began collecting the data in 1950. The 2016 figure represented just under 3% of all British citizens living in Germany.

While the Federal Statistical Office, which published the data, doesn't record applicants' motivations, it said "a connection to Brexit appears obvious."

Brexit-driven naturalizations could surge even higher this year, immigration officials say, since the already lengthy process of obtaining German nationality has become longer due to the flood of requests.

Other EU countries have also registered sharp rises in citizenship applications by Britons, though from a lower level. The Swedish Migration Agency said 1,600 Britons applied for Swedish citizenship last year, more than three times the level of 2015. So far this year, there have been 960 applications, already double the 2015 figure.

The Danish Immigration Ministry said it had received 489 applications in 2016 and 130 for January and February of this year alone, compared with just 77 for the whole of 2015.

And Ireland received 571 applications in 2016—almost eight times the 2015 level—and nearly 300 this year so far, according to the Department of Justice.

—Nina Adam and Bertrand Benoit



A Hong Kong worker sweeps a street during torrential rain brought by tropical storm Merbok.

IRAQ

Food Poisoning Makes Hundreds Ill

Food poisoning at a camp for displaced residents of Mosul killed at least two people and sickened over 700, Iraq's health minister said Tuesday. Some officials accused a Qatar-based charity of providing tainted food—a claim that couldn't be confirmed.

A woman and a girl died and at least 200 people were rushed from the desert tent camp to hospitals in the nearby city of Erbil. An Iraqi lawmaker who visited the camp overnight and Saudi state television accused a charity from Qatar of providing the tainted food. The claims could not be independently confirmed and Qatari officials didn't answer calls seek-

ing comment.

In Baghdad, Health Minister Adila Hamoud said that 752 people became ill after a meal the previous evening at the Hassan Sham U2 camp, about 20 kilometers (13 miles) east of Mosul.

The food was meant for an iftar, a meal with which Muslims break their dawn-to-dusk fasting during the holy month of Ramadan. Ms. Hamoud said at least 300 people remain in serious condition. She refused to speculate whether the poisoning might have been intentional.

The Hassan Sham U2 camp houses thousands who have fled their homes in and around Mosul after a U.S.-backed Iraqi offensive was launched to dislodge Islamic State from the city this past October.

—Associated Press

UNITED KINGDOM

Households Squeezed As Inflation Jumps

Consumer prices rose in May at the fastest annual rate for almost four years, intensifying a squeeze on households just as the country faces a prolonged spell of political uncertainty.

Annual inflation in the U.K. accelerated in May to 2.9%, the Office for National Statistics said Tuesday, the fastest rate of price-growth since June 2013.

Economists polled by The Wall Street Journal had been expecting inflation to hold steady at April's 2.7% rate.

Renewed pressure on the economy from rising inflation marks another challenge for the U.K.'s embattled government.

—Jason Douglas and Wiktor Szary

SAMSUNG

Knox | Galaxy S8



Mobile security made for the way people really work.

Humans will be humans. Naturally they lose phones and send last-minute emails from unsecure airport Wi-Fi. But don't worry. That's why we built Samsung Knox, so their work stuff is secured wherever they are.

Defense-grade security for an open world.

samsung.com/samsungknox

U.S. NEWS

Senators Question Tillerson About Budget

Secretary of state fields queries on planned cuts, Russia and North Korea

By FELICIA SCHWARTZ

WASHINGTON—Leaders of a Senate committee said Tuesday that the Trump administration's 2018 budget proposal, which includes large spending cuts at the State Department, won't make it through Congress and pressed Secretary of State Rex Tillerson to explain the White House's priorities.

Senators also asked Mr. Tillerson about the administration's policies toward North Korea and Russia in his first appearance on Capitol Hill as the chief U.S. diplomat.

Mr. Tillerson appeared in front of lawmakers just after announcing that an American college student, Otto Warmbier, was released from prison in North Korea. Mr. Tillerson declined to comment on what led to the North Korean regime's decision to release him or on his medical condition. Mr. Warmbier's relatives said he had been in a coma for months before his release, the Washington Post reported.

Mr. Tillerson said the Trump administration has to make "difficult decisions" as it looks to cut the State Department budget by about one-third and that the U.S. would focus its efforts on missions that deliver "the greatest value and opportunity" for Americans.



Secretary of State Rex Tillerson preparing to testify before the Senate Foreign Relations Committee on Tuesday in Washington.

He said people working at the State Department—rather than budget priorities—would make the department effective.

"I think you know that the budget that's been presented is not going to be the budget we're going to deal with," said Sen. Bob Corker (R., Tenn.), the chairman of the Senate Foreign

Relations Committee. "Congress has a tremendous respect for the diplomatic efforts that are under way, the aid that we provide in emergency situations."

Asked by Sen. Chris Murphy (D., Conn.) whether cuts to the State Department's budget constitute a strategy to pull back from world affairs, Mr. Tillerson

said he didn't see it that way.

"I take a completely counter view to the way you've interpreted it," Mr. Tillerson said.

Explaining the administration's view, he said: "America has been leading for a very long time and American people have been reaching in their pockets and paying for this leadership

for a very long time" but U.S. allies must do their part.

Later Tuesday, Mr. Tillerson was to face the Senate Appropriations Committee subpanel that oversees the State Department budget. He will face two House committees Wednesday.

The Trump proposal would cut spending at the State De-

partment and the related U.S. Agency for International Development by 32%.

Sen. Lindsey Graham (R., S.C.), chairman of the Senate panel that oversees State Department funding, said he is deeply concerned about Mr. Tillerson's proposed cuts.

"This budget is devastating to soft power," Mr. Graham said. "I'm going to make an argument that soft power is very important to win the war against terrorism, it's important for our national security, and when you look at the hard-[and] soft-power mix of this budget, it's way out of kilter."

Senators also asked Mr. Tillerson if he supported Russia sanctions legislation, which senators reached a deal on late Monday night. Mr. Tillerson said the administration wanted flexibility "to turn that heat up" depending on how bilateral efforts were going.

"We have some channels that are open where we're starting to talk," he said, pointing to efforts related to Syria and Ukraine, and said he wouldn't want to close them off.

Sens. Cory Gardner (R., Colo.) and Bob Menendez (D., N.J.), asked Mr. Tillerson about a report released Monday about possibly illicit trading networks benefiting North Korea's nuclear and missile programs. Mr. Tillerson said he has stressed the necessity of cracking down on North Korea's trade and said that North Korea's intricate financial networks are "difficult, but not impossible to address."

New Sanctions on Russia Proposed

By BYRON TAU

WASHINGTON—The Senate unveiled a package of additional economic sanctions on Russia, aiming to punish Moscow for its military activities in Europe and the Middle East, as well as its alleged attempts to interfere in democratic elections across the West.

A bipartisan group of senators said the new legislation 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.

The bill unveiled Monday also would require the president to seek congressional permission to relax the current regime of sanctions against Russia, possibly limiting President Donald Trump's leeway to improve relations between Washington and Moscow.

The sanctions package was hammered out by the bipartisan leadership of the Senate Banking and Foreign Relations committees and could set up an unusual showdown between Congress and Mr. Trump's administration.

Mr. Trump has been said to be leaning toward keeping the sanctions imposed by the Obama administration in place on Russia. The new proposal would limit his ability to act without congressional approval. Sanctions imposed by Congress and written into law traditionally have been stronger and harder to repeal than



Sen. Chuck Schumer says new sanctions would 'send a powerful and bipartisan statement to Russia.'

ones imposed by presidential administrations using executive orders.

The key outlines of the deal were described in broad terms in a news release, with more details expected this week. The proposed legislation would allow the U.S. to impose broad new sanctions on economic sectors in Russia including mining, metals, shipping and railways.

The proposed bill also grants new assistance to help shore up democratic institutions across the West, which have been targeted by a series of cyberattacks, propaganda and misinformation campaigns.

The bill comes after weeks of controversy in the nation's capital over charges of Russian interference in the 2016 election.

U.S. intelligence agencies concluded in January that the Russian government conducted an influence campaign to support Mr. Trump over his Democratic rival Hillary Clinton, using hacked emails and propaganda to influence U.S. domestic politics.

The Russian government has denied any involvement in the hacks, though Russian President Vladimir Putin recently suggested that Russian "patriotic" hackers may have been behind the cyberintrusion.

sions that affected Western elections.

Senators also cited Russia's 2014 annexation of the Ukrainian territory of Crimea as well as Russia's ongoing military operations in Syria as a reason for additional sanctions.

The U.S. instituted sanctions against Russia during the crisis over the Crimean peninsula in 2014, mostly aimed at crippling Russia's energy sector.

President Barack Obama shortly before leaving office levied additional sanctions in retaliation for alleged Russian interference in the 2016 election.

Rosenstein Weighs In on Mueller Issue

Deputy Attorney General Rod Rosenstein told a congressional panel on Tuesday that he wouldn't follow an order to fire Special Counsel Robert Mueller if he deemed it illegal.

Mr. Rosenstein said that under Justice Department regulations he could dismiss Mr. Mueller only if there was a finding of "good cause," and added that he was "confident" that Mr. Mueller will have "sufficient independence" to conduct his probe. He noted he would have to submit written justification for any such firing.

He was responding to questions from senators at a Senate Appropriations Committee hearing following news reports Monday night that suggested President Donald Trump was weighing firing Mr. Mueller, the former head of the Federal Bureau of Investigation. Under intense public pressure in the days following the abrupt firing of former FBI Director James Comey,

Mr. Rosenstein tapped Mr. Mueller last month to spearhead the federal investigation into Russia's meddling in the 2016 election.

Sen. Susan Collins (R., Maine) asked Mr. Rosenstein what he would do if Mr. Trump ordered him to fire Mr. Mueller. "I'm not going to follow any orders unless I believe they are lawful and appropriate orders," Mr. Rosenstein said.

Mr. Rosenstein is testifying on the Justice Department's budget after Attorney General Jeff Sessions bowed out to testify later Tuesday at a Senate Intelligence Committee hearing about the Russia investigation.

Last week, Mr. Comey raised the possibility of new concerns about Mr. Sessions' contacts with Russia during the campaign. Mr. Comey said he was "aware of facts" weeks before Mr. Sessions formally recused himself from the Russia investigation, and that those facts made Mr. Sessions' continued engagement in the investigation "problematic."

—Del Quentin Wilber and Sharon Nunn



Deputy Attorney General Rod Rosenstein testifying on Tuesday.

WASHINGTON WIRE

IMMIGRATION

Travel Ban Suffers New Legal Setback

A second federal appeals court blocked President Donald Trump from enforcing an executive order seeking to temporarily ban travel to the U.S. for people from six Muslim-majority countries, handing the White House another legal blow.

The San Francisco-based Ninth U.S. Circuit Court of Appeals ruled on Monday that Mr. Trump failed to provide sufficient justification for his ban and exceeded the scope of his broad powers to police U.S. borders.

"Immigration, even for the president, is not a one-person show," the panel wrote in a 78-page opinion. The ruling follows a decision by a Virginia appeals court last month that held Mr. Trump likely disfavored Muslims in a way that violated the Constitution.

The Ninth Circuit's decision

sidestepped difficult constitutional questions and instead relied upon narrower legal grounds that focused on the president's obligations under federal law.

White House press secretary Sean Spicer said the White House is reviewing the decision.

—Brent Kendall



Commerce Secretary Wilbur Ross in Washington on Monday.

COMMERCE DEPARTMENT

Ross Confident Over Trade Negotiations

Commerce Secretary Wilbur Ross expressed confidence that the Trump administration can achieve better trade terms

through negotiations with trading partners, rather than immediately turning to tariffs or other punitive measures that could generate retaliation or other economic repercussions.

President Donald Trump, who repeatedly warned in his 2016 campaign about imposing tariffs or exiting international deals, this year decided not to pull out of the North American Free Trade Agreement and instead announced a renegotiation of the 23-year-old pact, with formal talks with Mexico and Canada starting as soon as August.

Mr. Ross is set to play a role in the high-stakes Nafta talks and is already working on disputes among key industries in North America. This month he announced a preliminary deal with Mexico on sugar imports that generated some gripes from U.S. sugar producers as well as consumers of sweeteners but didn't lead to an industry revolt or major backlash in Congress.

Mr. Ross, speaking at the WSJ CFO Network in Washington late Monday, cited the sugar deal as an example of one that was reached without creating acrimony. Such disputes are resolvable if the parties involved "are willing to make reasonable compromises."

He said he's bringing that approach to trade and investment talks with China. The Trump administration already announced a mini-deal with Beijing meant to help put the finishing touches on several long-running disputes—including beef exports to China—and get the ball rolling toward more market openings.

—William Mauldin

LITIGATION

Trump Sued Over Emoluments Clause

A lawsuit filed by attorneys general in Maryland and the District of Columbia alleges U.S.

and foreign government payments to President Donald Trump's hotels and other businesses violate the Constitution.

The lawsuit filed Monday pivots on Mr. Trump's decision to place his business assets into a trust, rather than divest upon taking office. Mr. Trump tapped his two adult sons to run the **Trump Organization** in his absence.

Payments from domestic and foreign governments to Mr. Trump's hotels and other businesses violate constitutional provisions that prohibit U.S. officials from accepting "any present, Emolument, Office, or Title" from foreign states, and that bar the president from receiving compensation from the federal or state governments, other than his salary, according to the lawsuit, filed in federal district court in Greenbelt, Md.

A Justice Department spokeswoman declined to comment on the new lawsuit.

—Joe Palazzolo

U.S. NEWS

States Rally to Save Public-Health Funds

State officials and public-health groups are pushing the Senate to preserve billions of dollars that go to local health programs—from vaccines to

By **Stephanie Armour,**
Michelle Hackman
and **Betsy McKay**

antismoking campaigns—that would be halted under the House Republican bill to topple the Affordable Care Act.

Officials from states led by both parties are rattled because the House-approved health-care overhaul would end almost \$1 billion in annual payments to a prevention program at the federal Centers for Disease Control and Prevention. The money is largely doled out as grants for state and local health prevention and outreach efforts.

"This was little-noticed because there was so much focus on insurance coverage," said John Auerbach, chief executive of the Trust for America's Health, a nonpartisan organization focused on disease prevention. "It will result in hundreds of millions of dollars that will no longer go to states."

The CDC program, launched in 2010 as part of the health law, was aimed at helping states develop new ways to reduce disease and curb costs. Over time, the money appropriated to the CDC has increasingly become a core part of state health-department budgets, health officials said.

The program, known as the Prevention and Public Health Fund, helps states maintain programs that prevent tobacco use, flag disease outbreaks and provide vaccines to the uninsured.

More than 500 organizations have urged President Donald Trump to preserve the prevention funding, saying in a letter they wanted to "warn of the dire consequences" if it is eliminated. The groups include the American Heart Association, American Academy of Pediatrics and Johns Hopkins Bloomberg School of Public Health.

House Republicans have said the program funds many frivolous projects. Lawmakers on the House Energy and Commerce Committee cite grants that went to urban-gardening projects and massage therapy.

"The Obama administration used the Public Health and Prevention Fund as a slush fund for questionable projects that had little to do with public health or prevention," said Zach Hunter, a committee spokesman. "Republicans have long favored redirecting these funds to more directly benefit patients and improve public health while also keeping agencies accountable for their spending."

It is unclear how the Senate will respond, but Sen. Bill Cassidy (R., La.) said there are some questions about where the funding has gone.

"Some of the activity is probably of dubious quality," he said. "But some of it, fair to say, has advanced the ball on health-care delivery."

Under the health law, it is Congress' responsibility to allocate exactly what the Prevention and Public Health Fund moneys are spent on. If Congress doesn't allocate the money, the responsibility is handed to the Department of Health and Human Services.

Rep. Mark Meadows (R., N.C.), chairman of the House Freedom Caucus, a conservative group, said he had no real



GOP House health plan would end almost \$1 billion in annual payments to a prevention program.

concerns about the prevention-fund cuts because the House bill would boost funding for the CDC elsewhere.

"Most of the time those kinds of things are doing public awareness, and if we don't know that tobacco has some awful side effects by now, perhaps we should," Mr. Meadows said. "But on most of the other things like Zika and Ebola," the cuts were offset in other areas.

The prevention fund received \$931 million in fiscal year 2017 and \$829 million in 2016. The health law would provide \$837 million for the

fund in the next fiscal year.

Cuts to the fund would cost lives, said Tom Frieden, who was CDC director from 2009 until January. "Losing immunization programs means more preventable illness and more cancer," he said in an interview.

The proposed cut is part of a broader Republican strategy to more narrowly target funding for public-health programs.

State health officials said the proposed cuts to the prevention program would hit home. Alaska has received more than \$30 million through the program since 2010, with

funding going to wellness programs in Alaska native villages, suicide-prevention efforts and vaccine purchases. The state is in the throes of a budget crisis and would likely need to cut programs if the federal funding ends, officials said.

"I wish I could say they're all low-priority programs, and we're really not worried. But that's not true," said Jay Butler, chief medical officer at the Alaska Division of Public Health. "We're talking about some of the most important health threats in the country."

—Kristina Peterson contributed to this article



Kindergarten students take to the playground at Oak Point Elementary in Texas, where recess went from 30 minutes to one hour a day.

School Recess Time Gains Favor

By **TAWNELL D. HOBBS**

Three kindergarten girls looked close to taking a spill as they sat on the high back of a bench on a playground at Oak Point Elementary. Feet away, several administrators looked on, not making a move to stop them because at this school outside Dallas, playtime is revered.

"As long as they're safe, we allow kids to be kids," said Daniel Gallagher, assistant superintendent for educational services in the Little Elm Independent School District.

That's the mantra in this small school district, where schoolchildren are transitioning from one daily 30-min-

ute recess to one hour a day, taken in four 15-minute increments. School officials say children are better focused with more unstructured breaks and do better in school.

School districts throughout the country are reassessing recess—with some bringing back the pastime or expanding it, citing academic and health benefits.

On Tuesday, the Minneapolis school board was scheduled to consider moving from a recommended 20 minutes of daily recess to a required 30 minutes daily.

About 21% of school districts required recess daily for elementary-school students in the 2013-14 school year, ac-

cording to the latest study from the Centers for Disease Control and Prevention and Bridging the Gap Research Program. That's an increase from 16% of school districts with the requirement in 2006-07.

It's a change after years of recess taking a back seat to testable core subjects like math and reading, with a noticeable decline in playtime after the rollout of the now-defunct 2002 No Child Left Behind education law that put more focus on holding schools accountable for academic performance.

The Center on Education Policy, a national research group, found in a 2007 report

that 58% of school districts increased time spent teaching English language arts, while 45% increased math time, after the 2002 education law. Meanwhile, 20% of school districts decreased the amount of time spent on recess, at an average of 50 minutes less a week.

Supporters of daily recess often point to a 2013 study by the American Academy of Pediatrics, which says in part that "recess serves as a necessary break from the rigors of concentrated, academic challenges in the classroom."

Some school administrators and lawmakers have spoken against state bills to mandate recess, saying it takes away flexibility from schools.

Mr. Brady's proposal for a 20% top corporate-tax rate includes border adjustment, which exempts exports from U.S. taxation but denies companies the ability to deduct import costs. Under the phase-in suggested by Mr. Brady, only 20% of import costs would be nondeductible in the first year of the new tax system, stepping up steadily each year until it reaches 100% in the fifth year. The tax exemption for exports would phase in.

—Richard Rubin

GEORGIA

Two Guards Killed as Prisoners Escape Bus

Two Georgia state prison guards were overpowered and killed by two inmates on a prison-transport bus Tuesday, according to the Putnam County Sheriff's

office, which was hunting for the escaped prisoners.

Two inmates disarmed the officers and then one of the prisoners shot and killed both guards on a bus that was traveling on a rural Georgia highway, Sheriff Howard Sills said.

After the shooting, the inmates carjacked a green 2004 Honda Civic and fled, authorities said. The escapees were armed with the officers' .40-caliber Glock pistols, according to the sheriff. The bus had been carrying a total of 29 inmates, said a spokeswoman for the sheriff's office.

—Jennifer Levitz

SUPREME COURT

Justices Strike Down Gender-Based Law

The Supreme Court struck down an immigration law that treated unmarried mothers better than unmarried fathers, ruling that "stunningly anachronistic" stereotypes about the sexes couldn't justify a preference for women over men.

The gender line Congress drew is incompatible with the requirement that the government accord to all persons "the equal protection of the laws," Justice Ruth Bader Ginsburg wrote for the court.

At issue is how long an unmarried U.S. citizen has to have been present in the U.S. to confer citizenship on a child born overseas when the other parent is an alien. Currently, the period is a year for an unmarried American mother but five years for an unmarried American father.

Passed in 1940, the law treated men and women differently based on "the long-held view that unwed fathers care little about, indeed are strangers to, their children," Justice Ginsburg wrote. "Lump characterization of that kind, however, no longer passes equal protection inspection."

—Jess Bravin

FED

Continued from Page One

Fed's actions—including its decision to raise short-term interest rates in March and signals it is likely to do so again at its meeting this week. This contrasts with the administration's approach to other nonpartisan institutions such as the Federal Bureau of Investigation, Congressional Budget Office and the courts.

"The Fed will do what they need to do, and we respect the powers of the Fed," Mr. Cohn said in a March interview on Fox News, one of his rare public comments on the central bank.

Mr. Trump's hands-off approach to the Fed reflects the influence of his market-savvy advisers and his changing circumstances. No longer waging a populist campaign, he is able to maintain credibility with financial markets by staying neutral on the Fed during his

first year in office.

Mr. Trump wants a fast-growing economy, and that means he won't want the Fed raising interest rates so aggressively that it thwarts any boom. Ms. Yellen, for her part, wants to preserve the independence of an institution that faces more political hostility than at any time in a generation.

On paper, the White House and the Fed appear headed for a collision. The president wants to raise the economy's annual growth rate to at least 3%, but the Fed thinks demographic trends and slow productivity growth mean the economy can grow sustainably at around a 2% rate.

With the unemployment rate at 4.3%, the Fed would likely accelerate interest-rate increases if Mr. Trump's administration took steps to lift growth in a way that simply boosted short-term demand. Stocks have moved to record highs while federal borrowing costs have fallen. A Fed move this

week would lift its benchmark rate to a range between 1% and 1.25%, a still very low level historically.

But if the Fed takes action Mr. Trump perceives to be threatening, he could become more vocal, said Peter Conti-Brown, a financial historian at the University of Pennsylvania's Wharton School.

managed to move its agenda through Congress.

week would lift its benchmark rate to a range between 1% and 1.25%, a still very low level historically.

But if the Fed takes action Mr. Trump perceives to be threatening, he could become more vocal, said Peter Conti-Brown, a financial historian at the University of Pennsylvania's Wharton School.

"The minute that 'Morning Joe' has a report about a Fed action that could harm Donald Trump, set an egg timer and see how long before he tweets," Mr. Conti-Brown said.

Though Mr. Trump and Ms. Yellen were born two months apart in neighboring boroughs of New York City, they couldn't be more different.

One, from Queens, is the brash celebrity developer who relies heavily on his gut, professes little interest in academic expertise and brings a deep skepticism of established institutions to Washington.

The other, from Brooklyn, is a risk-averse economist who prepares meticulously for speeches and meetings, has vacationed with suitcases full of books and has spent her career in the halls of academia and central banking.

Their placid relationship reflects Mr. Cohn's leading role. Ms. Yellen meets regularly with Mr. Cohn and Treasury Secretary Steven Mnuchin, who also spent much of his career at Goldman Sachs.

Mr. Cohn takes pride in convincing Mr. Trump of the economic benefits of respecting the Fed's independence, including not firing off verbal or Twitter attacks on the central bank, according to people who have discussed the issue with him.



Fed Chairwoman Janet Yellen and Gary Cohn, Donald Trump's chief economic adviser



KEVIN LAMARQUE/REUTERS

LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

The Question Before The Question

Couples put a modern spin on the big talk with future in-laws before moving to the engagement

THE NOTION that suitors need to ask the bride's father's permission to marry went out with the buggy whip—or did it?

Many couples are planning on marrying regardless of the answer, but they're retooling old scripts to fit the modern marriage—slipping the request into casual conversations and asking Mom as well as Dad. As a result, popping the question before the question can get awkward.

Shawn Cox and Alyssa Knowles had bought a house and a business together before Mr. Cox asked Alyssa's father Steve for permission to marry her. To make time for a private conversation, he invited Mr. Knowles to their Charlotte, N.C., house to help install a porch swing.

Mr. Knowles says he was surprised to be asked for his permission. "I didn't think people did that nowadays," says Mr. Knowles, of Greenville, S.C. "Some people would look on it as an archaic and outdated tradition, but I thought it was nice," partly because it motivates suitors to get to know the bride's family well, he says. He and Mr. Cox had just finished installing the swing and sat down to relax when Mr. Cox popped the question.

Before Mr. Knowles could answer, the swing fell from the porch ceiling and crashed to the floor, pinning Mr. Cox's legs. "Mike didn't skip a beat," Mr. Cox says. "He picked me up, said, 'Yes, you can marry my daughter,' and, 'OK, we're going to Lowe's and we're going to fix this.'" The couple were married in 2012 and own and run three Clothes Mentor name-brand clothing-resale stores.

Ms. Cox (nee Knowles) says that while asking for her father's permission was a formality, she wanted Mr. Cox to do so.

Some 77% of suitors ask parents' permission to wed their daughters, according to an informal 2015 internet poll of 12,000 brides and 1,200 grooms by The Knot, an online marketplace for wedding products and services. Some gay and lesbian couples are embracing the tradition too, with more than 40% asking parents' OK, according to another survey by The Knot.

Parents don't always say yes. Kellie Gould, editor in chief of The Knot, says she has heard anecdotal reports of fathers rejecting boyfriends' requests. One father told a 19-year-old teen he and his daughter, also 19, were both too young to marry.

Mark Spinelli tried to slip the conversation with his future father-in-law into a holiday gathering at his girlfriend's Pompton Plains, N.J., home in 2014. He'd decided to propose to Jessica Krol before the new year, and the get-

gether was his last chance to ask her father Steve for permission to marry her. When Ms. Krol stepped out of the room for a few minutes, Mr. Spinelli rushed past startled relatives seated nearby and whispered his question into Mr. Krol's ear. "It was the most awkward situation," says Mr. Spinelli, a commercial real-estate broker.

Parents don't always follow the script either. Mr. Krol says he welcomed the news and told Mark, "Fine," then, "I started breaking his chops," quizzing him playfully on his worthiness, including his spelling ability, finances and knowledge of current events. Ms. Krol soon returned to the room and they had to finish the conversation later. Looking back, Mr. Spinelli says he wishes he'd invited Mr. Krol to lunch or coffee instead. The Hoboken, N.J., couple have been happily married for almost a year.

Couples are often already living together and some have bought rings and booked wedding venues before they ask parents' approval. Not surprisingly, some parents respond, "Why are you even asking?" says Stephanie Coontz, research director for the Council on Contemporary Families, a nonprofit, nonpartisan group of researchers, scientists and therapists who study the American family.

The custom of asking the bride's father is obsolete, now that wives share breadwinning in most households and marriages are more egalitarian. The tradition survives in part because couples hope their families will take an interest in their marriage and help them hold it together in an era of widespread divorce, says Ms. Coontz, author of "Marriage, A History."

Some couples update the tradition in a thoughtful way. Giovanni Furio included Deb Drapac, the mother of his girlfriend Annette, along with her father Steve Drapac, in the meeting he requested to discuss marriage. Ms. Drapac says she appreciated being included.

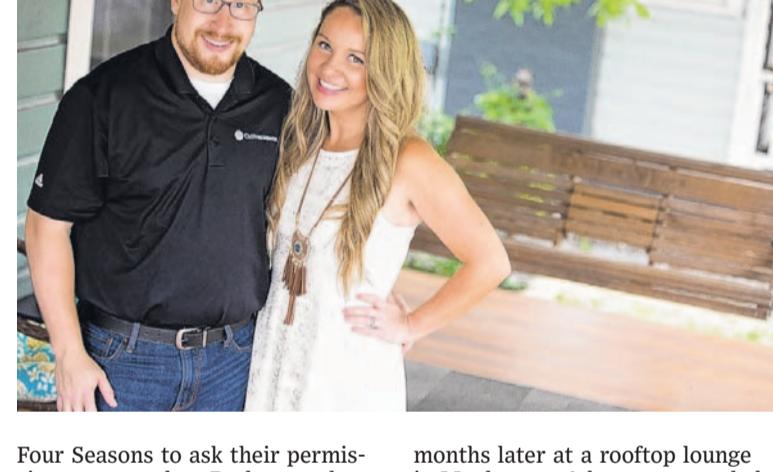
Rather than promising financial



Jennifer Friedman and Daniel Oliver, above, exchange vows at their wedding ceremony in Tarrytown, N.Y. He discussed marrying her with her mother and stepfather, Leon Kurzweil, below at their reception.



Mark Spinelli and Jessica Krol, left, and Shawn Cox and Alyssa Knowles, bottom, say they're glad they talked with parents before getting engaged.



Four Seasons to ask their permission to marry her. Both were delighted, and Ms. Kurzweil burst into tears of happiness.

Mr. Oliver quickly enlisted her help planning a surprise engagement party for Ms. Friedman two

months later at a rooftop lounge in Manhattan. A hostess recorded Mr. Oliver's proposal on bended knee, and 30 relatives and friends emerged from hiding to celebrate the engagement. The couple were married in June.

MY RIDE | By A.J. Baime

A RUSTED BUICK'S SECOND LIFE

Jerry Gray, 73, a retired floor-installation business owner and insurance man from Belgrade, Mont., on his 1952 Buick Roadmaster Riviera, as told to A.J. Baime.

For me, the Buick's story begins with a plane crash. In 1998, I started building a kit airplane, and when I finished in 2002, I flew it to Florida and safely back. But a month later, I crashed while trying to land. My wife Suzy was watching, and she was not happy. The airplane was totaled, and my wife said to me, "You like old cars. Why don't you keep yourself on the ground?"

I found the Buick on eBay, bought it for \$1,500, and drove down to Nebraska to pick it up in a U-Haul, in 2008. The Roadmaster



was the top-of-the-line Buick in its day, a true luxury postwar car. But this one had been sitting in a field since about 1965.

In my shop, I disassembled the car and rebuilt it with all new parts—new suspension, four-wheel-disc brakes, fuel injection, rack-and-pinion steering, power everything, and a big 455 Buick engine. I sandblasted the body and my wife and I chose two-tone paint—metallic copper

on top, desert rose below. There's SiriusXM radio, air conditioning, plus Truespoke 15-inch wheels and Coker whitewall tires.

A wonderful local artist named Brett McGinley airbrushed a portrait of Marilyn Monroe under the hood.

The build took me four years and



Jerry Gray, 73, a retired floor-installation business owner and insurance man from Belgrade, Mont., in his 1952 Buick Roadmaster Riviera. Mr. Gray rebuilt the car, which had been sitting in a field since about 1965.

cost about the same as a new Corvette Grand Sport would. The goal was to make a cruiser that my wife would want to spend time in, and it worked, because she loves the car as much as I do. We will motor all day long at 75 mph, and we get up to 26 mpg on the highway, as much

as many new cars today.

Everywhere we go, we have to add an hour to our travel time, because when we stop, strangers can't get enough of this car.

This is an exciting time of year for Suzy and I. Every summer, we get in the Buick and head either

east or west, putting 10,000 miles on the car. This summer, we're heading west to visit our kids in California—me, my wife and Marilyn.

Contact A.J. Baime at Facebook.com/ajbaime.

OPINION

REVIEW & OUTLOOK

A Caliphate Grows in the Philippines

Islamic State's occupation of the Philippine city of Marawi is in its third week with at least 58 soldiers and police killed along with 138 terrorists. With an estimated 500 fighters controlling part of the town, the siege continues to take a heavy toll on civilians. But there is some good news from the past week: U.S. troops and planes are on the scene offering "technical assistance" to the Philippine armed forces.

This is an embarrassment for President Rodrigo Duterte, who called on U.S. forces to leave Mindanao last September and proclaimed that his country would move into China's orbit. Now he says he didn't request U.S. help in Marawi. That leaves Filipinos to wonder who is calling the shots in their fight against terrorism.

Mr. Duterte spent his first year as President promoting extrajudicial killings of drug pushers and users, a campaign that led to more than 8,000 deaths. Meanwhile, Islamist fighters converged on the southern island of Mindanao from as far away as Chechnya. Indonesia's National Counter-Terrorism Agency reports that 40 terrorists from the Islamic State-affiliated Jamaah Ansharut Daulah are fighting in Marawi.

Islamic State has made no secret of its plan to make Mindanao a new caliphate. But Mr. Duterte boasted that he would pacify or wipe out the local separatist groups that have pledged allegiance to Islamic State. He set two deadlines for retaking Marawi, including the country's Independence Day on Monday. Mr. Duterte

was absent from the celebrations due to illness, according to his office.

Can Rodrigo Duterte swallow his pride and ask for more U.S. help?

Sayyaf bought arms from government soldiers and bribed them to slip out of encirclements.

The Marawi fighting shows the military's familiar limitations. Ten Philippine soldiers were killed by friendly air-force fire on May 31, and on Friday 13 Philippine marines were killed in street fighting.

The U.S. is helping with battlefield surveillance, coordination and training. Even limited nonkinetic assistance will shore up morale among government troops and prevent more friendly fire losses, but more is needed. In the decade after 9/11, a larger and more active U.S. force in Mindanao turned the tide against lawless groups like Abu Sayyaf.

Defeating the terrorists quickly is important because a lengthy siege would allow Islamist groups to recruit fighters and dispatch them to start more uprisings in Mindanao. As northern Iraq shows, once Islamic State is entrenched it can destabilize the wider region. Mr. Duterte's tacit acceptance of U.S. help is a step forward, but the Philippines' struggle to retake Marawi and prevent similar occupations requires that he swallow his pride and ask for an international force in Mindanao.

Macron's French Sweep

Emmanuel Macron is looking like more than a one-election wonder. On Sunday the new French President's upstart political party, La République en Marche, swept the first round of elections for the National Assembly, the lower house of Parliament. If the results continue through the second round Sunday, Mr. Macron will have a sturdy mandate to repair France's broken economy.

Turnout was a historic low 49%, but En Marche and its smaller centrist ally, Modem, qualified for the second round in nearly every constituency where they fielded candidates. Mr. Macron's party came first with 32% of the vote overall, thumping the center-right Republicans (22%), the hard-right National Front (13%) and the center-left Socialists (10%). Smaller far-left parties divided the rest of the ballots.

These results could translate into some 400 En Marche seats out of 577 once the second round is complete. This is an astonishing feat for a party that didn't exist a year ago as well as a rebuke to the country's traditional political class.

The legislative election is inoculating Mr. Macron against the antireform left's accusation that he is in the Élysée Palace only because the French wanted to keep out his far-right rival,

the National Front's Marine Le Pen. The legislative races suggest voters prefer Mr. Macron's reform vision over what the traditional parties

Voters bolster the new President's reform mandate.

are offering. So when labor unions hit the barricades and set tires alight to protest his reforms, Mr. Macron can point out that they represent an unpopular special interest.

A big majority in the National Assembly will also permit Mr. Macron to enact his reform agenda via legislation rather than relying on brittle Presidential decrees. With more than two-thirds of the Assembly in his camp, he could be more ambitious in tackling France's job- and growth-killing taxes and regulations.

Start with the 35-hour workweek. Mr. Macron during the campaign vowed to keep the law intact while giving firms more room to negotiate overtime. But abolition is the real cure for a measure that discourages job creation, and the former investment banker should make the case for it.

Mr. Macron's meteoric rise in politics is impressive, but the real test will be whether he can put France's 10% unemployment rate on a downward trajectory and accelerate a GDP growth rate stuck at zero to 1%. With a bigger majority should come bigger reform goals to restore the vitality of France.

Cleaning Up the EPA's Superfund Mess

One cost of making climate change a religion is that more immediate environmental problems have been ignored—not least by the U.S. Environmental Protection Agency. New EPA Administrator Scott Pruitt plans to address that in an underreported effort to clean up toxic waste sites under the so-called Superfund program.

In a memo to EPA staff last month, Mr. Pruitt announced a plan to reform the Superfund program created in 1980 and to accelerate the clean up of hazardous waste sites such as old industrial properties or landfills. The effort is long overdue. Superfund has too often become a sinecure for the bureaucracy and a cash cow for lawyers. EPA staff offices can wait years or decades to assess a Superfund site, figure out who's liable for what, consult with the community, decide on a remedy and assign the actual work.

Take the West Lake Landfill Superfund site in Bridgeton, Missouri, which was used for quarrying in the 1930s and later as a landfill. In 1973, 8,700 tons of leached barium sulfate from the Manhattan Project was dumped there, along with soil and waste. The EPA listed the 200-acre facility as a Superfund site in 1990.

Yet it took 18 years for EPA to decide how to clean up West Lake, finally settling in 2008 on a "multi-layered engineered cover and a system of new monitoring wells." In 2009 the Obama EPA ditched that solution and reopened the file. In 2010 an underground chemical reaction ignited a fire that is still smoldering.

Another example is the Bunker Hill Mining and Metallurgical Complex in Idaho and Washington state that polluted the air and soil with heavy metals such as lead. The EPA put Bunker Hill on its original list of 406 Superfund sites in 1983, but it too remains an open case.

Or Portland Harbor, in Oregon, which was listed in 2000. The private companies the EPA found responsible spent years and tens of millions of dollars on a clean-up study that the agency eventually discarded. Obama EPA chief Gina McCarthy didn't choose a remedy for the site until this January, days before President

Trump's inauguration, using information that was more than a decade old.

These are examples of the 1,336 Superfund sites on the EPA's National Priorities List. Mr. Pruitt has directed a new task force, chaired by senior adviser Albert Kelly, to review Superfund management and business practices. He has also taken power from EPA regional offices to make decisions about projects estimated to cost \$50 million or more, which should speed decision-making.

The response from critics, especially from the previous Administration, is that the problem is a lack of federal funding. They're upset that President Trump's budget proposes a 30% cut in Superfund for next fiscal year, \$330 million less than this year.

But Superfund delays aren't the result of insufficient funds, especially since private parties now shoulder most clean-up costs, as envisaged in the original legislation. At the end of fiscal 2016 the Superfund's special accounts, which hold settlement money for specific projects, totalled \$3.3 billion. The EPA projects it will spend \$1.3 billion of that over the next five years. That's on top of Superfund's 2018 budget request for \$762 million.

In 2009 the Obama Administration pumped \$600 million into the program as part of the stimulus plan. Yet the EPA's data on "construction completions," which track Superfund sites that have finished physical construction and dealt with long-term threats, shows a downward trend even as the money flowed in. There were 18 completions in 2010, down from 20 in 2009 and 47 in 2001. In 2016 only 13 sites were completed.

The real obstacle is a combination of bureaucratic inertia and legal or political disputes over who pays what. Washington typically measures success by money spent rather than on results. Yet Superfund ought to be measured by how many sites it cleans up—until it is no longer necessary. The green lobby puts symbolic gestures against climate change above all other priorities, but if Mr. Pruitt can accelerate Superfund cleanup he'll do far more for the environment.

Obama put climate gestures above toxic waste remedies.

taken power from EPA regional offices to make decisions about projects estimated to cost \$50 million or more, which should speed decision-making.

The response from critics, especially from the previous Administration, is that the problem is a lack of federal funding. They're upset that President Trump's budget proposes a 30% cut in Superfund for next fiscal year, \$330 million less than this year.

But Superfund delays aren't the result of insufficient funds, especially since private parties now shoulder most clean-up costs, as envisaged in the original legislation. At the end of fiscal 2016 the Superfund's special accounts, which hold settlement money for specific projects, totalled \$3.3 billion. The EPA projects it will spend \$1.3 billion of that over the next five years. That's on top of Superfund's 2018 budget request for \$762 million.

In 2009 the Obama Administration pumped \$600 million into the program as part of the stimulus plan. Yet the EPA's data on "construction completions," which track Superfund sites that have finished physical construction and dealt with long-term threats, shows a downward trend even as the money flowed in. There were 18 completions in 2010, down from 20 in 2009 and 47 in 2001. In 2016 only 13 sites were completed.

The real obstacle is a combination of bureaucratic inertia and legal or political disputes over who pays what. Washington typically measures success by money spent rather than on results. Yet Superfund ought to be measured by how many sites it cleans up—until it is no longer necessary. The green lobby puts symbolic gestures against climate change above all other priorities, but if Mr. Pruitt can accelerate Superfund cleanup he'll do far more for the environment.

Fatherhood and the Sexual Revolution



MAIN STREET
By William McGurn

This Sunday, in homes across America, millions of men will awake to the arrival of breakfast in bed. Prepared and served by their children, these Father's Day re-pasts convey appreciation as well as contributing to the general bonhomie of the day to come. But as he sips his coffee from his "World's Greatest Dad" mug, even the most obtuse father has to ask himself: Have I been the man my children deserve?

For dads with daughters, the question can be particularly disquieting as we contemplate a sexual revolution that has lost sight of any boundaries. In theory it's all gloriously empowering. But for those who regard human sexuality as a profound gift, and *la différence* as a key to appreciating this gift, it's astonishing how judgments that would have been elementary to our great-great-grandmothers today elude the most privileged and well-educated.

Just one example, from a news story that made national headlines about two years ago. At Stanford, two grad students were cycling across campus when they noticed a young man sexually engaging a woman who wasn't moving. In the cozy surrounds of a campus dumpster.

The young man was a member of the Stanford swim team. He was sentenced to six months for sexual assault and released after serving half his time. The coverage suggests the issues are complicated. But are they?

For young men: Does it require a Stanford degree to know that sexual contact with an unconscious woman is a line a man does not cross? As for being drunk himself, if he had no notion he might be doing something wrong, why did he make a run for it when the cyclists interrupted him?

For young women: This may sound impolitic, but loving moms and dads say it anyway. What happened here is a lesson in the vulnerability of women not in control of themselves because they are drunk.

The straw-man rejoinder is that this suggests the woman was "asking for it." To the contrary, this is a refusal to allow ideology to deny a fact of life. The physical reality is that a woman's inebriation removes a critical barrier to assault and humiliation.

The great fraud of our age, of course, is that consent and contraception are all a woman needs to have sex the way a man can. Certainly birth control and its backstop (abortion) permit women to enjoy a sexual relationship without the fear of an unwanted child. But seldom does anyone ask whether an unwanted preg-

nancy is the only unfortunate consequence a consensual sexual relationship might bring.

This father wonders. I know any number of accomplished women who are not prudes, who want to be more than someone's Tinder swipe and who are looking for full and worthy partners. When these women relate the reality of modern courtship—how so many first dates end with the man making clear that not jumping into bed with him means no second date—let's just say "empowering" isn't the first word that comes to mind.

In a 2014 piece for the Weekly Standard, Heather Mac Donald noted that when the social default for unmarried sex was "no," the woman didn't have to explain herself. "No" was sufficient. The irony is that this default meant the woman held most of the cards when it came to deciding whether a relationship would become sexual.

A politically incorrect guide to sex, masculinity and raising daughters.

Today, Ms. Mac Donald notes, the default has become "yes"—and the woman who resists is both on her own and on the defensive. For men, of course, this has been a most welcome shift. And no doubt for some women, too.

Then again, if all women are yearning for is strings-free sex, why does it seem to require so much alcohol? Might one answer be the loneliness that comes from giving fully of yourself in the hope of finding intimacy—and in return getting only intercourse?

Already I hear the chorus rumbling. Mansplaining! This guy's a dinosaur! Get woke!

Perhaps. Then again, most dads accept that part of the job is a willingness to be the unfashionable one; that is, to love enough to speak unpopular truths when the world cheats your children with fifty shades of gray.

For all the complaints about "toxic masculinity," genuine masculinity seems hard to come by. Surely the greater male dysfunction of our time is perpetual adolescence, and a culture that encourages the man-child.

So this Father's Day, looking over the three greatest blessings in his life, this dad pines for the day when we might again speak honestly and openly about the profound differences between male and female sexuality, when the heart might be taken as seriously as the orgasm—and when young men pursuing young women might even rediscover the marvelous possibilities of moonlit summer evenings.

Write to mcgurn@wsj.com.

LETTERS TO THE EDITOR

Maybe College Is Too Late to Learn to Think

Looking at the College Learning Assessment Plus test (CLA+) to claim that colleges fail to improve critical-thinking skills is itself a failure of critical thinking ("Many Colleges Fail in Teaching How to Think," page one, June 7).

Given that the crucial goal of improving critical thinking is a widely shared one, the better question would be: How can we ensure more access and good use of a rigorous well-rounded higher education?

The answer begins with pushing back against short-term thinking exclusively about job-related skills and placing a higher value on opportunities for students to challenge themselves with a broad curriculum that will prepare them to learn and adapt in a rapidly changing career landscape. They are being prepared not only for their first job but for their 10th, for which enhanced critical-thinking skills will be essential.

FREDERICK M. LAWRENCE
Secretary/CEO
The Phi Beta Kappa Society
Washington

As a former college teacher, I say that if a student hasn't been "taught" to think before college, there isn't much even college professors can do.

A.E. SANTIANELLO
Dana Point, Calif.

A crucial element in critical thinking is to be able to see the basis for different points of view, even if ultimately one disagrees with these on a factual or reasoned moral or ethical basis. To this end students need be able to write a piece from a viewpoint from which they may well differ, regardless of their "sensitivities" or those of their parents.

Much of political correctness seems to me a form of hypersensitivity. But that is in a practical sense unworkable when college ends.

This doesn't mean the encouragement of unreasonable hatreds or wicked views. Rather, it is a question of defining where, when or if real threats arise, and recognizing when something isn't a threat.

PETER COUCHMAN
Mathews, Va.

Capital Punishment Just Isn't Worth Keeping

I think John Steele Gordon's "How to Give Capital Punishment in the U.S. A Reprieve" (op-ed, May 31) is a waste of time and effort—as is pursuing the death penalty in the U.S.

The death penalty costs Americans upward of \$2 million for each case. Each year we discover that some defendants, on the path to being executed, were falsely convicted. Most studies show it has minimal effect in deterring crime. How can the U.S. be a beacon of human rights and an example to the world when it has what is, in effect, government-sanctioned murder of its own citizens?

Maybe Americans should require our legislators who create these laws to watch prisoners being put to death—maybe then they would realize life is more valuable than being labeled soft on crime.

BRUCE PEOPLES
Roswell, Ga.

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

OPINION

From Russia With Chaos

By David Satter

As U.S. politicians plunge into the hall of mirrors that is Russian intelligence, they are assuming that Russians think as they do—a perfect way to misunderstand Moscow's real intentions.

Portions of the "resistance" to President Trump are convinced he colluded with Russia to win the 2016 election. But the known facts don't support a Russia-Trump plot to defeat Hillary Clinton.

Russia's actions are consistent instead with an attempt to turn Americans against each other and sow distrust between the president and the U.S. intelligence services.

Vladimir Putin doesn't support Donald Trump. He supports American political paralysis.

For Russians, the difference between Mr. Trump and Mrs. Clinton simply wasn't that significant. Mr. Trump made naive and uninformed remarks during the campaign. But Mrs. Clinton, as secretary of state, showed no grasp of Russian realities.

She launched the "reset" policy after the murders of Alexander Litvinenko, a former Russian intelligence agent who had been granted asylum in Britain, and Anna Politkovskaya, Russia's leading investigative journalist. In both cases, the regime of Vladimir Putin was directly implicated.

Instead of trying seriously to deter Russian aggression, which in

Ukraine so far has claimed more than 10,000 lives, the Obama administration in 2009 created the McFaul-Surkov commission. Michael McFaul, Mr. Obama's chief adviser on Russia, was tasked with building civil society alongside Vladislav Surkov, a Kremlin aide responsible for suppressing it.

The reset was intended to support Dmitry Medvedev, who was Russia's president from 2008 to 2012 before Mr. Putin returned for a third term. But while Mr. Medvedev was chairman of Gazprom from 2001 to 2007, 6.4% of the state energy conglomerate's shares—\$20 billion worth—went missing. When nationwide anticorruption protests were held in Russia this March, the target was now-Prime Minister Medvedev, who was treated as "the face of state corruption."

Russia's 2015-16 hacking operation was also carried out in a way that would have made a focused and tightly held conspiracy nearly impossible. In October my emails were stolen by Fancy Bear, the same Russia-linked group that hacked John Podesta, Mrs. Clinton's campaign chief.

Citizens Lab, a University of Toronto cybersecurity project, found that I was part of an operation aimed at 218 unique targets—officials, journalists and military—in at least 39 countries. Former FBI Director James Comey said during his recent testimony that since 2015 there could be more than 1,000 entities targeted by Russian hackers in the U.S. alone.

Hacking on this scale would have been difficult to coordinate with any American political operatives, let alone in the heat of a presidential race. Further, Russian influence op-



Traditional Russian dolls with contemporary faces.

erations are almost always a matter of facilitation rather than subordination. Victor Louis, a KGB agent and the father of Soviet disinformation, successfully insinuated lies into the Western press by presenting them as inside information. "American reporters," he once told me jokingly, "always steal my best ideas."

WikiLeaks's Julian Assange may be sincere when he says that "our source is not the Russian government," but only because he is more useful to Moscow if he thinks he is acting independently. The Russian practice of achieving objectives "through the hands of others" would make it nearly impossible to coordinate with the Trump campaign as some have alleged.

Perhaps most important, Russian intelligence also acted to sabotage Mr. Trump. The "Trump dossier," full of unverified sexual and political allegations, was published in January by BuzzFeed, despite having all the hallmarks of Russian spy agency "creativity."

The dossier was prepared by Christopher Steele, a former British intelligence officer. It employed standard Russian techniques of disinformation and manipulation. The dossier depicts Mr. Putin as dedicated to "Nineteenth Century 'Great Power' politics," determined to prosecute "oligarchs" and "motivated by fear and hatred of Hillary Clinton."

After the publication of the Trump dossier, Mr. Steele went into

hiding, supposedly in fear for his life. On March 15, however, Michael Morell, the former acting CIA director, told NBC that Mr. Steele had paid the Russian intelligence sources who provided the information and never met with them directly.

In other words, his sources were not only working for pay. Furthermore, Mr. Steele had no way to judge the veracity of their claims.

The payments are likely to have been high. So who provided the money? An April Vanity Fair article determined that the research that became the dossier was originally funded by a "Never Trump" Republican.

After Mr. Trump sewed up the GOP nomination, however, "Democratic donors" kept the effort alive. Perhaps the time has come to expand the investigation into Russia's meddling to include Mrs. Clinton's campaign as well.

Investigating the role of Russian disinformation in the 2016 election requires understanding the layers of deception in which Russian intelligence specialize. This won't be possible if Mr. Trump and his adversaries are more determined to destroy each other than to face the Russian threat.

Americans must understand that the Putin regime wants to paralyze the U.S., but would rather have Americans do it with their own hands.

Mr. Satter is affiliated with the Hudson Institute and Johns Hopkins University. His book, "The Less You Know, the Better You Sleep: Russia's Road to Terror and Dictatorship under Yeltsin and Putin" (Yale), will be out in paperback this summer.

Qatar Cannot Have It Both Ways

By Yousef Al Otaiba

It is a striking and dangerous contradiction: Qatar invests billions of dollars in the U.S. and Europe and then recycles the profits to support Hamas, the Muslim Brotherhood and groups linked to al Qaeda. Qatar hosts the American military base from which the U.S. directs the regional war against extremism, yet it also owns media networks responsible for inciting many of the same extremists.

When the United Arab Emirates and likeminded countries took diplomatic and economic measures against Qatar last week, it wasn't done lightly or in haste. It was prompted by the accumulation of years of bewildering Qatari behavior that poses a direct threat to the U.S., U.A.E. and Qatar itself. If Qatar sows the wind, it will reap the whirlwind.

President Trump said it well on Friday: "the time had come to call on Qatar to end its funding [of extremism].... For Qatar, we want you back among the unity of responsible nations."

Qatar can no longer have it both ways. It must now decide whether it is "all in"—or not—in the fight against extremism and aggression.

For years, Qatar has supported and sheltered extremists. In the

mid-1990s, it harbored Khalid Sheikh Mohammed, who became one of the principal plotters of the Sept. 11 attacks.

Today it hosts and promotes the Muslim Brotherhood's spiritual leader Yusuf al-Qaradawi, as well as Khaled Mashal, leader of Hamas, a U.S.-designated terrorist organization.

Last week the U.A.E. and other states designated Mr. al-Qaradawi, along with 58 others and 12 organizations, as providing material support for terrorists. Many live in, operate from, or receive backing from Doha. Some are linked directly to the ruling family.

They will not be lonely—along with Iran, Qatar has the unseemly distinction of having one of the world's highest concentrations of internationally designated terror financiers.

A 2015 Wall Street Journal article noted: "For years, Islamist rebel fighters from Libya and Syria traveled to Qatar and returned with suitcases full of money." Doha has provided financial and logistical support to the Nusra Front (now known as Tahrir al Sham), the Syrian branch of al Qaeda. The Manchester suicide bomber was associated with an al Qaeda-aligned militia in Libya supported by Qatar.

The Financial Times reports that

two months ago Qatar paid a hostage ransom of as much as \$1 billion to a variety of terror organizations in Syria and Iraq that are subject to sanctions, including Iran's local Hezbollah franchise. In Egypt, Qatar has given a blank check to the Muslim Brotherhood, the launching pad for many of the most violent Islamist groups.

It owns a piece of the Empire State Building yet uses profits to promote extremism.

And just when responsible nations are focusing attention on confronting radicalization in all of its forms, Qatar-owned media, led by Al Jazeera, continue to incite violence and fanaticism across the Arab world.

Like a twisted version of "The Daily Show," the cleric Mr. al-Qaradawi has used his television program to promote a fatwa encouraging suicide bombers, as well as to defend the killing of American soldiers in Iraq as a "religious obligation."

Former Defense Secretary Robert Gates said in May: "General [John] Abizaid was convinced that Al

Jazeera was working against our troops and actually providing information to our enemies. There was concern about broader concern about Al Jazeera providing a platform for terrorists."

The comments by Mr. Gates, who led the Pentagon under both Presidents George W. Bush and Barack Obama, demonstrate that Qatar has been a festering concern for Washington across parties and administrations.

The Bush administration began the concerted global effort to target terrorist financing. The Obama administration concluded in 2016 that Qatar "lacks the necessary political will and capacity to effectively enforce" laws against terror financing.

Obama officials also considered pulling a U.S. fighter squadron from the Al Udeid air base over Qatari refusal to take action against terrorist financiers.

The American presence at Al Udeid is critical to protecting U.S. and allied interests in the Middle East. While the current measures against Qatar remain in place, the U.A.E. and America's other friends in the region will continue working closely with the U.S. military to sustain the base's full war-fighting capabilities.

We also welcome U.S. involve-

ment in facilitating a diplomatic resolution that will allow Qatar, a neighbor and treaty ally, to return to the community of responsible nations.

What must Qatar do? It should first acknowledge what the world already knows: Doha has become a financial, media and ideological hub for extremism. Then it must take decisive action to deal once and for all with its extremist problem—to shut down this funding, stop interfering in its neighbors' internal affairs, and radicalization.

With terrorists rampaging through the streets of European cities and hatching plots against targets in the U.S., there can be no equivocation, no hedging and no delay in taking on the radical menace.

Qatar cannot own stakes in the Empire State Building and the London Shard and use the profits to write checks to affiliates of al Qaeda. It cannot plaster its name on soccer jerseys while its media networks burnish the extremist brand. It cannot be owners of Harrods and Tiffany & Co. while providing safe haven to Hamas and the Muslim Brotherhood.

Mr. Otaiba is the United Arab Emirates' ambassador to the U.S.

A French Charter of Integration

considering history's great Reconquest took more than 700 years.

In the context of France's battle with homegrown "Islamist terrorism" (Mr. Macron's verbal escalation over former President François Hollande's "obscurantism") and its hundreds of French dead, the details of the new president's approach to restraining Islamism are few. So far, they have nothing to do with a unifying charter of national civilization that would represent a binding solution for an Islamic presence that has been described by the intellectual Alain Minc as "a subterranean territory within French society."

Tall order. Taller still, even in Mr. Macron's current state of grace,

instead, the president's announced priorities are the "moralization" of French politics (don't hold your breath) and, in order to restore international confidence in France's economic stability, the difficult reform of the rigid French labor code.

When it comes to drawing Muslims closer to France, Candidate Macron spoke of reducing class sizes in schools in "difficult neighborhoods" and giving employers €15,000 (\$16,800) over three years for each new open-term hire from those neighborhoods.

That, for now, is it on affirmative action ("discrimination positive," in French) which Mr. Macron said in March he'll "take on totally." His predecessor, Mr. Hollande, had experimented with a similar but no-name employment inducement for two years before dropping it.

And the "reconquest of the Republic" remarks?

They received virtually no media attention. In spite of last month's election defeat of Marine Le Pen, and a consistent majority view in France that the failure to integrate Muslims is a Muslim-made problem, broad political discussion of Islam remains couched in euphemism. The talk is instead of migrants, the suburbs (a verbal stand-in for Muslim-majority enclaves), or *communautarisme* (referring to the total rejection of French law and values in many Muslim-majority housing projects).

Who these Muslims are, or their number, is left vague by the state,

which considers precise information on the subject potentially discriminatory. But a liberal think-tank, Institut Montaigne, last year came up with some interesting results on the 5.6% of France's population that it counts as Muslim.

Defining the relationship between Muslims and the state could set an example for the rest of Europe.

The study found that 28% of those Muslims have "adopted value systems clearly opposed to the values of the Republic." Hold that up alongside an estimate a year ago from former Prime Minister Manuel Valls that only 1% of French Muslims are Salafists supporting jihadism.

Boualem Sansal, an Algerian novelist, recently told a French reporter that when it came to "Islamism or political Islam," Mr. Macron didn't grasp "France's No. 1 problem." The Islamists in France think in terms of conquering neighborhoods, not states, Mr. Sansal said.

Perhaps Mr. Macron should talk to Gérald Darmanin. He's the president's budget minister with a partial Algerian heritage who, as mayor of Tourcoing, the northern French town with a large Muslim population, had refused to approve a building permit for a minaret.

Mr. Darmanin said last year that "Islam has to adapt to the Republic and not vice versa." To establish this relationship officially, making clear that French law and values have precedence over any interpretation of the Quran, he urged that "there has to be a compact or state agreement."

A covenant of this kind would create an Islamic consistory in France with legal status equal to that of similar Roman Catholic, Protestant or Jewish bodies.

As was the case with the Jews more than 200 years ago, Muslims could be asked to pledge to defend France ahead of all other considerations.

With Muslims representing an estimated 5% to 6% of the French voting population, Mr. Macron's subordinate focus on their role buys him momentary calm to solidify power through another remarkable performance in the second round of legislative elections Sunday.

But dealing with the issue of Islam head-on, comprehensively and soon—offering job and educational opportunity while achieving real accommodation of French values—would be a profound statement of Mr. Macron's authority. He cannot fail to try.

As far as a reconquest of lost territory goes, that's a lot of verbal resonance bound in with a much smaller practical reality. Still, a charter of integration, setting an example for Muslim relationships with the rest of Europe, could be considered progress.



EYE ON EUROPE
By John Vinocur

France's President Emmanuel Macron, knowing only success in his first month in office, has yet to act on one of his most quietly announced goals: dealing with Islam in France. He's pledged affirmative-action measures, zero tolerance on security and "a determined policy of reconquest of the Republic" in the country's no-go, Islamist-controlled enclaves.

Tall order. Taller still, even in Mr. Macron's current state of grace,

THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch
Executive Chairman, News Corp

Gerard Baker
Editor in Chief

Matthew J. Murray
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards: Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisniewski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

Daniel Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:

1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

DOW JONES
News Corp

Robert Thomson
Chief Executive Officer, News Corp

William Lewis
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:
Mark Musgrave, Chief People Officer;

Edward Roussel, Innovation & Communications;

Anna Sedgley, Chief Operating Officer & CFO;

Katie Vanecek-Smith, President

OPERATING EXECUTIVES:

Ramin Beheshti, Product & Technology;

Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;

LIFE & ARTS

TURNING POINTS | By Clare Ansberry

The Teenage Spirituality Crisis

As adolescents form values and ideals based on personal experiences, many question their religious beliefs

THOMAS RAMEY quit praying a few years ago when he was 16 years old because it didn't seem to matter.

The 18-year-old, who was baptized and confirmed as a Methodist, doesn't believe in an afterlife, but still believes in a God. He goes to church regularly because he likes playing in the youth band, volunteering and listening to people who have different opinions. "I doubt everything," says Thomas, who plans to study engineering.

That is true of many teens, who grew up praying, going to houses of worship, and studying religious texts. As 6-year-olds, they were convinced there was a God and heaven and that everything in the Bible was true, for example. Now they aren't so sure.

The teen brain grows rapidly, and with it the ability to think more abstractly and critically. In early adolescence, teens begin to establish their own ideals and recognize hypocrisy in people and institutions around them. They deal with heartbreak and social cliques, see suffering in the world and wonder if there is a God who cares. They are trying to figure out their place and how and if something like religion belongs.

Exploring such questions is the most important work a teen can do, says Lisa Miller, a clinical psychologist and author of "The Spiritual Child." Research shows that adolescents with a strong personal spirituality are found to be 60% less likely to be severely depressed as teenagers, she says.

Andrew Zirschky, academic director of the Center for Youth Ministry Training in Brentwood, Tenn., says some children start doubting faith in middle school, when many of them begin preparing for confirmation and bar mitzvahs and bat mitzvahs.

"Right when kids are having the most doubts, we ask them to affirm their faith," says Dr. Zirschky. Many plow ahead despite misgivings because they feel pressured to



do so, he says, and because churches do a poor job of allowing faith and doubt to coexist. He asks sixth-graders to draw the image of God they had in first grade. It is often a white bearded figure sitting in the cloud. When he asks them to draw the image now, they draw hearts, and use words like "loving" or "All-knowing."

"At some point, you have to doubt your previous understanding of who God is and replace it with a better one," he tells them.

While teens doubt, they aren't ready to give up on the idea of God and the importance of religion. A significant majority—84% of 13- to 17-year-olds believe in God, according to a National Study of Youth and Religion, a longitudinal survey of more than 3,000 teens conducted in 2002 and led by researchers at the University of

North Carolina at Chapel Hill and University of Notre Dame. Three years later, belief among the same teens, then 16- to 21-years-old, slipped to 78%.

Teens often see God as a cosmic therapist, solving problems and generally making people happier, but distant, says sociologist Patricia Snell Herzog, who worked on the study. A large majority believe religion is important, but many become less actively involved as they age through adolescence. "Religion

is just there in the background," says Dr. Herzog. "We describe it as the furniture of their life."

Thomas Ramey was born and raised in Decatur Ala., part of the U.S. known as the Bible Belt. He went to Wesley Memorial United Methodist Church three times a week, twice on Sunday and every Wednesday. His mother, Lisa, taught Sunday school.

When he was 8 years old, and able to read, he received his first Bible, which he and his mother read together. "He always asked lots of questions," says Mrs. Ramey. At 11, after weeks of studying, he was confirmed, and was a Chaplain aid for his Boy Scout troop, leading prayers before meals and at campouts. At that time, he says he believed in God and what the Bible said.

His views started changing in

his midteens. His youth group had cliques. He was in the social outcasts group, he says, and he encountered some hostility from certain church leadership against some of his friends who were gay.

"When you see people behave in wrongful, hurtful, hypocritical ways, it's kind of hard to believe that God cares," he says.

Philip Galyon, the current youth minister, says teens in high school identify fallacies and hypocrisies. "They push back," he says, and ask, "Why do people who say they are Christian treat other people poorly?" He remembers struggling when he was age 17 and his parents divorced. His father was a minister. "I thought why should I still believe this?" He wondered what good their faith did.

Thomas hit another hard stretch when he was about age 16 and three people close to him died, including a friend of the family who had dementia. Thomas and his mother visited often, helping the man's wife care for him. "For weeks I prayed for God to kill this man so his wife wouldn't have to see him in pain anymore," he says. "He suffered and died in a terrible way."

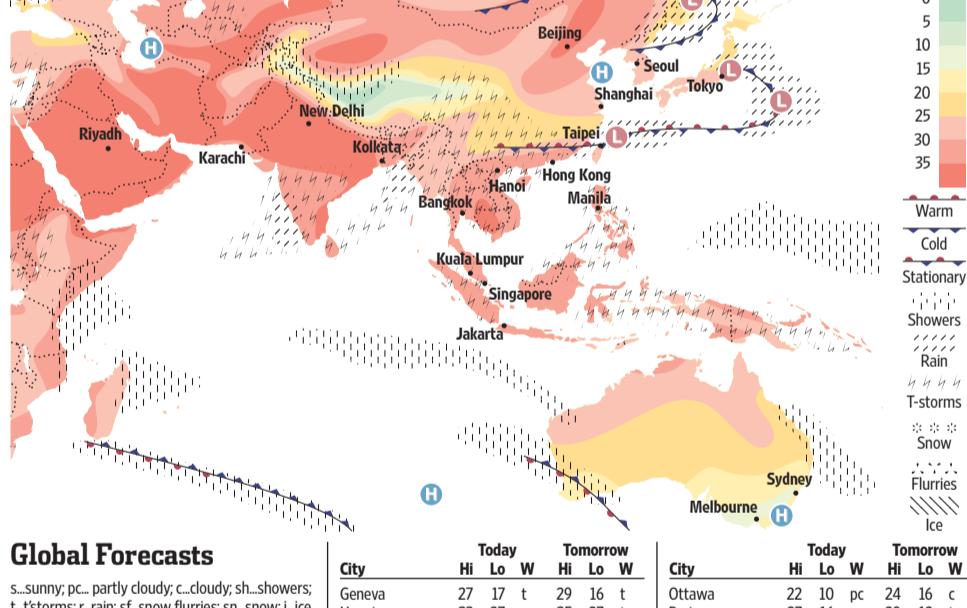
"Thomas is very compassionate," says Mrs. Ramey. He stops in twice a week to help an elderly neighbor empty her trash and works in a soup kitchen.

Sometime after that, he quit praying. "If something bad is going to happen, it's going to happen," he says. "Deal with it head on."

Thomas still believes in God. The earth and solar system are too complex and fragile not to have something influencing and connecting everything, he says. "Whether whatever created us, loves us, is a different matter," he says. He doubts there is an afterlife and isn't troubled by that.

His strongest belief these days is in "the equality of all humans from birth to death, and that the only meaning we have in this world is that which we inject into it."

Weather



Global Forecasts

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

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

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 24 14 pc 27 14 t

Anchorage 14 7 c 17 9 pc

Athens 32 22 s 31 21 s

Atlanta 32 23 t 32 23 t

Bahrain 46 25 s 39 24 s

Baltimore 29 17 t 27 17 pc

Bangkok 33 25 t 34 25 pc

Beijing 36 19 s 38 19 pc

Berlin 21 11 pc 25 16 pc

Bogota 18 10 c 18 9 pc

Boise 23 13 s 25 14 c

Boston 21 14 s 22 14 s

Brussels 25 15 s 28 13 t

Buenos Aires 17 12 c 19 17 c

Cairo 34 22 s 35 23 s

Calgary 17 7 sh 19 9 pc

Caracas 30 26 t 31 26 pc

Charlotte 33 22 t 31 22 t

Chicago 33 22 t 33 22 t

Dallas 34 25 pc 35 26 s

Denver 29 11 s 31 12 pc

Detroit 28 19 pc 29 20 t

Dubai 41 32 s 44 32 s

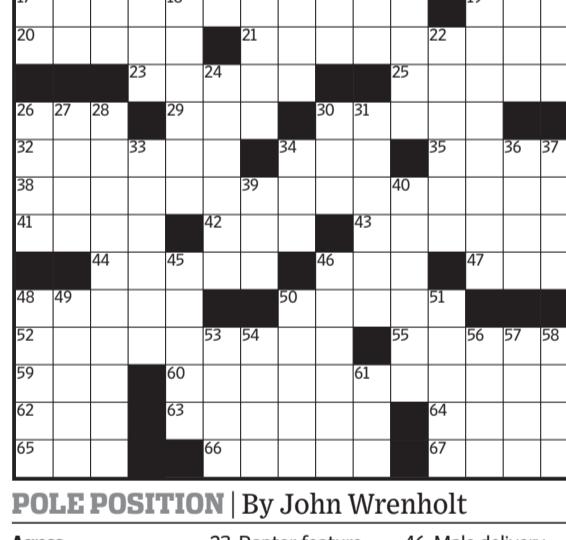
Dublin 19 12 c 17 11 sh

Edinburgh 20 12 c 18 11 sh

Frankfurt 26 14 s 30 16 t

AccuWeather.com

The WSJ Daily Crossword | Edited by Mike Shenk



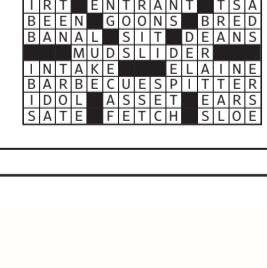
POLE POSITION | By John Wrenholt

Across		
1	Choreography concern	23 Raptor feature
5	Position in an orchestra	25 Market pessimists
10	With 10-Down, mother of North and Saint West	26 Go on to say
14	Find a partner	29 Game in which two lose
16	Exclamation of insight	30 Signs
17	Company founded by John D. Rockefeller	32 Illegal sweeteners
19	Parks' partner, for short	34 Project
20	Play along with	35 Wheeling's river
21	When everything goes perfectly	38 Oscar-winning song from "Pocahontas"
22		41 Vent
23		42 Nettle
24		43 Like Baroque architecture
25		44 Richard Parker in "Life of Pi," e.g.
26		46 Male delivery
27		47 Items to crunch: Abbr.
28		48 Blue Cross rival
29		50 Tree with catkins
30		52 Paving slab
31		55 Legal sweetener
32		59 Darling of the 1980s Mets
33		60 World Series precursor
34		62 Make a decision
35		63 Ragweed reaction
36		64 Long in the tooth
37		65 Didn't I warn you?
38		66 Like capital gains
39		67 Pub mates

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

Down	
1	Frame for panes
2	Item in many Degas paintings
3	Gouda alternative
4	Grape that comes in blanc and noir varieties
5	Returns expert, for short
6	Conceal from pursuers
7	Quinn of "Elementary"
8	Country club swinger?
9	Downfall
10	See 10-Across
11	"Rumor has it..."
12	Store that uses a star for its apostrophe
15	West Point freshman
18	Chest part
22	Fame
24	Animal who's appeared on 10 TV Guide covers
26	Rudimentary principles
27	Decrease
28	Dabbler in the arts
30	On parole
31	Highest pt. in Oregon
33	Japanese show of respect
34	1991 film nominated for a Best Picture Oscar
36	Division preposition
37	Victor Hugo's ___ et Ballades"
39	His jersey was raised to the Boston Garden rafters in 1979
40	Polar explorer Shackleton
45	Sounds of shock
46	Lowlife
48	Big dos
49	Skip a ceremony
50	Wing
51	Lacking good cell coverage, perhaps
53	Revival setting
54	Eligible to serve
56	Head over heels
57	Did more than pass
58	Wine list section
61	Homer's neighbor

Previous Puzzle's Solution



Stay informed on your busiest days with targeted email alerts and newsletters.

Sign Up Now: wsj.com/newsletters



The News You Need.
Straight to Your Inbox.

THE WALL STREET JOURNAL.
Read ambitiously

© 2017 Dow Jones & Co. Inc. All rights reserved. 6DJ5548

BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Wednesday, June 14, 2017 | B1

Yen vs. Dollar 110.0810 ▲ 0.12%

Hang Seng 25852.10 ▲ 0.56%

Gold 1262.50 ▼ 0.28%

WTI crude 46.32 ▲ 0.52%

10-Year JGB yield 0.065%

10-Year Treasury yield 2.217%

China's Yield Curve Grows Odder

Pessimism about economy, tight funding shake up the bond market

BY SHEN HONG

SHANGHAI—An anomaly in China's \$1.7 trillion government-bond market has worsened, as an odd combination of tight funding conditions and economic pessimism pushed long-dated yields well below those on one-year bonds, the shortest-dated government debt.

In the latest sign of stress in a market pressured by Beijing's effort to clean up a debt-laden financial system, the yield on 10-year bonds fell to 3.55% on Tuesday, less than

the one-year paper's 3.61%. That is a situation unseen since June 2013, when an unprecedented cash crunch jolted Chinese markets.

A so-called yield-curve inversion first surfaced in China a month ago, when the yield on less actively traded five-year bonds broke above that on the popular 10-year bonds. Yields move inversely to bond prices.

Two weeks later, the anomaly took on a rare, new form: The yield on the illiquid seven-year bonds rose above those on both the five-year and 10-year paper.

An inverted yield curve defies the common understanding that bonds requiring a longer commitment should compensate investors with a higher return. It usually re-

flects pessimism among investors about a country's long-term prospects for growth and inflation.

When the U.S. Treasury yield curve inverted in 2006 and 2007, most analysts cited Asian central banks' heavy buying of longer-dated U.S. government debt.

"But the curve inversion we are seeing right now is one with Chinese characteristics and it's different from the previous one in the U.S.," said Deng Haiping, chief economist at JZ Securities.

The current anomaly in the Chinese bond market is partly the result of mild inflation and expectations of a slowing economy, Mr. Deng said. "At the same time, short-term interest rates will likely stay elevated because the authorities

will keep borrowing costs high so as to facilitate the deleveraging campaign," he said.

Since last summer, Beijing has embarked on a campaign to reduce long-term financial risk caused by reckless lending behavior among banks and leveraged investing that has created one asset bubble after another.

The effort intensified in February and March when the People's Bank of China raised a suite of key money-market interest rates, which has since pushed up yields across the bond curve, especially those on short-dated tenors.

As a result, the one-year bond yield rose to a 31-month high of 3.66% on Thursday, while the increase in the yield on 10-year bonds has lagged behind.

In fact, the 10-year yield has fallen more quickly than its short-dated counterpart since Monday, when a brief, largely speculative rebound in bond prices emerged after Beijing sent somewhat soothing messages on its deleveraging campaign, analysts say.

In an article published Saturday, the central bank's flagship newspaper, Financial News, said the severe credit crunch four years ago won't repeat itself this month because the bank will keep liquidity conditions "not too loose but also not too tight."

Chinese financial markets tend to be particularly jittery in June because of a seasonal

Please see BOND page B2

♦ Heard: Beijing braces for rate increase by Fed B8



AOL's Tim Armstrong has the task of integrating two units.

Yahoo Business Has New Leader

BY LARA O'REILLY

AOL chief executive and veteran ad salesman Tim Armstrong is ready to build a new empire, while Yahoo boss Marissa Mayer is leaving hers behind.

Verizon Communications announced Tuesday it had completed its \$4.5 billion acquisition of Yahoo's core internet assets.

Ms. Mayer has opted to resign from Yahoo given the changes to her role following the close of the acquisition, the company said.

Yahoo will be merged with AOL, which Verizon bought for \$4.4 billion in 2015, to create a new online media and advertising subsidiary called Oath, housing such brands as HuffPost, TechCrunch, Yahoo Finance, Tumblr and the pair's stack of advertising technology solutions.

The two companies will benefit from the data Verizon has on its subscribers, which will improve targeting and measurement for marketers looking for online advertising alternatives to Google and Facebook.

Distribution will also be a factor: Soon, for example, some of Oath's content brands will be automatically available on the "desktop" of Verizon subscribers' phones through its AppFlash app. Verizon's go90 mobile video app will also become more integrated with Oath's content properties. And entirely new mobile content brands are set to launch before the end of the year, created by Oath's internal Factory unit.

Mr. Armstrong, who becomes Oath's CEO, said: "The entire company is centering around brand building for mobile and building our content brands."

He declined to comment on Ms. Mayer's "decision process" in opting to move on, beyond

Please see CEO page B4



A Shoprite in South Africa. The grocer and other chains, like furniture seller Steinhoff, have tried to build out from a base in South Africa.

Africa Stymies Big Global Retailers

BY ALEXANDRA WEXLER

Pieces of the Pie

Steinhoff's revenue by region



Sleepy's owner Mattress Firm Holding Corp. in the U.S. and the £597 million (\$716 million) acquisition of British discount retailer Poundland Group PLC.

Steinhoff is the latest in a string of multinationals with

South African roots that has looked outside the continent for growth. The company moved its primary listing to Frankfurt in late 2015 to better access capital, joining the likes of mining behemoth Anglo American PLC and luxury-goods giant Cie. Financière Richemont SA, which also retain secondary listings on the Johannesburg Stock Exchange.

In 2011, the African Development Bank lighted a fire under companies selling beer, baby diapers and other goods when it said Africa's middle class totaled roughly 350 million people. That assessment coincided with big investments in Africa from international brands, such as Wal-Mart Stores Inc., and a push into the broader continent by South African retail heavyweights like Woolworths Holdings Ltd., Shoprite Holdings Ltd., the continent's larg-

est grocer, and Steinhoff.

But the bank in its estimate included workers who made little more than \$2 a day. A more conservative count, released in 2015 by Credit Suisse, said that when narrowing Africa's middle class to individuals with at least \$50,000 in assets, it had just 20 million members.

Slow and expensive logistics, problems securing land for new stores and wildly fluctuating currencies also have hampered growth, while rises in inflation and unemployment have eaten into consumers' purchasing power. Wal-Mart's Massmart Holdings Ltd. has been slow to open stores, while Woolworths has pulled out of Nigeria, Africa's largest economy.

"They sort of go [into Africa] thinking, 'We're God's gift to the retail industry,'" said Nicholas Corbishley, head of Africa investments at Old

Please see AFRICA page B2

EU Makes a Play for Clearing Business, a U.K. Jewel

BY JULIA-AMBRA VERLAINE

AND MAX COLCHESTER

Europe fired its first broadside at the City of London since the Brexit vote, making a grab for the U.K.'s vast clearing market.

The European Union's executive arm proposed plans Tuesday that could force clearinghouses that do a large chunk of business in euros to move to the EU, according to a person familiar with the plan.

While Tuesday's proposal isn't the nuclear option the U.K. had feared—an automatic relocation of clearinghouses that clear lots of euro-denominated contracts—it is a bold signal that the EU is prepared to play tough as Brexit negotiations begin.

In a draft law, the European Commission stipulates that

large, or "systemic," clearinghouses operating outside the EU could be subject to extra supervisory requirements including on-site inspection and access to financial accounts, this person said.

The proposed new supervisory powers give the EU more leverage to push clearing business into the bloc.

A clearinghouse sits between the buyers and sellers of instruments such as commodities and derivatives, pledging to complete the deal even if one side reneges. This business deep inside the financial plumbing is one of London's crown jewels, attracting trillions of dollars of derivatives trades. The U.K.'s know-how in clearing and settling those trades has in turn acted as a magnet for capital and expertise.

In 2016, the U.K. cleared

\$1.18 trillion of interest-rate derivatives every day, making it the second-largest clearing location in the world after the U.S., according to the Bank for International Settlements.

Now that position, built up over the past 50 years, is under threat.

Britain currently clears more euro-denominated interest-rate derivatives than other EU countries combined—about three-quarters of the EU total. European authorities fear that after Brexit, the U.K. will be neither answerable to EU courts nor regulators. The biggest clearer of euro-denominated credit-default swaps, LCH.Clearnet Group Ltd., for instance, is based in London and wouldn't fall under EU supervision after Brexit.

Under the proposal, the Paris-based European Securities and Markets Authority

Clearing Hit

Daily turnover of interest-rate derivatives

\$14 trillion



would have to get the blessing of both the European Central Bank and the European Commission to deem a clearinghouse as worthy of being relocated to the EU.

The ECB has previously

sought to limit the clearing of euro contracts outside of the eurozone, but it was rebuffed by the European Court of Justice in 2015. The ECB didn't appeal the decision in what

Please see BREXIT page B2

INDEX TO BUSINESSES

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

A	GE Lighting.....B10
Alibaba Group Holding	General Electric...B3,B10
Alitalia.....B2	Goldman Sachs Group
Alphabet.....B1,B4B1,B7
Amazon.com.....B1	Google.....B4
Amgen.....B2	Gulf Island Fabrication
Andreessen Horowitz.....R4B3
Anglo American.....B1	
Anthem.....B5	
AOL.....B1	
Apple.....B1,B4	
Aviva Investors.....B10	
B	
Baidu.....R2	
C	
Cigna.....B5	
Compagnie Financiere Richemont.....B1	
Covington & Burling.....B4	
Crown Resorts.....B3	
Ctrip.com International.....R1	
E	
eMarketer.....B4	
Etihad Airways.....B2	
Express.....B8	
Express Scripts Holding.....B5	
F - G	
Facebook.....B1,B4	
GE Capital.....B3	

INDEX TO PEOPLE

A	Ginsburg, Ruth Bader.B2
Armstrong, Tim.....B1	Gray, Jerry.....A9
B	Kalanick, Travis.....B4
Breerwood III, Roy.....B3	L
Brin, Sergey.....B2	Schorlemer, David.....B3
Byers, Deborah.....B3	Levin, Rick.....B5
C	Seibert, Robin.....B3
Caldwell, Preston.....B3	Sen, Amrita.....A2
Chan, Connie.....R4	Stuart, Jan.....A2
Crozier, Alain.....R3	Su, David.....R4
F	Sun, Jane Jie.....R1
Flannery, John.....B3	Swedish, Joseph R.....B5
Fowler Rigetti, Susan B4	T
Friedlich, Jim.....B4	Tan, Anthony.....R6
G	Maggioncalda, Jeff.....B5
Ghulam, Muhammed..B3	Mayer, Marissa.....B1
	Michael, Emil.....B4
	Milner, Yuri.....R1
	Mittal, Kavin Bharti..R6
N - P	Mittal, Kavin Bharti..R6
	Ng, Andrew.....B5,R5
	Page, Larry.....B2
	Zhang, Tong.....R5
	Zuckerberg, Mark.....B2

AFRICA

Continued from the prior page
Mutual Property, a South African real-estate developer. "And they got hammered."

Steinhoff executives have said growth potential for their African retail businesses is constrained by the current size of the African market.

"Five years ago, there was a lot more optimism and interest," said Dion Shango, chief executive of PricewaterhouseCoopers for Southern Africa.

Steinhoff said its African retail businesses outside Southern Africa were hit hard in the most recent six-month period by falling local currencies. The company also said it was moving ahead with a separate listing of its African operations to better value those businesses and provide a stock for emerging-markets investors interested in the continent.

This stripped-back success speaks volumes about the evolution of consumer activity across Africa as steep slides in prices of commodities from copper to crude shake local economies.

While retailers in other emerging markets, such as Eastern Europe or Asia, have seen opportunity in luxury goods, in Africa they are going in a different direction.

The challenges—and promises—of the African retail market were on display on a recent afternoon in a small, well-lit shop near Luanda's international airport. Here, in an outlet of Steinhoff's Pep chain, Angola's middle class shopped for brightly colored essentials from blouses to baby bathtubs, which were largely made in China and then driven more than 2,600 miles by truck

from South Africa to this sprawling seaside capital.

Steinhoff doubled down on Africa when it bought discount clothing retailer Pepkor in 2015 for \$2.8 billion South African rand (about \$5.7 billion at the time). There are now more than 2,300 Pep stores in a dozen countries on the continent. Angola was Pep Africa's top-performing market during the 2016 fiscal year, the company says, despite inflation of more than 30%.

One of the reasons: "We understand how to trade cheap," said Thys Potgieter, the company's general manager for Angola. "We are not flashy."

Pep's competitors are largely informal vendors on Luanda's street markets, who usually don't pay rent, marketing, taxes or staff. But some customers say those traders don't offer the quality or choice available in air-conditioned Pep stores.

"People always talk about stuff from Pep," says Edmar Augustinho, a 21-year-old economics and law student. Vania Tiago, a 22-year-old secretary, said she used to come to the store almost every week to shop for clothes for her baby. Amid Angola's runaway inflation, however, she has cut her visits to once a month. "There are lots of good things, like the quality. The only bad thing is the price," she said.

Mariza Nel, Steinhoff's director of corporate services, says operating successfully in African markets requires a lot of flexibility—and no unnecessary frills.

"You really have to have a very simple product range that has little fashion in it so it can be on the shelves for quite long," she said. "If you compare Zara or H&M, they need to change range very, very often. In Africa, it's impossible."

doz began selling the drug in September 2015—at a 15% discount to Neupogen—even as it argued against the delay.

The high court, in an opinion by Justice Clarence Thomas, ruled unanimously that Sandoz shouldn't have had the additional wait, a ruling that could speed up the timeline for future biologics to reach the market.

The law required the manufacturer of a biosimilar to give 180 days advanced notice to the maker of the brand-name biotech drug, but the Supreme Court's ruling said companies can give the notice even before FDA approval.

Amgen said it was disappointed in the ruling. Novartis said the decision "will help expedite patient access to life-enhancing treatments."

An appeals court ruled in 2015 that Sandoz had to wait 180 days until after the U.S. Food and Drug Administration approved Zarxio in March of that year. Consequently, San-



Italian airline already has launched an insolvency process in its home country, and the government there has put Alitalia up for sale.

Alitalia Seeks Bankruptcy in U.S.

BY TOM CORRIGAN

Italy's Alitalia SpA airline filed for bankruptcy in the U.S., faced with an imminent threat of losing access to New York's John F. Kennedy International Airport over unpaid bills.

Alitalia on Monday sought chapter 15 protection, the section of the bankruptcy code that deals with international insolvencies, at the U.S. Bankruptcy Court in New York.

Large foreign companies, particularly those with U.S. operations or dollar-denominated debt, often seek bankruptcy protection in the U.S. to aid restructuring processes in their home countries. Like chapter 11, chapter 15 immediately halts lawsuits and blocks creditors from seizing assets.

Alitalia recently launched an insolvency process in Italy for the second time in a decade, after employees rejected a restructuring plan put forward by its major shareholder.

On Monday, Judge Sean Lane, who will oversee the air-

ers. Court papers filed Monday show Italy's government has agreed to provide the airline with about €600 million (\$673 million) in emergency financing to keep it operating while it works to restructure debts that topped \$3 billion.

According to Alitalia's court papers, Terminal One Group Association L.P. had threatened to suspend the airline's lease at JFK as soon as Tuesday unless it was paid, which could have significantly disrupted the airline's business by cutting off daily flights to and from New York. Court papers show Alitalia's U.S. operations account for roughly 30% of its total revenue, and about half of that is generated from flights to and from JFK.

Alitalia also said it faced being cut off from internet and telephone services early next week, which would have shut down its U.S. call center and other office activities.

On Monday, Judge Sean Lane, who will oversee the air-

line's U.S. bankruptcy proceeding, issued a 10-day temporary restraining order to reinforce the court's ability to prevent any creditor from taking actions that could damage Alitalia's business before he holds a hearing on the matter on June 26.

Carrier faced threat of losing access to New York's John F. Kennedy airport.

Italy's government has put the airline up for sale, after months of fruitless talks with labor unions and the carrier's shareholders, including its biggest, Abu Dhabi-based Etihad Airways.

Three years ago, Etihad unsuccessfully poured in cash to refresh the carrier, re-training cabin crew and re-

placing fading interiors with Italian-designed leather seats. But Etihad, which owns 49% of the airline, has refused to put more cash into Alitalia without significant concessions from workers.

Alitalia has racked up years of losses amid competition from a swarm of budget airlines in Europe. Ireland's Ryanair Holdings PLC is now the biggest airline in Italy by passenger numbers.

Alitalia, which dates back to 1947, operates about 4,200 flights a week to 94 destinations, including 26 destinations in Italy and 68 destinations outside of Italy, court papers show. The airline flew about 22.6 million passengers last year and has a substantial airfreight business.

Alitalia is part of the SkyTeam alliance, a group of 20 airlines that share mileage programs, airport lounges and other services.

—Robert Wall contributed to this article.



The Pudong financial district in Shanghai. China's yield-curve inversion has worsened, adding to pressure in the bond market.

BOND

Continued from the prior page
surge of cash demand arising from corporate-tax payments and banks' need to meet regulatory requirements on capital.

On Sunday, the official Xinhua news agency ran a similar commentary that sought to stabilize expectations. "Don't panic," it urged investors.

Beijing's clampdown on financial risk has also sent ripples well beyond China's shores.

In the latest global fund-manager survey conducted by Bank of America Merrill Lynch

last week, credit tightening in China ranked as the top "tail risk" for the second straight month, with 61% of the investors polled saying that tighter Chinese monetary policy will slow the country's manufacturing sector.

"The authorities' soothing rhetoric certainly helped drive down yields and I think even if the curve inversion disappears one day, the curve will look pretty flat for quite some time," said Tan Han, chief fixed-income analyst at Guotai Junan Securities.

"It's determined by the fundamentals at both the short and long ends of the curve," Mr. Tan said.

STREET

Continued from the prior page
they often do so suddenly.

Yet, tech stocks aren't repeating the dot-com bubble of 2000. It is true that before its drop on Friday, the S&P tech sector came within 0.1% of breaking its dot-com high for the first time. But unlike in 2000, many of today's tech stocks are well established and run highly profitable oligopolies.

In the long term, the danger is that hubris in the boardrooms of tech companies will lead them to fritter away shareholder cash as they set out on a landgrab of new technologies away from their core expertise.

Apple has put the "hub" in hubris with its flashy new wheel-shaped headquarters. Some of the maddest projects have been put on ice—Apple's plan to diversify from mobile phones into electric cars or Google's internet provision via solar-powered drones—but plenty of "moonshot" projects remain.

Some of these moonshots will surely pay off, but inves-

tors would be wise to wonder about the core expertise of some of the companies in which they're buying shares. Are they high-margin oligopolies in social media, mobile phones and operating systems? Or are they generic technology incubation operations able to turn wacky ideas into new business models? Treating them as

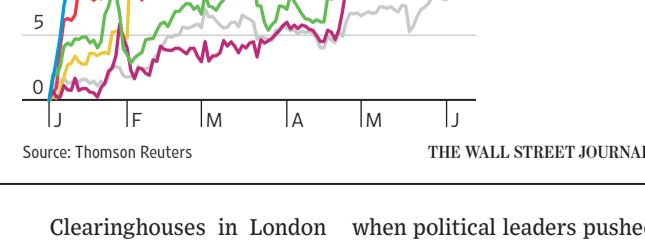
safe, low-volatility stocks im-

pplies the former, but that isn't compatible with their cash generation being plowed back into high-growth moonshots.

Worsening this risk is the lack of effective controls on the powerful founders of many of the big tech companies. History has shown time and again that executives

What Goes Up Must Come Down...a Bit

Shares in leading technology stocks have dropped sharply but remain strongly ahead for 2017.



Source: Thomson Reuters

THE WALL STREET JOURNAL

BREXIT

Continued from the prior page
was largely seen as a political compromise with the Bank of England.

Clearinghouses in London have argued forcing them to move a chunk of their activities into the EU would push up the cost of clearing and potentially cause financial instability. The industry boomed

when political leaders pushed clearing of over-the-counter derivatives onto clearinghouses in the wake of the Lehman Brothers bankruptcy, which called into ques-

tion whether counterparties on trillions of dollars of contracts could fulfill their obligations. Executives at LCH have argued that shifting contracts to a new location would be extremely risky.

BUSINESS NEWS

In Energy, Help Is Wanted

Oil-and-gas companies hunt for deal makers with prized talents for mergers, acquisitions

BY RHEA RAO
AND TATYANA SHUMSKY

The energy sector is thirsty for finance executives with deal-making skills as rising oil prices spur merger activity and companies seek to fill vacancies created during the market bust.

So far this year, 23 deals have been announced, proposed or completed by U.S.-based oil and natural-gas companies in the S&P 1500, according to Dealogic. The total value—US\$47.4 billion—is already 34% higher than the US\$35.3 billion worth of deals announced, proposed or completed during all of last year.

The flurry of activity suggests that oil and gas companies are poised to grow after years of retrenchment. Companies such as National Oilwell Varco Inc., Gulf Island Fabrication Inc. and Marathon Oil Corp. have recruited new finance chiefs with experience in mergers and acquisitions.

"As the activity increases, it would increase the skill level required for a new CFO," said Preston Caldwell, an equity analyst at Morningstar.

More than 40% of oil and gas companies in the S&P 1500 index announced a CFO departure between 2012-2017, according to The Wall Street Journal analysis of S&P Global Market Intelligence data. Of those, almost 30% have changed CFOs more than once.

The moves coincided with a historic collapse in crude-oil prices and a series of bankruptcies that decimated the sector.

During that same period, 35% of the 1,000 largest U.S. companies changed CFOs at least once, according to Korn/



Energy firms like Marathon have recruited new finance chiefs.

Ferry International.

Crude-oil prices tumbled from more than \$100 a barrel in June 2014 to a 12-year low of US\$26.21 in February 2016, erasing more than three-quarters of their value. Stock prices followed suit, as the SPDR S&P Oil and Gas Exploration Exchange Traded Fund fell 71% during the period.

More than 200 U.S.-based oil-and-gas companies filed for bankruptcy in 2015 and 2016, according to law firm Haynes and Boone LLP.

National Oilwell Varco didn't halt deal making during the slump, and acquisitions continue to be a crucial aspect of its growth strategy, said Loren Singletary, the company's vice president of investor and industry relations.

Jose Bayardo, the company's CFO, is a former investment banker who joined National Oilwell in August 2015. He succeeded former finance chief Jeremy Thigpen, whose priority during the downturn was cost-cutting, Mr. Singletary said.

The Houston-based company purchased a business unit from Trican Well Service Ltd., a Canadian oilfield-services company last June for \$53.5 million Canadian dollars (US\$40 million). National Oilwell signed a joint venture

with Saudi Aramco in May and will own a 70% stake in the new venture.

Mr. Bayardo "has been an important part of that strategy and execution on that strategy," said Mr. Singletary.

Marathon Oil hired Dane Whitehead as its finance chief in March, before the company announced two large deals. The Houston-based oil and natural-gas exploration and production company reached an agreement to sell its Canadian subsidiary for US\$2.5 billion in March. It also acquired land in the oil-rich Permian Basin for US\$700 million.

Mr. Whitehead previously worked at EP Energy Corp., a company that, according to Dealogic, completed 10 deals during his tenure. That deal-making experience makes him a good fit for Marathon, which seems to be ramping up its M&A activity, said Muhammed Ghulam, an analyst at Raymond James.

Marathon declined to comment.

Tough market conditions forced many companies to write down the value of their oil and gas properties, turning up the pressure on executives, said Deborah Byers, partner and U.S. energy leader at Ernst & Young LLP.

Three finance chiefs have

Big Deals

Total value of deals announced, proposed or completed in oil-and-gas sector

*Year-to-date \$47.4B



Note: For U.S.-based oil-and-gas companies listed in the S&P 1500 since at least 2012
Source: Dealogic

THE WALL STREET JOURNAL.

resigned from Gulf Island since 2012. The Houston-based builder of offshore oil and gas platforms named David Schorlemer CFO in January.

The pressure to cut costs and lay off staff in the oil and gas sector took a toll on finance chiefs in the industry, said William Chiles, a company director for Gulf Island.

Mr. Chiles said Mr. Schorlemer has different strengths than the previous finance chief, who had an accounting background. "Our current CFO has better financial-engineering skills, more M&A and capital-market skills that we need today," he said.

Despite the bloodletting among finance chiefs during the oil downturn, those who stuck it out in the industry are likely to be in demand for years, said Rob Thummel, portfolio manager at Tortoise Capital Advisors. Many of these executives navigated the cratering oil prices while negotiating lower borrowing rates and soothing concerned shareholders, he said.

"That experience, as painful as it was for their pocketbook and their stock options, was valuable for their career development," Mr. Thummel said. "Someone getting through the tough times is what you want in a CFO."

At GE, Finance Veterans Ascend

By THOMAS GRYTA

The finance guys are back in charge at **General Electric** Co.

After 36 years under Jack Welch and Jeff Immelt, the conglomerate will soon be run by two GE lifers who spent years working together at the once lucrative-yet-problematic **GE Capital** division. Newly anointed John Flannery will take the top job when Mr. Immelt retires as CEO this summer, while financial chief Jeffrey Bornstein, who was also in the running for the top job, plans to stay on board.

"Having Jeff as the vice chairman is key," Mr. Immelt said in an interview, sitting at a table with Mr. Flannery in GE's Boston headquarters. "These guys have worked together for 20 years."

The duo first worked together in the 1990s at GE Capital dealing with such segments as commercial lending and bank loans. At the time, GE Capital was one of the largest banks in the U.S., financing everything from home mortgages to power plants. When it became a drag during the financial crisis, Mr. Flannery was abroad and Mr. Bornstein worked to wind it down.

After the crisis, Mr. Flannery was leading the deal-making team at GE while Mr. Bornstein was finance chief. The duo pushed to sell "sacred cows" such as GE Appliances and continued to shrink GE Capital by spinning off the credit card business into Synchro Financial.

"We look at the world through a pretty similar lens," Mr. Flannery, 55 years old, said of Mr. Bornstein, 51.

That lens is focused on how the company spends its money, Mr. Flannery said Monday. He has spent recent years turning around the company's healthcare division, while Mr. Bornstein has worked with Mr. Immelt on cutting costs at the parent company.

"Every dollar is an incremental choice of investment," Mr. Flannery said. "You can invest in plant and equipment, you can add sales people, you can develop new products, you can do research, you can buy companies, you can sell companies and you can buy back stock."

Mr. Flannery said he would work with Mr. Bornstein on a review of the company's vast operations, which span from diesel locomotive engines to infant-resuscitation systems used in hospitals. He will produce recommendations for the portfolio by the fall.

While Mr. Flannery transmits a sense of urgency for the review this summer, certain things won't be considered. The company's dividend, which

John Flannery and Jeffrey Bornstein worked together at GE Capital.

had to be cut during the financial crisis for the first time since the Great Depression, is "safe" and reducing it won't be considered, he said.

After the crisis, Mr. Flannery was leading the deal-making team at GE while Mr. Bornstein was finance chief. The duo pushed to sell "sacred cows" such as GE Appliances and continued to shrink GE Capital by spinning off the credit card business into Synchro Financial.

"We look at the world through a pretty similar lens," Mr. Flannery, 55 years old, said of Mr. Bornstein, 51.

That lens is focused on how the company spends its money, Mr. Flannery said Monday. He has spent recent years turning around the company's healthcare division, while Mr. Bornstein has worked with Mr. Immelt on cutting costs at the parent company.



A Crown complex in Melbourne. Eighteen Crown staffers face gambling-related charges in China.

China Charges Crown Workers

Eighteen employees of Australian casino operator **Crown Resorts** Ltd., including senior executive Jason O'Connor, will

By Mike Cherney
in Sydney and
Wayne Ma in Beijing

go to trial June 26 in Shanghai on gambling-related charges, Chinese authorities said.

The detainees have been charged with "suspected gambling" and the trial will take place at Baoshan's Criminal Court No. 1, the Shanghai High People's Court said in a notice on its website.

Crown said the charges were related to the promotion of gambling and were filed against employees in custody as well as those who were released on bail after being detained in October. It didn't say how many had been released and said it wouldn't comment further, citing the pending court case.

Foreign casinos aren't allowed to advertise gambling directly in China, but they can entice gamblers by promoting their destinations more broadly.

As part of the court filing, the names of all 18 defendants were released for the first time. Three Australians and one Malaysian were known to be in custody, according to previous reports from their respective governments.

The other employees are local employees of Crown, according to interviews with family members and people close to the case. They include people in administrative, sales or marketing roles, these people said.

Australia's Department of Foreign Affairs and Trade said authorities are continuing to provide consular assistance to the detained Australians.

Mr. O'Connor oversees Crown's international VIP operations, a job that included attracting foreign high-rollers to its properties. Mr. O'Connor is detained and couldn't be reached for comment.

The charges come as the gambling industry continues to assess the fallout from the arrests. Casinos in Australia and New Zealand reported declines in their VIP businesses in the months after the arrests, suggesting Chinese high-

rollers—an important source of revenue for casinos—had cut back on their spending.

"The big question in the marketplace is will the Chinese continue to gamble, and have the charges against Crown reduced the level of gambling?" said Peter Cohen, a former gaming regulator in the Australian state of Victoria who now works at consulting firm The Agenda Group. At this point, he added, "there's expected to be a slowing of the high-roller business, but the middle-class business seems to be unaffected by it."

Crown executives previously signaled that the company was cutting back efforts to attract lucrative Chinese high-rollers to its Australian casinos. The company also recently sold down its stake in a casino operator in Macau.

Some observers weren't surprised by the detentions, given Chinese President Xi Jinping's recent crackdown on corruption among party officials, which had already thinned VIP play at overseas casinos.

Junya Qian in Shanghai contributed to this article.

THE HUMAN ELEMENT 勢在人为

MOBILE WORLD CONGRESS SHANGHAI 世界移动大会·上海

28 JUN - 1 JUL 2017 • 2017年6月28日至7月1日

Mobile is a force - a phenomenon transforming our lives. As our world changes, it is mobile that keeps us connected and up to date. Mobile technology has completely changed how we communicate, interact, work and, of course, play.

Mobile itself has become fundamental. Elemental, even. But what drives Mobile?

The Human Element.

Join the GSMA from 28 June to 1 July 2017 for Mobile World Congress Shanghai to see firsthand how mobile technology is transforming us and our world, every single day.

You won't want to miss it.

Register for your complimentary All Exhibition Pass now with the code:
FAPS3N9TTT

LEARN MORE ABOUT MWC SHANGHAI



PLATINUM EVENT PARTNERS
中国移动 China Mobile
HUAWEI
GLOBAL PARTNER
MOBILE WORLD CAPITAL BARCELONA
WWW.MWCSHANGHAI.COM

TECHNOLOGY

WSJ.com/Tech

Uber to Release Probe's Findings

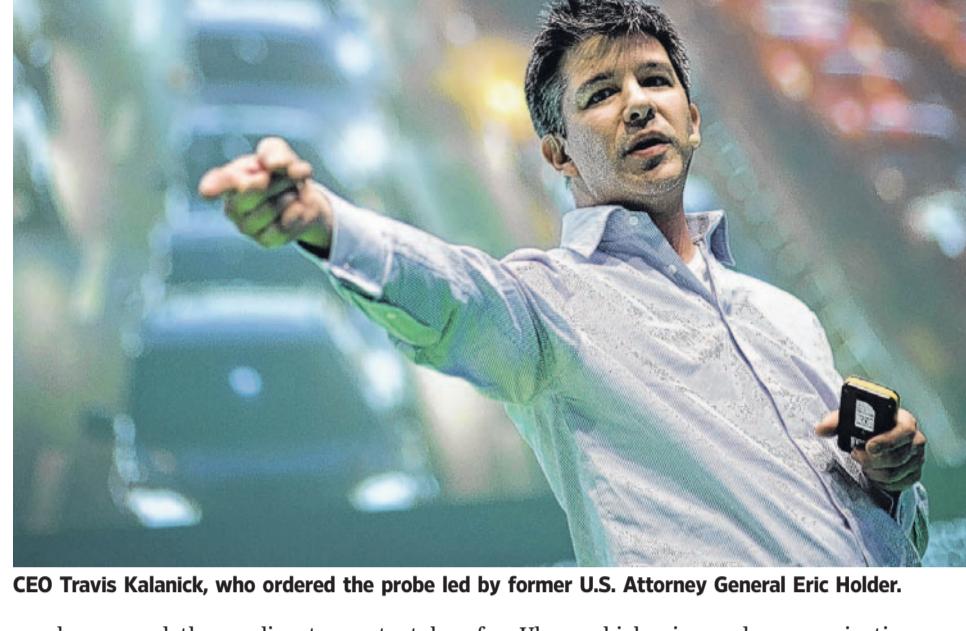
Recommendations of startup's harassment investigation to be presented to staff

BY GREG BENSINGER

On a Sunday afternoon nearly four months ago, a 3,000-word blog post with the seemingly innocuous title, "Reflecting On One Very, Very Strange Year At Uber," changed the course of the world's most highly valued startup.

The post, by former **Uber Technologies** Inc. software engineer Susan Fowler Rigetti, described an aggressive, male-dominated workplace with managers she says ignored her complaints of sexual harassment and sexism. Uber Chief Executive Travis Kalanick condemned the alleged behavior and ordered an investigation led by the law firm of former U.S. Attorney General Eric Holder.

On Tuesday, Mr. Holder's investigation was to come to a head, as Uber was expected to lay out the probe's findings and recommendations to 12,000 employees at a weekly all-staff meeting. Uber planned to release an executive summary, not the report itself, to



CEO Travis Kalanick, who ordered the probe led by former U.S. Attorney General Eric Holder.

employees and the media at around 1 p.m. New York time.

Companies often conduct such internal investigations, but rarely make them public because of liability and other concerns, say employment law experts. The situation is unique because of the public nature of Ms. Fowler Rigetti's allegations, which immediately spread on social media and were dissected for weeks in the media.

The outcome carries signifi-

cant stakes for Uber, which last year was valued by investors at \$68 billion. Some employees have said the investigation and other recent controversies have been painful distractions and threaten Uber's ability to attract talent. The company is in the midst of hiring both a chief operating officer and a finance chief, and will need to fill other positions after losing its heads of other areas including market-

ing and communications.

Over the past several weeks, Uber workers have been summoned to the nearby San Francisco office of Mr. Holder's firm, **Covington & Burling LLP**, to describe their experiences, according to employees who have been interviewed or were requested to be.

Another law firm, **Perkins Coie LLP**, which Uber hired in part to investigate Ms. Fowler Rigetti's claims, also

brought in workers for interviews. Uber said last week that it received 215 complaints out of that probe, and fired more than 20 workers as a result.

Mr. Holder's investigation is broader, covering Uber's management practices, and is designed to recommend specific changes. Those recommendations could include new human-resources processes, chains of command and sensitivity-training programs. The report also is expected to recommend the ousters of certain employees, though the names likely won't be made public.

On Sunday, Mr. Holder's firm presented its report to company directors, which unanimously approved all of the recommendations following a marathon board meeting in Los Angeles, according to people familiar with the matter. The fallout of that report was evident Monday, when Uber's chief business officer, Emil Michael, resigned from the company. His exit, which people familiar with the matter say was recommended by the report, was surprising given his close relationship with Mr. Kalanick.

Facebook Is Building A News Feature

BY DEEPA SEETHARAMAN AND LUKAS I. ALPERT

Facebook Inc. may soon help its users do something unfamiliar on the platform: pay for news.

The social-media giant is building a feature that would allow users to subscribe to publishers directly from the mobile app, according to people familiar with the matter.

The feature, long requested by publishers, is expected to roll out by the end of 2017, the people said. Many details remain up in the air, but discussions have centered on making the feature available only on stories published natively to Facebook through its Instant Articles product.

Talks also have focused on how to structure the arrangement, with Facebook leaning toward a metered-payment model, which would allow users to read some articles free of charge each month before prompting them to pay, people familiar with the matter said.

Another point under discussion is how payments would be processed and whether Facebook would get a cut of the revenue. One model being considered is to have Facebook take payment information but let publishers keep all the money, some of the people said.

"We're working with partners to understand their business and explore ways we can help them drive more value from Facebook. We are taking the time to deeply understand their different goals and needs," Facebook said in a statement.

The new feature would be a boon to publishers that are increasingly emphasizing digital subscriptions to power revenue growth, including The Wall Street Journal, the New York Times, the Washington Post and the Financial Times.



CEO

Continued from page B1

noting that the two executives had planned Oath's organizational structure together as they worked to integrate one public company with another.

Ms. Mayer's departure was widely expected despite her saying last year that she planned to stick around. Her name was absent from the leadership team Mr. Armstrong listed in a memo to staff, which was reported by Recode in April.

"Given the inherent changes to my role, I'll be leaving the company," Ms. Mayer said in a note to employees, which she posted on Tumblr on Tuesday.

"Looking back on my time at Yahoo, we have confronted seemingly insurmountable business challenges, along with many surprise twists and turns."

Mr. Armstrong confirmed reports that the company plans to lay off about 15% of its combined workforce, or 2,100 of roughly 14,000 employees. The job cuts will mainly affect those in back-office functions, where there are duplicate roles and teams.

Mr. Armstrong, who now faces the challenge of maintaining morale among the remaining team, said staff are "excited about the differentiated strategy."

The Yahoo acquisition was first announced in July last

year, but was hampered after the internet company announced two separate hacking attacks in 2013 and 2014, which led to 1.5 billion user accounts being compromised. After the disclosure of the data

Mr. Armstrong confirmed plans to lay off about 15% of Oath's workforce.

breaches, Verizon and Yahoo agreed to shave \$350 million from the original offer price. The final price tag was a marked drop for one of the

early web pioneers, which once had a market capitalization of more than \$125 billion during the peak of the dot-com boom.

Mr. Armstrong had previously stated publicly that he wanted Oath to reach 2 billion consumers by 2020, up from around 1 billion currently. He also targeted a rise in Oath revenue to more than \$10 billion. Mr. Armstrong has now added a small "caveat" to that time frame as the deal took longer to close than expected.

Oath's brands are best known in the U.S., where Yahoo and AOL's portal businesses provided many consumers with their first access to internet services such as email.

Oath's global growth plan

will be centered on certain key markets to extend its audience outside the U.S., including Western Europe, Japan, Taiwan and Singapore. Mr. Armstrong said he also wouldn't rule out acquisitions to help Oath achieve its targets.

Mr. Armstrong has a history of building media and tech brands, starting with his co-founding a magazine in his early 20s called "Beginnings in Boston," aimed at young people starting out in their careers. He later moved into sales roles at a variety of early internet companies in the 1990s, eventually joining Google, where he helped nurture key ad products, including AdSense and DoubleClick. Mr. Armstrong became CEO of AOL in 2009.

CHENGAL HOUSE
by Paramount Property™

200 year-old Malaysian hardwood.
An iconic residents' clubhouse.
A FIABCI Prix d' Excellence Silver Award.

Welcome to Chengal House.

At the heart of everything we do at Paramount is the ethos of respecting people and planet. It drives the way we design, plan and build our properties, and is reflected in how we invest and reinvest in the communities we build.

Chengal House at Sejati Residences, Cyberjaya, brings this ethos to life. From 200-year-old chengal wood upcycled from a 73-year-old factory, we designed and built a clubhouse that is an iconic tribute to the beauty and resilience of Malaysian hardwood.

While the direct beneficiaries of Chengal House will undoubtedly be the owners of Sejati Residences, this statement building is also a catalyst to making Malaysians appreciate our forests and timber, while exploring more innovations in wood preservation.

www.pcb.my

On behalf of all Malaysians, thank you to the global panel of judges for awarding Chengal House the FIABCI Prix d' Excellence Awards 2017 Silver Award in the Purpose-Built Category.

It is indeed a fitting tribute to one of nature's most valuable gifts.

A Sustainability Project by

PARAMOUNT

PARAMOUNT PROPERTY

PARAMOUNT EDUCATION

MANAGEMENT

Boards Sometimes Need More Insiders

BY JOANN S. LUBLIN

In an ironic twist, many U.S. corporate boards weakened their oversight of management by trying too hard to be independent, a new study finds.

Nearly three-quarters of S&P 1500 companies boast boards where the chief executive serves as the lone inside member, up from 41% in 2000. That is a troubling shift because companies governed this way are more likely to commit financial misconduct, generate lower profits and overpay their CEOs, the research suggests.

"Having at least one other insider is valuable to preventing some of these negative consequences," said Christina Shropshire, a co-author of the research, which tracked 1,638 companies in the S&P 1500 between 2003 and 2014.

Corporate scandals and legislative changes earlier this century decreased the popularity of multiple insiders on boards. Stock exchanges now require a majority of independent directors, based on the belief the arrangement enhances objectivity and allows for closer supervision of management.

An extremely independent board "is too much of a good thing" because lone-insider CEOs restrict board access to critical information and to leaders' possible successors, added Ms. Shropshire, an associate professor of management at Arizona State University's business school.

Businesses should "reconsider whether the push toward lone-insider boards is actually in shareholders' best interests," concluded the study by five management academics. The work will appear in a coming issue of Strategic Management Journal.

Some governance experts favor boards with the company leader as their sole insider to minimize management's boardroom clout. But such firms are 27% more likely to engage in financial misconduct—as evident by material financial restatements, the researchers reported. On average, the study showed, companies with a lone-insider CEO generated 10% lower net income than those with multiple inside directors.

Those top bosses also received sizable compensation packages. Lone-insider CEOs made an additional \$4.7 million a year, compared with an average of \$5.7 million for all chiefs, Ms. Shropshire said.

As part of the research, Ms. Shropshire and her co-authors present Chesapeake Energy Corp. as a cautionary tale. The late Aubrey McClendon, the natural-gas producer's co-founder who ran it between 1989 and 2013, stirred investor ire over his \$112 million pay package in 2008. He was indicted last year on charges of conspiring to rig the price of oil and gas leases between 2007 and 2012. During that period, the CEO held its only inside directorship. Mr. McClendon died in a car crash the day after his indictment. Chesapeake declined to comment on the research.

Anthem Boss Faces Tough Choices

After pulling out of Ohio, Joseph R. Swedish weighs what to do with rest of insurer's marketplace plans

BY ANNA WILDE MATHEWS

Anthem Inc.'s business is swirling with uncertainty as the U.S. Congress debates new health-care legislation. That means tough choices are looming for the insurer's chief executive, Joseph R. Swedish.

One of those difficult decisions came last week, when Anthem said it would withdraw from the Ohio insurance marketplace in 2018. Anthem's departure leaves 18 Ohio counties poised to have no plans available through the marketplace next year.

Anthem is a huge player in the marketplaces created by the Affordable Care Act, and the Trump administration has threatened to stop federal payments that reduce costs for low-income people who get coverage in those exchanges. Insurers say the cost-sharing payments provide vital support.

The Ohio decision, Anthem said, was a reaction to a volatile market and uncertainty around key issues including the federal payments. Now, Mr. Swedish is weighing what to do in the 13 other states where Anthem offers marketplace plans. He says he wants to be sure consumers have access to affordable health care, and he's concerned about issues including the severity of cuts to Medicaid in final legislation.

Mr. Swedish, 65 years old, is also locked in high-stakes litigation. Anthem and Cigna Corp. are suing one another over their soured merger deal, which was terminated in May after courts blocked it on antitrust grounds. Anthem is also suing Express Scripts Holding Co., alleging it violated their contract. Express has said it believes the suit is without merit.

The former hospital executive, who became Anthem's CEO in 2013, sat down with The Wall Street Journal late last month to talk about the state of health care.

Edited excerpts:



health conditions]—will the right rules of engagement, the right funding levels occur in order to make them sustainable? That's a serious concern to us. No. 2 is Medicaid funding. How then will the poor and vulnerable be treated as a result of choices that'll be made?

We're extremely concerned about our membership being supported in terms of access and affordability, as well as the ability to get to high-quality health care.

WSJ: With the Cigna deal off the table, what kinds of deals interest you?

Mr. Swedish: Being a growth-minded company, obviously we are looking to acquire—grow by mergers and acquisitions. We've made it very clear that we are very committed to the Medicare program. We have tremendous potential in the Medicaid arena. We certainly are looking for continued growth in servicing [employer and consumer health plans].

WSJ: Insurers don't have a great reputation with customers. What are you doing to improve that?

Mr. Swedish: We're retraining our entire workforce to be better aligned with needs of the customer, given the contemporary demands that come upon us. I'm a great believer that, if you don't measure it, you can't manage it. So, we've established net promoter scoring so that we are quarterly assessing how well we perform related to what the consumer experience is with us. [Net promoter score is a measurement of satisfaction and loyalty based on the willingness of customers to recommend a business to others.] We've seen remarkable improvement in the score.

WSJ: The House has passed a health bill and the Senate is working on one. What concerns you in that legislation?

Mr. Swedish:

Change to correct the ACA will be disruptive. Question is, can organizations like ours help the American public make the leap from what they've known to what may be passed? That is a tall order.

For instance, the creation of high-risk pools [special coverage options for people with

How I Work

The first thing you do in the morning?

I read five newspapers.

What's on your work desk right now?

A bronze statue of Sisyphus.

Your secret vice?

A glass of Balvenie Scotch.

a 25% premium increase. How can the markets we support tolerate that level of premium escalation? That's a judgment call we're gonna have to make.

WSJ: Are the marketplaces in a death spiral?

Mr. Swedish: It's an unfortunate characterization. There are markets that are significantly unsustainable. There are others that have performed, call it reasonably well, under the circumstances.

WSJ: Should CEOs have a

voice in big public debates like the one over the ACA?

Mr. Swedish: Absolutely. We're leaders of companies that represent millions of Americans, in our case, over 40 million members. We believe we are their voice. And we should speak on their behalf.

WSJ: Do you worry about becoming the subject of a presidential tweet?

Mr. Swedish: Not really. I don't think we're worried about the tweets, because I know we are considered valued contributors to the debate.

WSJ: The House has passed a health bill and the Senate is working on one. What concerns you in that legislation?

Mr. Swedish: Change to correct the ACA will be disruptive. Question is, can organizations like ours help the American public make the leap from what they've known to what may be passed? That is a tall order.

For instance, the creation of high-risk pools [special coverage options for people with

Watch the video and find more management coverage at WSJ.com
Management

COURSERA

New Leader Tapped To Head Company

Rick Levin is stepping down as chief executive of **Coursera**, handing over the reins of the online education company to former Financial Engines Inc. CEO Jeff Maggioncalda.

Mr. Levin, a former Yale University president, spent three years at the helm of Coursera as it underwent a transformation from offering a wide variety of free, online courses geared to individuals who can't themselves attend elite universities. It turned its attention to more targeted training programs for business, government and nonprofit groups. Coursera also started offering full graduate-degree programs with schools including the University of Illinois at Urbana-

Champaign.

He will become a senior adviser.

Mr. Maggioncalda led Financial Engines, an investment advisory firm, for 18 years before a brief sabbatical, according to a release from Coursera.

Coursera was co-founded in 2012 by Stanford University professors Andrew Ng and Daphne Koller, at a time when massive, open, online courses—known as MOOCs—were being touted as a potential disrupter of higher education by bringing courses from ivory towers down to the masses.

Coursera now has 2,000 courses and 180 specializations, with 26 million registered users globally. It has seen significant traction overseas, including in far-flung locations like Kazakhstan and Sudan.

—Melissa Korn

PROTERRA

Electric-Bus Maker Raises \$55 Million

Proterra Inc., the electric-bus maker heading toward a possible initial public offering, has raised an additional \$55 million in funding from investors including BMW AG's venture-capital arm and Al Gore's investment fund.

The fundraising follows a \$140 million investment in January and brings the total capital collected by the company to \$345 million since it was founded in 2004.

Burlingame, Calif.-based Proterra, which has manufacturing facilities in South Carolina and near Los Angeles, has sold more than 400 buses to cities and communities such as Dallas and Philadelphia. The vehicles sell for \$750,000 each.

ShipBob operates warehouses

near city centers, which it says allows it to offer affordable same-day and next-day shipping to online retailers. The company caters mainly to startups and other smaller e-commerce ventures that don't have the funding to build their own nationwide distribution networks.

ShipBob has grown rapidly since its 2014 founding, and now has fulfillment centers in Los Angeles, New York, Chicago and San Francisco.

Following its Series B funding round, ShipBob plans to expand to three more cities. The company will also continue to build out its software platform.

Bain will gain a board seat with the funding round, which also includes participation from Hyde Park Venture Partners, FundersClub, Hyde Park Angels and FJ Labs LLC.

—Brian Baskin

The Story is Just the Start with WSJ+

We've taken what you love to read in the Journal and brought it to life. Activate your complimentary WSJ+ membership today for exclusive offers, events and experiences.

Discover more at wsjplus.com

WSJ+

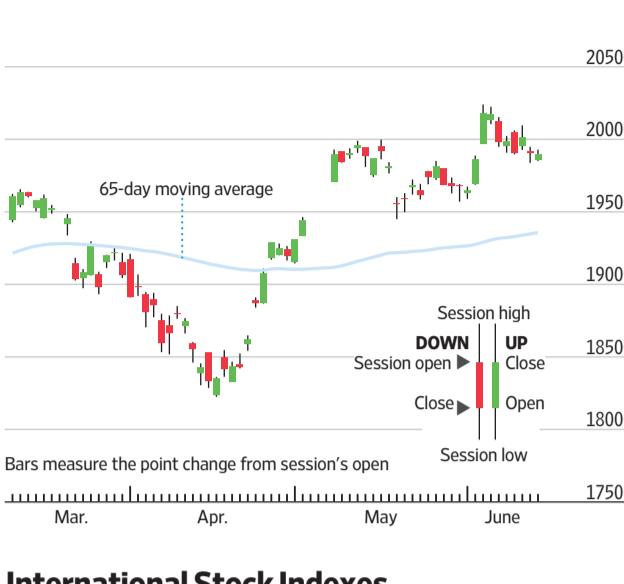


MARKETS DIGEST

Nikkei 225 Index

19897.75 ▼ 9.83, or 0.05%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

388.75 ▲ 2.13, or 0.55%

High, low, open and close for each trading day of the past three months.



S&P 500 Index

Data as of 12 p.m. New York time

Last: **2436.04** ▲ 6.65, or 0.27%

High:

Low:

Open:

Close:

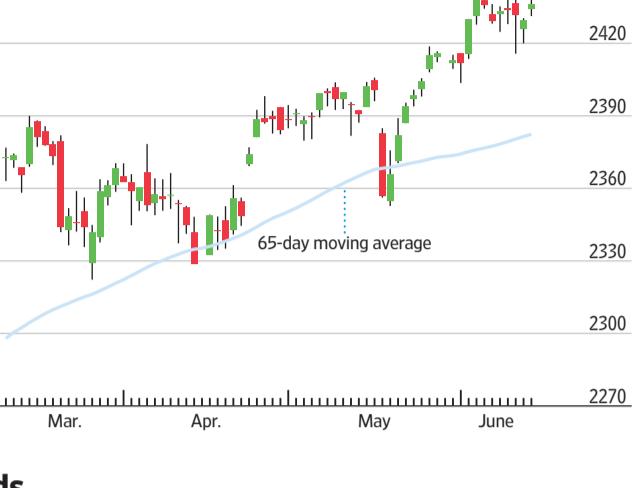
Trailing P/E ratio: 24.15 24.29

P/E estimate *: 18.97 17.92

Dividend yield: 1.95 2.16

All-time high: 2439.07, 06/02/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

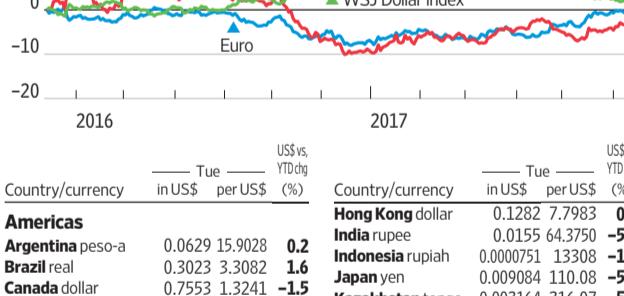
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Close	High	YTD % chg
World	The Global Dow	2780.37	7.24	▲ 0.26	2193.75	2791.48	10.0	
	MSCI EAFE	1894.71	8.37	▲ 0.44	1471.88	1956.39	10.4	
	MSCI EM USD	1010.00	1.08	▲ 0.11	691.21	1044.05	27.2	
Americas	DJ Americas	585.04	2.04	▲ 0.35	480.90	587.15	8.3	
Brazil	Sao Paulo Bovespa	61663.05	-37.18	▼ -0.06	48066.67	69487.58	2.4	
Canada	S&P/TSX Comp	15347.64	-36.16	▼ -0.24	13609.58	15943.09	0.4	
Mexico	IPC All-Share	49028.51	-100.25	▼ -0.20	43902.25	50154.33	7.4	
Chile	Santiago IPSA	3699.27	13.98	▲ 0.38	3057.91	3786.05	14.8	
U.S.	DJIA	21308.34	72.67	▲ 0.34	17063.08	21318.43	7.8	
	Nasdaq Composite	6208.37	32.90	▲ 0.53	4574.25	6341.70	15.3	
	S&P 500	2436.04	6.65	▲ 0.27	1991.68	2446.20	8.8	
	CBOE Volatility	10.61	-0.85	▼ -7.42	9.37	26.72	-24.4	
EMEA	Stoxx Europe 600	388.75	2.13	▲ 0.55	308.75	396.45	7.6	
	Stoxx Europe 50	3192.14	10.21	▲ 0.32	2626.52	3279.71	6.0	
France	CAC 40	5261.74	21.15	▲ 0.40	3955.98	5442.10	8.2	
Germany	DAX	12764.98	74.54	▲ 0.59	9214.10	12878.59	11.2	
Israel	Tel Aviv	1425.32	4.69	▲ 0.33	1372.23	1490.23	-3.1	
Italy	FTSE MIB	21088.78	178.55	▲ 0.85	15017.42	21828.77	9.6	
Netherlands	AEX	523.39	1.50	▲ 0.29	409.23	537.84	8.3	
Russia	RTS Index	1030.99	-10.50	▼ -1.01	884.83	1196.99	-10.5	
Spain	IBEX 35	10882.10	39.70	▲ 0.37	7579.80	11184.40	16.4	
Switzerland	Swiss Market	8867.07	59.22	▲ 0.67	7475.54	9136.95	7.9	
South Africa	Johannesburg All Share	51625.07	61.07	▲ 0.12	48935.90	54716.53	1.9	
Turkey	BIST 100	99299.67	-142.44	▼ -0.14	70426.16	100000.7	27.1	
U.K.	FTSE 100	7500.44	-11.43	▼ -0.15	5788.74	7598.99	5.0	
Asia-Pacific	DJ Asia-Pacific TSM	1629.85	3.97	▲ 0.24	1308.52	1637.17	14.6	
Australia	S&P/ASX 200	5772.80	95.00	▲ 1.67	5103.30	5956.50	1.9	
China	Shanghai Composite	3153.74	13.87	▲ 0.44	2842.19	3288.97	1.6	
Hong Kong	Hang Seng	25852.10	144.06	▲ 0.56	20038.42	26036.06	17.5	
India	S&P BSE Sensex	31103.49	7.79	▲ 0.03	25765.14	31309.49	16.8	
Indonesia	Jakarta Composite	5707.65	16.21	▲ 0.28	4814.39	5791.88	7.8	
Japan	Nikkei Stock Avg	19898.75	-9.83	▼ -0.05	14952.02	20177.28	4.1	
Malaysia	Kuala Lumpur Composite	1784.44	-4.45	▼ -0.25	1614.90	1791.01	8.7	
New Zealand	S&P/NZX 50	7440.08	7.34	▲ 0.10	6664.21	7571.11	8.1	
Pakistan	KSE100	48071.04	399.24	▲ 0.84	37039.57	52876.46	0.6	
Philippines	PSEi	7917.89	-72.35	▼ -0.91	6563.67	8102.30	15.7	
Singapore	Straits Times	3257.52	9.18	▲ 0.28	2729.85	3271.11	13.1	
South Korea	Kospi	2374.70	16.83	▲ 0.71	1925.24	2381.69	17.2	
Taiwan	Weighted	10128.15	18.19	▲ 0.18	8458.87	10226.84	9.5	
Thailand	SET	1572.36	8.55	▲ 0.55	1406.18	1591.00	1.9	

Source: SIX Financial Information; WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on June 13

US\$ vs. Yen

Country/currency

— Tue — YTD chg

Country/currency

FINANCE & MARKETS

Lawsuit Links Deal to Malaysian Scandal

U.S. alleges that funds stolen from 1MDB were used to finance purchase of energy firm

U.S. authorities are investigating the \$2.2 billion purchase of a U.S. energy company by a Middle Eastern government investment fund

By Tom Wright,
Justin Baer
and Bradley Hope

that was arranged by Goldman Sachs Group Inc. and netted one investor a \$300 million windfall in less than a week, according to a government lawsuit and people familiar with the investigation.

Investigators allege that the investor was an important player in the scandal involving Malaysian government-investment fund 1Malaysia Development Bhd., or 1MDB. Goldman earned hundreds of millions in fees arranging \$6.5 billion worth of bond deals for 1MDB.

Investigators in the U.S. and other countries have said several billion dollars was misappropriated from 1MDB.

The U.S. Justice Department, in an asset seizure lawsuit dated Wednesday, provided detailed allegations that in 2013 and 2014 funds allegedly stolen from 1MDB were funneled via a series of bank accounts and shell companies to partly finance the purchase of Coastal Energy, a Houston firm controlled at the time by legendary Texas oilman Oscar Wyatt Jr. The lawsuit seeks to seize proceeds from the Coastal deal, but not Coastal assets.

The Coastal deal involved many people believed by investigators to be involved in the alleged schemes to defraud 1MDB. The buyer was a joint venture between a company owned by Abu Dhabi sovereign-wealth fund International Petroleum In-



LUKE MACGREGOR/BLOOMBERG NEWS

Cepsa funded the bulk of a deal for Coastal Energy, according to a Justice Department lawsuit.

vestment Co., or IPIC, and a shell company controlled by Jho Low, a Malaysian financier, according to the Justice Department asset seizure lawsuit.

Goldman advised the IPIC unit that paid nearly all of the purchase price.

Last summer, the Justice Department filed a \$1 billion asset seizure lawsuit against properties controlled by senior executives of IPIC and against Mr. Low. In a complaint dated Wednesday, the Justice Department expanded the lawsuit to include property in London allegedly purchased with money it claims was taken from 1MDB and fraudulently washed by Mr. Low and his family through the purchase of Coastal Energy.

Mr. Low, who was being informally advised by Goldman at the time, first approached Coastal in 2012 about a possible acquisition, people familiar with the matter said. Skeptical that Mr. Low could come up with the cash necessary, Coastal executives told him to find a bigger partner, a person

familiar with the matter said. He returned with IPIC's Spanish energy unit, Compañía Española de Petróleos SAU, or Cepsa, the people said.

Mr. Low invested \$50 million in the deal, with Cepsa funding the remainder of the \$2.2 billion purchase, according to the Justice Department lawsuit and statements announcing the acquisition.

One week later, Cepsa transferred \$350 million to Mr. Low's shell company, according to the lawsuit. "The commercial basis for this nearly immediate 600% return on investment is not immediately apparent," the Justice Department lawsuit said. IPIC and Cepsa didn't respond to requests for comment.

Before an agreement with the U.S. energy company could be reached, Goldman's compliance department told its bankers to stop working with Mr. Low or his entity on the deal, citing concern over Mr. Low's wealth, people familiar with the matter said. Goldman recently had

turned down a request by Mr. Low to open a private bank account for the same reason, according to the people.

Mr. Low remained a participant, though, through a shell company called Strategic Resources (Global) Ltd, according to deal documents. Goldman advised Cepsa, which was paying nearly all of the deal's purchase price, according to the complaint, merger documents and statements announcing the deal. PricewaterhouseCoopers was a financial adviser to both Cepsa and SRG. PricewaterhouseCoopers declined to comment.

Goldman said in a statement that neither Mr. Low nor any firm controlled by him was a Goldman client in the Coastal deal. "Prior to reading the government filing, Goldman was not aware of, and had no involvement in, any transaction in which SRG sold its stake in a joint venture back to Cepsa," the firm said.

Goldman had roughly \$600 million in revenue from 1MDB in

Government Aims For London Assets

The U.S. government filed lawsuits aiming to seize a London penthouse with views of Buckingham Palace and a nearby office that served as headquarters for a lingerie company because it believes the properties were acquired with funds from a financial scandal in Malaysia.

The penthouse, office building and another flat are all located on Stratton Street opposite the Ritz hotel in the upmarket Mayfair district. They were acquired with \$77 million (\$98 million) that financier Jho Low got from a Malaysian state fund called 1Malaysia Development Bhd., or 1MDB, the U.S. Department of Justice said in court documents filed June 7.

"Low acquired an interest in the Stratton penthouse and the Stratton flat using 1MDB proceeds," the Justice Department, which has been working with U.K. authorities, said in the filings. "Low used funds traceable to misappropriated 1MDB proceeds to purchase the Stratton office." The Justice Department said in the filings it is seeking the forfeiture of the properties in London because they were "derived from violations of U.S. law" and were involved with money-laundering offenses.

The office was the headquarters for Myla, a U.K. lingerie company that Mr. Low also acquired with funds traceable to 1MDB, the Justice Department said in its lawsuits. Myla lost £7.59 million in 2015, the latest available figures. A spokesman for Myla couldn't be reached for comment.

wanted full control and ownership of the business."

The Justice Department is interested in the Coastal deal because it says the \$50 million Mr. Low invested originally came from 1MDB. The Justice Department on Tuesday moved to seize London property that it says was bought with some of the \$350 million proceeds of the Coastal deal. The Justice Department has questioned people involved in the deal in recent months, according to people familiar with the investigation.

Coastal was represented in the deal by Citigroup Inc., which advised its clients to tread carefully, one person said. The \$2.2 billion purchase price for Coastal Energy was at a 28% premium to the company's stock price, earning Mr. Wyatt more than \$500 million for his quarter stake in the company. An attorney for Mr. Wyatt didn't return calls seeking comment. A Citi spokeswoman had no immediate comment.

Goldman, Citi CEOs Ensnared By Hoax

BY LIZ HOFFMAN AND TELIS DEMOS

The chief executives of Goldman Sachs Group Inc. and Citigroup Inc. are the latest bank bosses to be hooked by an email prankster trolling top Wall Street brass, exposing a low-tech gap in banks' cybersecurity armor.

Goldman's Lloyd Blankfein and Citigroup's Michael Corbat, as well as Citigroup consumer-banking chief Stephen Bird, responded over the weekend to emails sent by the anonymous prankster masquerading as top executives at the two banks.

The hoaxter, who last month snared Barclays PLC chief Jes Staley and Bank of England Gov. Mark Carney, on Sunday published screenshots of the exchanges on Twitter. Goldman and Citigroup confirmed the email exchanges.

None of the executives disclosed sensitive information, but the repeated episodes flag concerns about whether banks have done enough to guard against online threats. It comes as more trading is hap-



Citigroup CEO Michael Corbat responded to a phony email purportedly sent by the bank's chairman.

The anonymous email prankster appeared to seek to embarrass executives.

pening on mobile devices and investment bankers are taking electronic pitchbooks on the road.

The emails mimic a well-known scam known as "phishing." In this, scammers try to get victims to click on malicious links or try to capture sensitive information, such as passwords, via seemingly innocuous emails. These emails can take the form of invoices from customers, shared Google documents, or phony password reset requests.

Last year, the FBI said that

it had observed a 270% increase in business-email scams over a 15-month period. In these, criminals had impersonated executives to request a fraudulent money transfer or other fraudulent transaction. Between October 2013 and February 2016, law-enforcement officials received reports from 17,642 victims of this kind of scheme that amounted to more than \$2.3 billion in losses.

The anonymous bank trickster so far has appeared to seek to embarrass executives rather than extract secrets or plant viruses. The fear, though, is that if bankers can fall for cheeky pranksters, they might also fall victim to the kinds of phishing attacks that hackers used to breach the Democratic National Committee's email, enabled by a false email asking to reset a password.

Mr. Blankfein received an email that appeared to be from a top lieutenant, Harvey Schwartz. The prankster ap-

peared to be looking for confirmation that a pair of recent tweets from Mr. Blankfein were a swipe at President Donald Trump's infrastructure agenda.

"Tweet won some online award for humorous tweet — Trump will be so pissed!)" it read, according to the screenshots published on Twitter.

—Peter Rudegeair contributed to this article.

Mr. Blankfein largely declined to take the bait. He said

SoFi Applies to Become a Bank

BY PETER RUDEGEAIR

Online lender Social Finance Inc. has asked federal officials to grant the company a banking license, one of the most advanced efforts by a financial-technology startup to obtain the power to offer bank products and services in exchange for stricter regulation.

The San Francisco-based company filed an application for a new-bank charter, a spokeswoman for the Federal Deposit Insurance Corp. said Monday. The application was filed June 6 under the name of a Salt Lake City-based subsidiary called SoFi Bank.

Fintech companies includ-

ing SoFi have attracted billions of dollars in venture capital in recent years with a goal of taking business from banks and other big financial companies that lend money, transfer funds, offer insurance products and manage clients' wealth.

Many firms have opted to cut deals with banks and other financial institutions to handle the technical functions of those activities behind the scenes because of regulatory restrictions.

Since its 2011 founding, SoFi has amassed a network of state licenses that it has used to make around \$17 billion in student loans, unsecured personal loans and mortgages. But

plans to provide its borrowers with a SoFi credit card and deposit account faced challenges because the company isn't a bank.

In a portion of the application reviewed by The Wall Street Journal, SoFi said it was seeking to establish an industrial bank chartered by the state of Utah to offer an FDIC-insured deposit account and a credit-card product. SoFi Bank would be a wholly owned subsidiary of SoFi capitalized with \$166 million in cash.

SoFi declined to comment.

Federal regulators have tried to be more accommodating to new entrants that engage in banking activities.

Advertisement INTERNATIONAL INVESTMENT FUNDS

[Search by company, category or country at asia.wsj.com/funds]

MORNİNGSTAR®

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

NAV FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg, Email: cam@cam.com.sg CAM-CF Limited OT MUS 06/12 USD 30720.21 1.7 11.1 -3.7

Value Partners

Investing through discipline

Website: www.valuepartners-group.com Tel: (852) 2143 0688

China A-Share Fund Cls A AUD H OT HKG 06/12 AUD 13.28 12.6 20.3 -7.6

China A-Share Fund Cls A AUD I H OT HKG 06/12 AUD 12.40 13.4 18.5 -8.2

China A-Share Fund Cls A CAD H OT HKG 06/12 CAD 12.26 12.3 18.8 -8.7

China A-Share Fund Cls A EUR H OT HKG 06/12 EUR 12.28 11.9 17.8 -8.3

China A-Share Fund Cls A GBP H OT HKG 06/12 GBP 12.66 9.8 20.2 NS

China A-Share Fund Cls A USD H OT HKG 06/12 USD 12.84 11.5 21.4 -7.6

China A-Share Fund Cls A NZD H OT HKG 06/12 NZD 12.55 10.9 20.0 -8.2

China A-Share Fund Ccls A HKD H OT HKG 06/12 HKD 13.06 11.9 18.5 -8.4

China A-Share Fund Ccls A NZD H OT HKG 06/12 NZD 13.20 18.4 18.5 -9.5

China A-Share Fund Ccls A NZD H OT HKG 06/12 NZD 13.08 12.8 20.7 -7.3

China A-Share Fund Ccls A NZD H OT HKG 06/12 NZD 11.46 15.1 17.2 -9.8

China A-Share Fund Ccls A USD H OT HKG 06/12 NZD 14.33 14.3 22.8 -5.5

China A-Share Fund Ccls A USD H OT HKG 06/12 USD 13.11 17.8 19.3 -8.6

China A-Share Fund Ccls A USD H OT HKG 06/12 USD 13.03 12.1 19.2 -8.2

China Greenchip-A Units AS EQ CYM 06/12 HKD 62.37 22.6 28.5 -5.8

China Greenchip-A Units AUD H AS EQ CYM 06/12 AUD 10.57 23.1 29.4 -6.1

China Greenchip-A Units CAD H AS EQ CYM 06/12 CAD 10.29 23.1 28.5 -6.8

China Greenchip-A Units NZD H AS EQ CYM 06/12 NZD 10.83 22.8 29.7 -5.4

China Greenchip-A Units USD H AS EQ CYM 06/12 USD 10.31 22.4 28.4 -6.6

China Greenchip-A2 QDIs Units AS EQ CYM 06/12 HKD 11.29 22.3 28.1 -6.0

GC HI Yield Inc-Cls A MDLS GBP H OT CYM 06/12 GBP 9.72 5.9 15.4 9.5

GC HI Yield Inc-Cls A MDLS CAD H OT CYM 06/12 CAD 9.30 6.8 17.5 11.5

GC HI Yield Inc-Cls A MDLS H Acc H OT CYM 06/12 CAD 9.37 6.7 18.1 12.3

GC HI Yield Inc-Cls A MDLS NZD H OT CYM 06/12 NZD 15.07 7.0 17.2 6.6

GC HI Yield Inc-Cls P MDLS sh OT CYM 06/12 SGD 10.20 6.3 16.2 10.5

GC HI Yield Inc-Cls P MDLS Acc H OT CYM 06/12 SGD 15.13 6.5 16.7 10.3

GC HI Yield Inc-Cls P MDLS sh OT CYM 06/12 USD 9.33 6.5 16.5 10.3

GC HI Yield Inc-Cls P MDLS sh OT CYM 06/12 USD 11.06 5.6 14.5 8.9

Hi-Div Stk Ccls A RMDS H Acc H OT HKG 06/12 NZH 11.16 18.5 24.2 1.6

Hi-Div Stk Ccls A RMDS I Acc H OT HKG 06/12 NZH 13.36 13.5 24.1 3.3

Hi-Div Stk Ccls A RMDS I Acc H OT HKG 06/12 USD 83.65 16.6 21.5 -0.7

Hi-Div Stk Ccls A2 AUD H MDLS OT HKG 06/12 AUD 9.91 16.6 21.7 -0.6

Hi-Div Stk Ccls A2 CAD H MDLS OT HKG 06/12 CAD 10.01 16.1 20.2 -2.0

Hi-Div Stk Ccls A2 GBP H MDLS OT HKG 06/12 GBP 9.52 17.7 20.8 -1.8

Hi-Div Stk Ccls A2 HMDLS OT HKG 06/12 HMDL 10.37 17.1 21.9 -0.6</p

THE PROPERTY REPORT

Excuse Me, You're Blocking My Sun

Australian fans of rooftop solar panels fight against shade-producing high-rises

By ROB TAYLOR

CANBERRA, Australia—In the shadows of a solar-energy boom, temperatures are on the rise.

Australia's rapid embrace of rooftop panels—now installed on one in four homes in some areas—has collided with another hot spot of investment, construction of apartments and homes. With many new high-rise buildings casting shade for much of the day, more households want the courts to intervene to prevent potential blockages.

"There needs to be rules, some process in place over how to deal with this," said Jenny Port, a gallery owner who has waged a seven-month battle to block construction of a 16-story apartment tower beside her inner city art space and home in Melbourne. "Right now, there's just nothing, no rights at all to the sun."

It is a problem reflected globally as adoption of solar technology outpaces regulators' ability to keep up.

Governments for a long time have offered subsidies to stimulate demand for solar panels—a move that helped developers to reduce costs—

among broader policies to curb greenhouse-gas emissions. Now, prices of photovoltaic panels have fallen far enough for many households to attempt going off the grid.

Globally, the solar-power industry is expected to achieve a 10th straight year of expansion. IHS Markit expects capacity to increase to 79 gigawatts this year from 77 gigawatts, despite lower demand in China and the U.S., the two biggest markets. The industry is valued at an estimated 17 billion Australian dollars (\$12.8 billion) in Australia, where renewable-energy investors dream of creating the "Saudi Arabia of solar."

Australia has more panels on homes than anywhere else, even though it ranks sixth behind countries like Germany and Italy for overall installed capacity due to large takeup by offices and industry there. According to the Australian Energy Council, there are panels on 15% of households.

Denman Prospect, a housing project near Canberra, Australia's capital, aims to become the first suburb to mandate panels on every new home.

The fast adoption has attracted entrepreneurs. Tesla Inc. two years ago chose Australia for the global launch of its power-storing batteries.

To operate effectively, solar panels require access to the sun during peak hours.

But Ms. Port and her part-



Australia has more solar panels on homes than anywhere else. Here, houses on the Gold Coast.

ner spent nearly US\$3,000 installing eight panels atop their art space and home, only for their sunshine to be threatened by the proposed apartment tower.

"I realized we were going to get no sun. A lot of other local people have objected to these developments, but they still get built," she said.

California introduced laws almost 40 years ago that protect homeowners' access to the sun, partly in response to the 1970s energy crisis. Now, 36 U.S. states and the U.S. Vir-

gin Islands protect solar access to some degree, although only 15 have easement laws that stop overshadowing.

One of the most sophisticated solar-rights protection programs is in Boulder, Colo., where an ordinance sets limits on shading with a hypothetical "solar fence" extending up to 25 feet around a boundary in summer, shielding neighbors.

But other countries have been slow to act. Germany, which has added about seven gigawatts of solar-energy capacity annually in recent

years, doesn't guarantee unfettered access to sunlight.

"You simply have to make sure your plot of land is so large new buildings can't block light for your solar cells," said Olaf Reidt, partner at Berlin-based law firm Redeker Sellner Dahs.

Adrian Bradbrook, who studies energy law at the University of Adelaide, said solar-rights disputes mostly occur outside equatorial latitudes, where the sun passes overhead in peak hours. Consequently, it hasn't triggered problems in

crowded Asian cities like Bangkok and Jakarta, Indonesia.

"It's a continual battle between development and other interests, particularly in temperate latitudes," he said. "The U.S. is really the leader. You can't just leave it to courts. At the very least [Australia] could have laws requiring municipalities to take [solar rights] into account."

In Victoria state, Planning Minister Richard Wynne said overshadowing was a problem in areas where homes and offices competed for land. Lawmakers were open to improving solar rights guidance to municipalities to help achieve a target for 40% of electricity needs coming from renewables by 2025, he said.

Australia's Housing Industry Association fears additional red tape, however.

"How can regulations deal with it without overly complicating it and leading to even more disputes?" said Graham Wolfe, deputy managing director of the association, which represents developers.

In smaller cities like Adelaide in South Australia, Mr. Wolfe said, solar regulation could inhibit new projects that offer new jobs to offset factory closures.

A group of Adelaide residents recently banded together in a court challenge to block successfully a four-story apartment complex that would have overshadowed 27 homes and a community garden.



This Tampa, Fla., apartment complex was bought by Capital Square 1031, which uses a law allowing deferral of capital-gains taxes.

Tax Break in Danger of Extinction

By PETER GRANT
AND RICHARD RUBIN

A much-loved tax advantage in the commercial real-estate industry is on the chopping block even as chances dim for the passage of a broad federal tax overhaul this year.

If a sweeping bill doesn't get traction in Congress, there is still a decent chance a narrower tax-rate cut will get passed, according to lobbyists and Capitol Hill officials working on tax legislation.

To finance such a rate cut, some in Congress have in their sights what is known as the 1031 exchange provision, which enables sellers of real estate and other assets to defer capital-gains taxes by reinvesting the proceeds in "like-kind" properties. Say an investor sells an apartment building for a \$10 million profit. If he or she reinvests the proceeds in a strip mall or another commercial property, the investor doesn't have to pay taxes on that capital gain at that time.

The 1031 exchange could effectively have ended as part of the tax-overhaul plan proposed last year by House Republicans, which made progress after Donald Trump was elected president. But that plan—named "Better Way"—would have included other provisions that would have made it more palatable for the real-estate industry.

Now, real-estate lobbyists say the Better Way plan is getting bogged down and it is looking like the real-estate industry might have to take the medicine without the spoonful of sugar to help it go down,

though they would benefit from the lower rates.

As the Better Way plan "has lost a bit of luster of late, the odds have increased that like-kind exchanges are eliminated with no offsetting provision," said real-estate research firm Green Street Advisors in a recent report.

The benefit is vulnerable because many Democrats and some Republicans consider the provision a loophole with limited broader economic benefit that could be sacrificed to pay for lower tax rates. "It's really become just a way to defer tax liability," said Mark Mazur, who was the Obama administration's top Treasury tax official and is now director of the Tax Policy Center, a project of the Urban Institute and Brookings Institution.

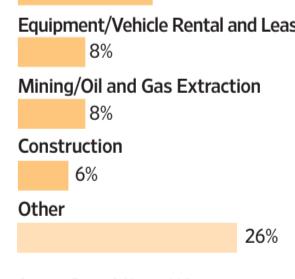
But real-estate executives say getting rid of 1031 exchanges would be devastating for the economy as well as their industry. Like-kind exchanges are used in 10% to 20% of commercial real-estate transactions, according to Green Street.

They also have sparked the creation of a cottage industry of firms that pool 1031 exchange investments for smaller investors. If the provision is eliminated, "it would cause a lot of transactions not to occur," said Jeffrey DeBoer, chief executive of the Real Estate Roundtable, an industry organization.

The economic impact would ripple through the economy because investors who acquire real estate through 1031 exchanges are more likely to invest in those properties than those that pay cash. In such

Give Us a Break

Numerous industries use the 1031 exchange rule to defer taxes. Here are the biggest:



Source: Ernst & Young LLP
THE WALL STREET JOURNAL

trades, they typically don't have to reach into their pockets, Mr. DeBoer said.

"Therefore, you have capital you can now put into the newly acquired property," he said.

The House Ways and Means Committee hasn't released a bill, and there is disagreement among Republicans about where they are heading. Lawmakers have had good discussions on like-kind exchanges but haven't "come to closure" yet with a decision, said Rep. Pat Tiberi (R., Ohio), a senior committee member, in an interview last week.

The 1031 provision of federal tax law applies to a wide range of assets, including cars, planes and patent rights.

Real estate accounts for 36% of the exchanges, according to Ernst & Young LLP. In 2014, the Joint Committee on Taxation estimated that re-

pealing like-kind exchanges would raise \$40.6 billion in additional tax revenue over one decade.

Adopted in 1921, the 1031 provision originally was used primarily in the real-estate world by neighboring farmers who would exchange one parcel of land for another for such purposes as straightening out property lines, said Louis Rogers, chief executive of Capital Square 1031 LLC, a Richmond, Va.-based firm that sponsors more than \$100 million of 1031 exchange deals annually.

Over the decades, the use of the provision broadened widely thanks to extremely supportive rulings by the Treasury Department and Internal Revenue Service, he said.

Exchange firms such as Capital Square 1031, Inland Private Capital Corp. and Passco Cos. purchase billions of dollars of real estate annually. Capital Square's deals include a Tampa, Fla., apartment complex and a medical office building in Birmingham, Ala.

Most observers believe the Better Way plan could have ended the 1031 benefit, even though it didn't specifically address it. Still, if that had happened, Better Way would have lessened the impact partly by allowing buyers of real estate to treat the entire cost—excluding land—as a business expense that could be used to reduce income instead of depreciating those costs over time.

This would be good for real-estate owners but not enough to offset the pain of losing 1031 exchanges, industry executives say.

Food operators are negotiating very aggressive deals, and they are getting away with it," said Cynthia Murphy, senior vice president at real-estate services firm CBRE overseeing the mall leasing business. "More landlords are looking at food as an anchor to create sizzle for their centers."

Restaurant chain P.F. Chang's China Bistro Inc. is getting better rental rates and more flexible lease terms, said Chief Financial Officer Jim Bell.

Mall owners, who negotiate lease terms with tenants individually, said they would offer more favorable terms to certain occupants if they believe their presence makes a difference to the property.

Malls in good locations are still seeing strong demand from tenants. Mall rents and occupancy rates in metro areas have held steady as landlords have been able to fill space with other retailers, fitness centers, restaurants, entertainment and grocery stores that are still expanding.

Vacancy rates in enclosed malls were at 7.9% in the first quarter, up slightly from the 7.8% recorded in the previous quarter, while rents excluding anchor stores rose 0.4% from a year earlier, unchanged from the previous quarter, according to real-estate data provider REIS Inc.

In cases in which the store location attracts other tenants or the store is still performing well with respectable sales numbers, landlords say they still have some negotiating power.

"A lot of it is posturing," said Joel Bayer, president at property developer and owner O'Connor Capital Partners. "It's sort of a game of chicken. Who's going to blink first?"



P.F. Chang's finance chief says it is getting better rental rates.



INTRODUCING
**THE NEW YORK LIFE SCIENCES
AND BIOTECH CENTER**

FIRST AVENUE AT 41ST STREET, NEW YORK CITY

At the center of one of the greatest concentrations of the finest hospitals,
medical research institutions and pharmaceutical companies in the world.

FOR INFORMATION CONTACT

wexler healthcare properties team
AT THE CORCORAN GROUP

212.893.1740

NYLIFESCIENCES.COM

SOM
ARCHITECTS

SOLOW57
SOLOW BUILDING COMPANY

MARKETS

Treasury Details Bank-Rule Plan

BY RYAN TRACY
AND KATE DAVIDSON

WASHINGTON—The Trump administration proposed a wide-ranging rethinking of the rules governing the U.S. financial sector in a report that makes scores of recommendations that have been on the banking industry's wish list for years.

The Treasury Department report, released Monday, gives the most detailed road map yet for President Donald Trump's promise to revisit a wave of regulations put in place after the financial crisis. The proposals would affect activities ranging from mortgage lending to Wall Street trading.

If Mr. Trump's regulatory appointees eventually implement them, the recommendations would pare back restrictions advanced by former President Barack Obama's administration, which argued they were necessary to guard against excessive risk-taking and a repeat of the 2008 financial crisis.

Mr. Trump's team said those rules, many of which were part of the 2010 Dodd-Frank financial law, have become too restrictive, unnecessarily preventing banks from activities that help the economy function and grow.

"We tried to have the right balance between eliminating undue, burdensome regulations while not putting taxpayers at risk," Treasury Secretary Steven Mnuchin said.

The report drew praise from the financial industry and Republicans and sparked criticism from consumer groups and many Democrats.

The report is an "important step towards modernizing America's financial regulatory system so both economic growth and consumer protection are advanced," Tim Pawlenty, chief executive of the Financial Services Roundtable trade group, said in a statement.

Marcus Stanley, policy di-



The Treasury Department, led by Steven Mnuchin, proposed cutting back Obama-era restrictions.

rector for the advocacy group Americans for Financial Reform, which represents unions and consumer groups, said "every recommendation" in the report "weakens systemic or consumer protections."

"This would take things that have already been weakened by industry lobbying and dilute them away to nothing," he said.

The report responds to a Feb. 3 executive order from Mr. Trump. A senior official said the GOP president signed a copy of it on Monday in the Oval Office.

It focuses on lending, and is expected to be followed by further reports covering other topics, such as the money-management and insurance industries. To prepare it, the administration met with dozens of industry representatives in recent weeks, as well as consumer advocates, financial regulators and other groups.

Administration officials said their focus was on helping small and midsize lenders. But the recommendations include issues affecting firms of all sizes.

Regulators would re-examine a litany of capital and liquidity rules affecting banks. Those rules limit lenders' risk-taking. Officials would re-examine lending standards for so-called leverage loans to already-indebted companies, a big business for large banks.

Small banks would have more flexibility in mortgage lending. Officials would open certain regulatory exams, such as "stress tests" and "living wills," to a formal notice-and-comment process—a change officials in Mr. Obama's administration resisted because they thought it would limit regulators' flexibility.

Fewer banks would take those exams, and less often.

Regulators also wouldn't adopt new rules unless they meet a stricter cost-benefit analysis than some bank overseers currently use.

Among the most controversial recommendations are at least a dozen changes at the Consumer Financial Protection Bureau, a central part of Dodd-Frank. The report proposes the bureau lose its authority to examine financial

firms on a continuing basis and not be able to set its own budget.

In other areas, the report avoids controversial debates. It hedges on whether the consumer bureau should continue to be led by a single director, as opposed to a multimember board, though it says the former would be "the most straightforward" approach. It recommends the \$50 billion asset threshold at which big banks face stricter rules under Dodd-Frank be raised, but it doesn't say by how much.

It endorses some changes approved by House Republicans in legislation last week, such as giving regulatory relief to well-capitalized banks. But it also takes a different approach in some areas, for instance by endorsing the principles behind the so-called Volcker rule, named after former Federal Reserve Chairman Paul Volcker, limiting certain types of bank trading. The House Republicans' bill would throw out that rule.

Mr. Mnuchin said the administration is "very supportive" of the Republican bill and

it was focused on what the administration could do without congressional approval.

"We are fine if the House and the Senate want to repeal the Volcker rule...We're more focused on what are the changes we can make to fix it," Mr. Mnuchin said.

In one surprising development, the report recommends that a multi-regulator council created as part of Dodd-Frank be expanded, saying Congress should give the Financial Stability Oversight Council of senior regulators the authority to "appoint a lead regulator on any issue on which multiple agencies may have conflicting and overlapping regulatory jurisdiction."

The report marks the beginning of what will likely be a long review of financial rules.

Some recommendations, including exempting small banks from the Volcker rule, limiting the consumer bureau's authority, or expanding FSOC authority, would require congressional action—a potentially high bar amid deep partisan tensions on Capitol Hill.

Other changes would need regulatory approval from officials who might not be in place for months. Many bank rules must be approved by the boards of the Fed and the Federal Deposit Insurance Corp., but the leaders of those agencies have terms that haven't expired yet. Mr. Trump also hasn't nominated anyone to a number of significant regulatory roles, including the top bank oversight post at the Fed.

A senior Treasury official said most of the report's recommendations could be carried out by regulators without help from Congress. The only current bank regulator appointed by the new administration, acting Comptroller of the Currency Keith Noreika, said Monday the report will inform his agency's work aimed at reducing regulatory burdens at the federally chartered banks it oversees.

Stocks Gain As Tech Rebounds

BY RIVA GOLD AND AKANE OTANI

A recovery in technology stocks helped lift global markets.

The Dow Jones Industrial Average was up 88 points, or 0.4%, to 21324,

TUESDAY'S MARKETS

early Tuesday afternoon. The S&P 500 gained 0.4%, and the tech-heavy Nasdaq Composite, which posted its worst two-day decline since September on Monday, rose 0.7%.

Shares of companies that had slid in the previous two sessions bounced back Tuesday. Apple was up 0.7% at early afternoon, Facebook rose 1.8%, Google parent Alphabet gained 1%, and Microsoft rose 1.2%.

Semiconductor stocks, which fell in the brief selloff, also rose, with the PHLX Semiconductor Index edging up 0.3%. Most U.S. stock selloffs have been short-lived this year as investors have used them as buying opportunities.

In Asia, shares mostly advanced, recovering from losses induced by Monday's tech giants' selloff in the U.S. The tech-heavy Shenzhen Composite added 1% and Korea's Kospi added 0.7%. Hong Kong's Hang Seng Index gained 0.6%, also aided by energy companies.

Australia's S&P/ASX 200 gained 1.7% as its markets reopened after a holiday, helped by nearly 2% gains for its beaten-down banking sector.

Japan's Nikkei Stock Average fell less than 0.1% as the yen appreciated, which hurts exporters.

The Stoxx Europe 600 rose 0.6% after posting its lowest close since April on Monday. The Bank of England will meet later this week.

Meanwhile, the U.S. dollar and government bonds steadied as the Federal Reserve began a two-day policy meeting.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

Bright Idea For GE's New Boss

Which General Electric division should incoming Chief Executive John Flannery sell first? Lighting is a strong contender, judging by the surprising popularity among investors in its peers.

The Wall Street Journal reported in April that the conglomerate was interviewing investment banks to sell its consumer-lighting unit.

Since then, the stock-market value of European lighting specialists Osram and Philips Lighting has soared.

Osram and Philips Lighting are themselves spinoffs: Osram emerged from the shadow of German conglomerate Siemens in 2013, while Philips Lighting was born last year of the namesake Dutch group. The moves were in large part reactions to the lighting industry's digital challenge. Light-emitting diodes are taking over from incandescent, halogen and other lighting devices.

Osram's key focus is car lights, the capacity of which to act as sensors in self-driving systems partly explains a lofty stock-market valuation of 20 times earnings. Osram sold its consumer business last year.

Philips chose the opposite path, spinning out its structurally challenged consumer business as Philips Lighting while selling the higher-growth automotive division, Lumileds.

With little automotive business, GE Lighting looks more like Philips Lighting than Osram. But this is no bad thing. Philips Lighting's stock has soared by two-thirds since its IPO; floated at eight times earnings, it now trades at 13.

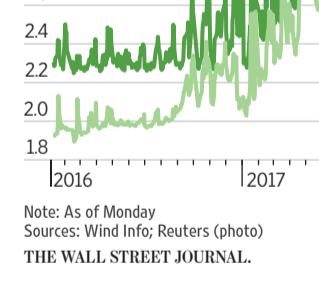
GE needs to exploit investors' newfound appetite for profitable decline.

—Stephen Wilmot

China Girds for a Fed Rate Rise

Twin Peaks

Chinese interbank bond-repo rates



Note: As of Monday

Sources: Wind Info; Reuters (photo)

THE WALL STREET JOURNAL



China is nearing peak season for cash demand.

hot air out of the bond market ahead of Wednesday's probable rate increase, the central bank has lowered the chances of another disorderly bond-market sell-off like the one in December after the Fed's rate rise that month. The dollar and U.S. rates have both been weakening recently, but an unexpected hawkish tone from

the Fed on Wednesday on the pace of future increases or plans to shrink its balance sheet could upset that dynamic.

Other recent regulatory moves have also been aimed, at least partly, at protecting the fixed-income market ahead of the Fed meeting.

The recent slow pace of initial-public-offering approv-

als—just four were approved in the week ended June 2 against a weekly average of around seven to 10 earlier this spring—frees up liquidity that would otherwise head into stocks.

The yuan's unexpected sharp 1% move higher against the dollar in late May, likewise facilitated by the central bank, also sends a clear signal that betting against China's currency will be risky regardless of what tone the Fed adopts.

China is heading into a peak season for cash demand ahead of midyear tax and regulatory deadlines, and Chinese investors are notoriously skilled at finding ways around capital controls: Another round of stomach-churning money-market volatility this summer can't be ruled out.

But for now, China's bulwark against Fed-induced debt-market troubles looks sturdy.

—Nathaniel Taplin

OVERHEARD

In business, Americans are often seen as blunt while Japanese are more indirect. Consider the roles reversed when it comes to fast food.

American chains, facing lawsuits accusing them of contributing to the obesity epidemic, have put nutrition and calorie information on their offerings explicit enough to shield them in a court of law but subtle enough not to scare away their customers.

Japan's Lotteria, which has sold dishes such as stretchy cheese and purple sauce, according to SoraNews24, warns customers that their new Death Spicy Tandoori Sandwich "can trigger watering of the eyes, expulsion of mucus from the nose, extreme pain in the throat and mouth cavity, heart palpitations, difficulty breathing, and other severe symptoms..."

Eaters will notice the warning because they must sign a disclaimer before ordering one.

Trump Regulation Plan Is Pleasant Reading on Wall Street

The Trump administration's financial deregulation plan is the one to watch in Washington. That bodes well for America's biggest banks.

The House of Representatives last week passed its own plan, which goes much further in dismantling the postcrisis Dodd-Frank regulatory regime. That bill stands little chance of passing the Senate, though. By contrast, the various tweaks proposed Monday by the Treasury are far more likely to be realized in the near-to-medium term.

Like all such calls for deregulation, it is pitched as being on the side of beleaguered community lenders. But it is hard to miss how much it would benefit top Wall Street banks. Importantly, while only some of its recommendations can be im-

plemented without congressional legislation, these measures alone would be enough to move the needle significantly for bank profitability.

The House of Representatives last week passed its own plan, which goes much further in dismantling the postcrisis Dodd-Frank regulatory regime. That bill stands little chance of passing the Senate, though. By contrast, the various tweaks proposed Monday by the Treasury are far more likely to be realized in the near-to-medium term.

The report also recommends changes in how regulators calculate banks' total leverage by excluding safe assets such as U.S. Treasury bonds and cash on deposit with the Fed. This would be a boon to Wall Street banks with big securities portfolios.

So, too, would the report's proposal to significantly pare back enforcement of the Volcker rule. The Treasury said

quie legislation that may or may not be forthcoming.

The Treasury also envisions several changes to the stress-test process aimed at making it less cumbersome and more predictable. These could be put in place easily by the Fed once Mr. Trump has nominated his own vice chair of supervision to the Fed board.

The report also recommends changes in how regulators calculate banks' total leverage by excluding safe assets such as U.S. Treasury bonds and cash on deposit with the Fed. This would be a boon to Wall Street banks with big securities portfolios.

It advocates "simplifying the definition of proprietary trading and allowing banks to more easily hedge their risks and conduct market-making activities."

The report doesn't commit to an outright lowering of capital requirements for the biggest U.S. banks. It does

open the door to such a move, though, noting that the current practice of requiring them to hold more capital than international peers risks making them less competitive.

All these changes, with the exception of changing the asset-size threshold, could be implemented without Congress, though they can't happen overnight. The administration still needs to fill various regulatory posts and coordinate desired changes between agencies.

Action is still likely over the next year or two, and the impact on profitability and capital returns would be significant. Investors will start pricing that into bank stocks sooner rather than later.

—Aaron Back



Treasury called for streamlining rules on banks.

open the door to such a move, though, noting that the current practice of requiring them to hold more capital than international peers risks making them less competitive.

All these changes, with the exception of changing the asset-size threshold, could be implemented without Congress, though they can't happen overnight. The administration still needs to fill various regulatory posts and coordinate desired changes between agencies.

Action is still likely over the next year or two, and the impact on profitability and capital returns would be significant. Investors will start pricing that into bank stocks sooner rather than later.

—Aaron Back

WSJ D.LIVE ASIA

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Wednesday, June 14, 2017 | R1

In Defense of the Giants

Yuri Milner on why big projects need the big internet companies



MANUEL WONG/DOW JONES (2)

What does the future hold for the internet giants of today—and the companies that will rise to prominence down the road?

The Wall Street Journal's editor in chief, Gerard Baker, spoke with Yuri Milner, the founder of technology-investment firm DST Global and co-creator of prizes to honor scientific achievements and reinvigorate the search for life in space. Here are edited excerpts of the discussion.

The internet future

MR. MILNER: It's not a secret that the internet as an investment class did very well in the last 10 years. I just wanted to reflect on some of the reasons why and make predictions on

how well this asset class will do in the next 10 years.

There is common knowledge about why this specific asset class is so powerful. There is no need for physical infrastructure. All the heavy lifting has been already done: low operating costs, global distribution networks, viral capabilities to distribute products and a very fast product-development cycle.

I wanted to focus on two more reasons.

Internet companies spend dramatically more on R&D per dollar of revenue. The second reason is that internet companies have been extremely successful in attracting and retaining talent. All of those reasons lead to value creation.

But we asked, what's going to happen in the next 10 years?

And you only need to make some relatively conservative assumptions to come up with a significant number. What percentage of consumption is happening online, the number is only 6% globally. We believe that in the next seven to eight years, this number will more than double. That means that there will be an additional \$4 trillion created in that space.

MR. BAKER: What could change that trajectory?

MR. MILNER: It looks like that's how innovation is taking place in the 21st century. The internet is enabling innovation. In the last maybe 20 years new companies were more success-

ful in capturing this opportunity. And these companies over time became big companies.

MR. BAKER: These companies are enormously dominant. Their scale is extraordinary. Apple approaching a trillion dollars of market cap. Google, Facebook. How concerned should we be about the domination in all kinds of things?

MR. MILNER: The key question we all collectively need to ask is, what is best for consumers? What is best for all of us? Let's also not forget that these companies became big in a mostly organic way. There was not a significant amount of M&A happening.

MR. BAKER: You're comfortable right now that the concentration that we're seeing is not fundamentally either anticompetitive or harmful to the consumer?

MR. MILNER: Obviously, there has to be a balance. Governments are looking for ways to find this balance. What I would like to focus on is what value these companies can bring to all of us in the future.

As I mentioned, the sector really dominates in R&D spend. If we focus on the biggest projects that require many billions of dollars in funding—like, for example, virtual reality or artificial intelligence—those projects require an enormous amount of capital. They require computation. They require server capacity. And I think we all have an intrinsic interest in those projects getting funded. So

Please see MILNER page R7

THE ASIAN TECH REVOLUTION

For many years, technology firms in Asia were dismissed as merely copycats, with much of the innovation coming from Silicon Valley giants. But at the inaugural Wall Street Journal D.Live Asia conference last week in Hong Kong, more evidence emerged that companies and startups from this region are creating unique products and services that are being emulated in the West. That's largely due to Asian companies' intense focus on what consumers want on their mobile devices.

Asia is home to more than 2.5 billion mobile-phone users, with China being the world's biggest smartphone market, according to researcher eMarketer. Tech startups in the Asia-Pacific region raised more than \$100 billion over the past five years through venture-capital funding, according to data from CB Insights, highlighting just how much growth is coming from this region.

The Wall Street Journal convened over 300 tech executives, entrepreneurs and investors to address topics ranging from the future of the internet to technologies that are changing our world such as artificial intelligence, driverless cars and mobile payments. In onstage interviews, executives discussed how the fintech revolution is unfolding, where venture-capital money is flowing, which companies are winning the AI battle, how Asian internet firms are plotting their future and how Western companies are navigating China's opaque market. Edited excerpts are presented here.

—Yun-Hee Kim

INSIDE

Qi Lu on turning Baidu around and how the driverless-car race is going, R2

Andrew Ng and Tong Zhan on how AI is going to transform every industry, R5

Richard Liu of JD.com says the Chinese retailer is going to have to diversify, R2

Kavin Bharti Mittal and Ji-Hoon Rim discuss how messaging apps are changing and how their companies will compete, R6

Microsoft's Alain Crozier explains the mind-set needed to succeed in China, R3

Connie Chan and David Su on venture capital in China and learning from products that originate there, R4

Jonathan Larsen on what's holding back fintech, R4

Nadiem Makarim and William Tanuwijaya on the technology battle raging in Indonesia, R7

Ctrip Sets Its Sights Globally

CEO Jane Jie Sun says that while her company is No. 1 in China, it is an 'infant' around the world

China's outbound tourism industry is growing rapidly. Ctrip.com, China's biggest online travel site, is challenging Priceline to become the world's biggest online travel platform.

To discuss Ctrip.com's growing ambitions, Wall Street Journal senior editor Yun-Hee Kim spoke with the company's chief executive, Jane Jie Sun. Here are edited excerpts of the discussion.

Buying strategy

MS. KIM: You did a major acquisition last year, the \$1.7 billion deal to buy travel search site Skyscanner. When you look at acquisitions, what do you look for?

MS. SUN: First, it needs to be closely related to our core business, which is travel. The second thing is, normally when we look at the target, it needs to be the No. 1 or No. 2 industry leader in that vertical. The third criteria is the valuation needs to be reasonable.

MS. KIM: You have also been active in the U.S. How is your strategy in the U.S. different from Europe?

MS. SUN: In the United States, we saw a very strong trend for customers to move from the rest of the world to the United States.

The visa restrictions in the United States were finally lifted up. Chinese citizens were able to get 10-year visas. Second, lots of young kids are very curious and want to study in the United States. And third, the U.S. has lots of travel resources, and it's relatively very safe.

So when we saw the trend to move customers from the rest of the world to the United States, then we needed to make sure our customers were provided the best service, best products.

So our three investments in the United States will be able to block the best hotels, the best transportation for our customers.



MS. KIM: Has your business been impacted at all by the political climate in the U.S.?

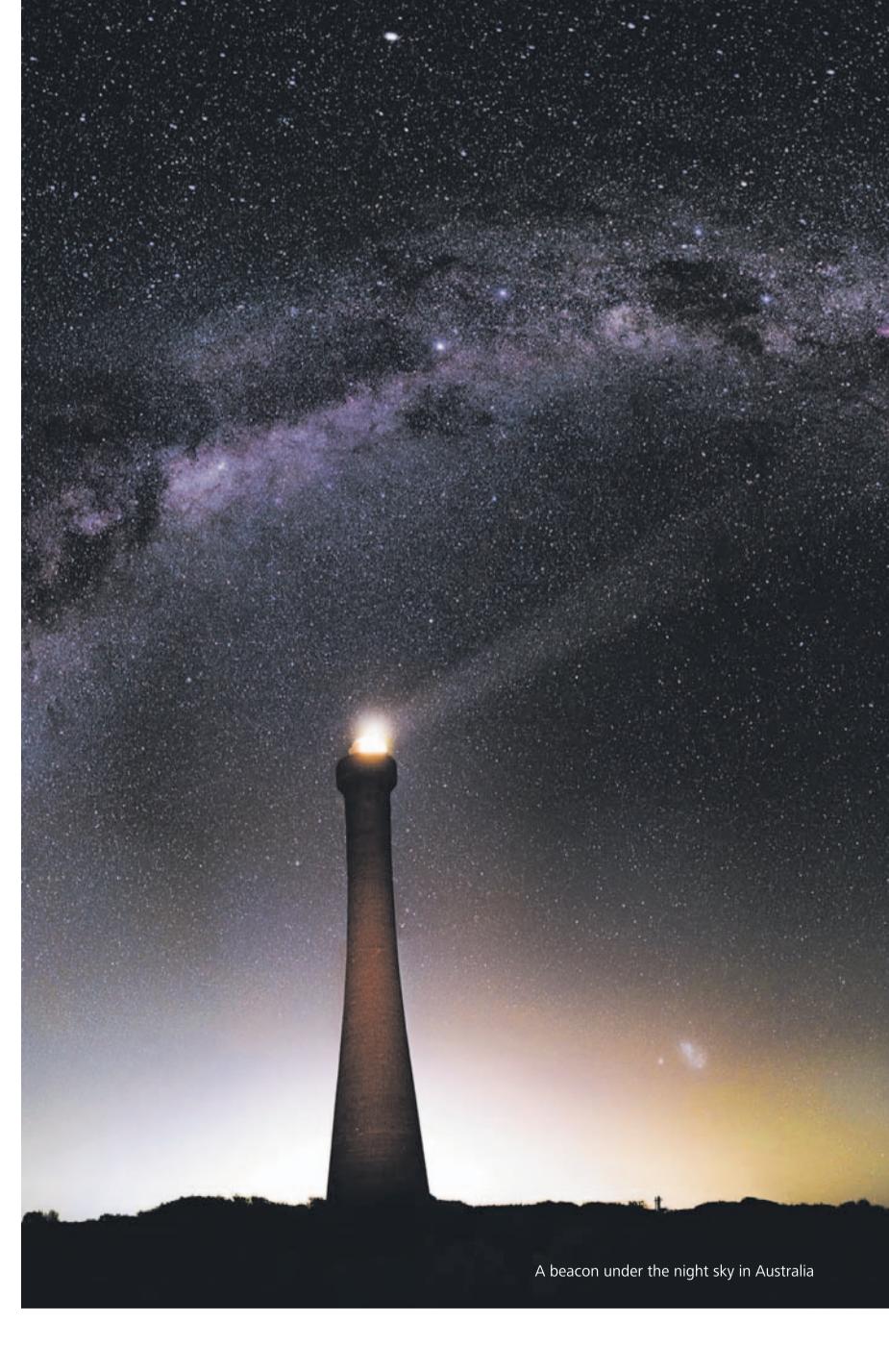
MS. SUN: So far, not significantly, because travel is not political. When we send a customer to the rest of the world, I always encourage our team to tell our customer, "You represent China. You are the best diplomats of China. Please bring the best of the culture of China to the rest of the world. And when you come back, bring the best of the world back to China." Travel encourages international cultural exchange and therefore promotes peace. So far, so good.

MS. KIM: Let's talk about regulatory challenges. What are the headwinds that you see coming from the government?

MS. SUN: The government is very supportive of travel, because we are nonpolitical. We bring people together. So our government supports us. And enterprises also like us because to conduct business meetings, they need a good supplier to make good arrangements for their travel.

And the citizens like Ctrip because after they buy a house, buy a car, they want to travel. So as long as we deliver a high level of service, provide the most comprehensive products and offer the best price, I think we will be able to serve the government, enterprise and individuals very well.

MS. KIM: You have a 10% stake in MakeMyTrip in India. India's a very competitive market, but also very different from China. What are the biggest challenges there and why



A beacon under the night sky in Australia

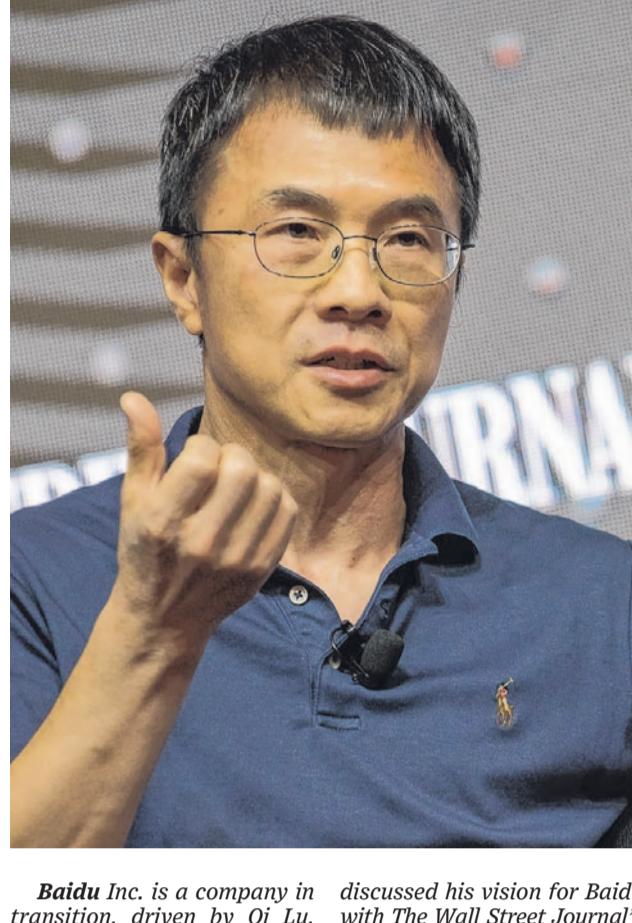
Exploration lights the way forward

The relentless pursuit of innovation enlightens the intelligent world



Baidu's Turnaround Strategy

President Qi Lu's view on how the driverless-car race is shaping up



MANUEL WONG/DOW JONES (2)

And the second is to make the user interactions richer and better. Because the inspiration for a user to search never came out of the blue. The reason you're searching for something is because you have a purpose in mind, you want to accomplish something. You want to listen to a song. You want to ask a question. You want to study.

We want to bring the user a lot closer to the [subject]. So that, for example, if you want to listen to a song, you can play the song. You can watch a movie, watch video clips—interacting with the services directly.

MS. YUAN: But the problem now is that people increasingly rely on social media for information. And people don't search as much as before. How are you going to tackle that?

MR. LU: I do not agree with your premise. Social media is a great product. However, having said that, each social-media product is a proprietary, closed information ecosystem. That's number one.

Number two, the digital universe is expanding at such a vast pace, it will outstrip any social media, any proprietary closed world. And users, our interests, our needs are long-term. This is why search succeeded—it never ends. If you blend these two, there's people always seeking more information.

The key is the search experience needs to be better. What search brings the user, the interaction needs to be richer. We want to enable every human being to easily discover access to anything they care about.

The driverless car

MS. YUAN: Baidu and Google, who's going to have a driverless car on the street first?

MR. LU: First of all, let me describe what I think is the state of the driverless-car industry. There's a bunch of companies

in that space. And I believe Baidu is among the tier-one companies. And I believe Google is substantially ahead against everybody else. They started earlier and I have huge respect for Google as a company. They did a great job developing that technology.

Second, the technological foundation of a driverless car has lots and lots of components. It's a high-barrier business, because the depths of technology you need to develop is enormous.

Start with perception. Because to be able to perceive the road, the driving environment, as of today, you need to use Lidar, radar, cameras, a combination of sensors, fuse them together. And then you need to do mission-critical predictions about cars. Which cars are maneuvering and at what speed? How to prime our vehicles to maneuver in those environments? It's called planning control, and there's many different aspects of it.

If we're to take a perspective three years from now, five years from now, what's the determining factors—who will be ahead in five years? The deciding factor is the speed of iteration [or developing software].

It's about writing software that learns. Data and algorithm and iteration is the game. The speed of iteration is everything.

I announced Project Apollo April 19. This is the key: Apollo is an open platform. It's open software, open services and open capability. We are going to open up our code. We're going to open up our capabilities for critical [proprietary technology]—very high-barrier [technology], very hard for any company to develop, it needs time to accumulate. That's number one.

Number two, by design, the Apollo is an ecosystem, with OEMs [original-equipment manufacturers], with tier-one suppliers, with any service providers. Because the name of the game is for people to participate and collaborate. Imagine, the ecosystem on any given day would drive more roads, see more situations. The ecosystem algorithm can

turn around at a much faster pace than any single closed company. If you take that perspective, I would make a case that in three years or in five years, the ecosystem—not Baidu as a company—the ecosystem of Apollo will be ahead of any single closed endeavors by one company.

MS. YUAN: Can you tell us who are going to be the OEMs who will be under Apollo and who are the startups, and why they want to be on this? Because I've talked to many industry people and they just don't believe that the big OEMs want to be on an open-source platform; first-tier startups want to be on this platform.

MR. LU: We will announce in the first week of July the number of partners that will participate. The feedback has been genuinely positive. Because this is genuinely win-win. Baidu's going to make money in areas we're good at—algorithms, data—we're not getting into their space. We're not a disrupter. We want to empower the OEMs. They will have access to technology. They can innovate at a faster pace. They can have better products to the market.

Baidu Inc. is a company in transition, driven by Qi Lu, who joined the Chinese tech giant as its president earlier this year. Baidu, which rose to prominence as a search engine, has stumbled in recent years as it tried to expand into additional online services, and its profits have fallen.

Mr. Lu's plans to turn Baidu around include a big investment in artificial intelligence for the development of new technologies for search and other businesses—including driverless cars, a technology where Google, the acknowledged leader, has a big head start. Mr. Lu announced in April that Baidu will open its self-driving car technologies to others, on a platform called Project Apollo, to help develop autonomous vehicles.

At last week's D.Live conference in Hong Kong, Mr. Lu

discussed his vision for Baidu with The Wall Street Journal's China technology columnist, Li Yuan. Edited excerpts of their conversation follow.

Improving search

MS. YUAN: Baidu has had a pretty tough year. How are you going to move the company forward?

MR. LU: The focus is always on driving innovation that leads to a better user experience and better overall economics [for the company]. On the user experience side, our focus is multifold.

One is adding more and more and better and better content as part of search's scope. For example, video, particularly the emerging short form of video. It can be an extremely powerful new medium, to transfer information, to communicate.

Moving Up the Market

Richard Liu, CEO of JD.com, says the Chinese retailer is going to have to diversify

Richard Liu is the chairman and chief executive of **JD.com Inc.**, China's second-largest online retailer after **Alibaba Group Holding Ltd.**

He sat down with Li Yuan, The Wall Street Journal's China technology columnist, to discuss e-commerce in China and how his company plans to expand internationally. Edited excerpts follow.

Going upscale

MS. YUAN: Where is the Chinese e-commerce market headed and how much success do you predict you will have?

MR. LIU: During the past decade, we have had a lot of success with logistics. The record speaks for itself. But now we have to diversify.

Five years ago, everybody was overwhelmed by the rocketing increase in the number of e-commerce orders. But now everybody is getting a share of the market. For courier companies that means you either have to control costs or you go away. So we are trying to diversify because that's the only way to survive.

MS. YUAN: You want to make inroads in the U.S. Are you going to recruit new brands to sell or just export what you already have?

MR. LIU: In the past, we have concentrated on small sellers and small suppliers. We tried to get business through cheaper prices, but we believe that things have gotten to a point where this has become quite unsustainable. If we keep selling cheap stuff, then people will only patronize us a few times and then leave us. And so we are going to move up the market. And the first step is we're going to introduce marquee Chinese brands into the U.S.



MS. YUAN: You recently said you were developing heavy-duty drones to deploy in Shaanxi province. You also are building up smart warehouses. How do you plan to use technology to position yourself for the future?

MR. LIU: From acquisition and procurement to warehousing to logistics, everything is now being placed under the control of smart technology. We plan to make use of artificial intelligence and robots to create a business model that is almost totally out of human control. This is going to cut our costs and improve our efficiency.

MS. YUAN: If you are going to resort to a lot of automation, what does that mean for your

staff?

MR. LIU: I'm not saying that we can do away with all blue-collar workers. Right now maybe we need 10,000 customers to make even. But in the future we may only need 1,000 customers to break even or to make a profit due to automation.

We aim to eventually have more than one million drones to carry out our various operations. But we would need a huge team of maintenance staff to keep them up, so we will have to continue to train people.

Two channels

AUDIENCE MEMBER: What is your strategy for entering overseas markets?

MR. LIU: We have two channels. The first is to transplant our [Chinese business model] to developing markets such as Indonesia. That means deploying things like smart warehousing to keep costs low. This year, we definitely plan to make inroads in Indonesia.

The other channel is the European and the U.S. market. We believe it's only a matter of time before many Chinese brands such as Huawei Technologies and others become world-renowned. So we are going to concentrate on high-end Chinese products and try to introduce them to developed overseas markets.

MS. YUAN: You already are locked in a fierce battle with peers in China. Won't you be stretched too thin if you open up a second battlefield in a place like Indonesia?

MR. LIU: When we were only doing \$12 million worth of business, Alibaba already was huge. We had no business competing with them. But after a decade, we can fight them on equal footing. Now, if we can make it in China, we can make it in many, many other places in the world.

THE WALL STREET JOURNAL. D.LIVE ASIA

The Wall Street Journal would like to thank the sponsors of D.LIVE Asia 2017 for their generous support.



MetLife Foundation

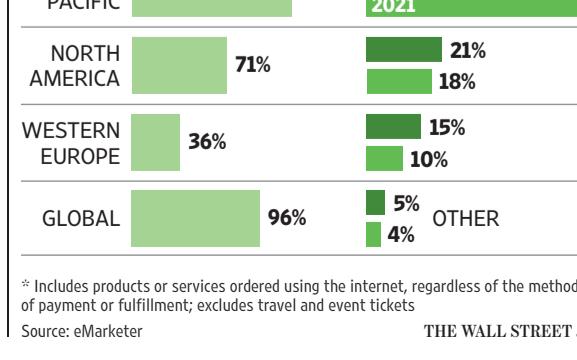
Morgan Stanley

SIXCAP

ULYSSE NARDIN
SINCE 1846 LE LOCLE - SUISSE

For more information, please visit DLIVE.wsj.com.

THE WALL STREET JOURNAL.
Read ambitiously



Microsoft's Perspective On the Chinese Market

Alain Crozier explains why tech companies must change their mind-set to succeed in China

Western tech companies have had a turbulent relationship with China—particularly over issues concerning the protection of intellectual property. How does one of the biggest players handle it? The Wall Street Journal's Jason Anders spoke with Microsoft Corp.'s chairman and chief executive for greater China, Alain Crozier. Here are edited excerpts of the discussion.

Recent success

MR. ANDERS: Microsoft has

been doing business in China for something like 25 years. How would you say it's going?

MR. CROZIER: It's going very well. In the past 10 days, as an example, we've done two very large announcements. First, we did the first world-wide launch of any product out of China with the new Surface Pro. That's a big sign that the Chinese market is very important for Microsoft. Most, if not all, products are launched out of the U.S. Already, this is our second-largest market for Sur-

face. If everything goes well, China is going to be the first market for Microsoft from a hardware standpoint.

The second one is also very important. We have now a Windows 10 government edition available for the Chinese government but also for the state-owned enterprises.

With another big piece of Microsoft's business, a cloud business, a joint venture that we started some time ago here in China, is experiencing very nice and very solid growth.

MR. ANDERS: I know this process involved some amount of sharing some proprietary code with your Chinese partners. Western companies have long been cautious when it comes to sharing technology in China. Was this something that you considered to be a risk?

MR. CROZIER: When you are a software developer and you put a lot of effort and research and development into code, it is clear that when you develop a solution or product, you want to keep the code for yourself.

And the reality is at some point you have to also decide what is best for customers, what is best for government and what is best also for Microsoft. And I think we've decided that now was a time to open up as a software company to initiatives like this one. Is there a risk? I'll tell you that in 10 years.

It's a decision that I know a lot of people don't really want to take. But I think a lot of things are changing in China, from an IP standpoint. I think there are also more reforms that really help companies like Microsoft make decisions like this one.

MR. ANDERS: With Windows



MANUEL WONG/DON JONES

10, while Microsoft has said this software is as robust as the software anywhere else, this still puts some doubt in someone's mind that perhaps you weakened something like security to break into the Chinese market.

MR. CROZIER: Windows 10 is

the most secure operating system Microsoft has ever built. When you look at how Windows 10 is used by all types of governments, including some very conservative governments, Windows 10 is by far the best operating system.

We have also been very transparent. If you are a government and you want to see exactly what's going on with Windows 10, our doors are totally open.

MR. ANDERS: I want to ask you more broadly about the experience of a Western company, especially a Western technology company, doing business in China in 2017. Obviously, Microsoft has a couple of decades of experience here. You've worked in a lot of places yourself. To be blunt, how level or not is the playing field today, for Western firms, especially technology firms?

MR. CROZIER: The field is a great field. But the thing is, every company's built on some values. You have some strict

values. You also have some strict principles. And we live in a world today where sometimes maybe some of those principles will evolve because the times are different and because the customers are different and because the competition may be different.

You have a lot of forces that at some point will maybe have you change your mind a little bit on how you want to do things.

A lot of players come and only have one play, which is an IP play. And it is, "I protect my IP, and I'm going after piracy." And, "I'm fighting that on my own." As a software company, you have to change that. You have to, first of all, work with local partners, extensively.

So you have to potentially change the way you think. You have to change your business model one way or another and say, "Hey, you know what? I want to really do something in this country. I find a partner. I work with this partner. I share maybe more than I used to share."

A different mind-set

MR. ANDERS: We were talking about what it takes to be successful in China. And you were saying it takes a very different type of person, really, a different kind of mind-set than it

does to work in Silicon Valley or Europe. Can you elaborate on that a bit?

MR. CROZIER: You have to be long-term focused when you come to this market. That's the first thing.

The second thing is, the people you hire to be in this market, they have to be long-term focused.

And for that, you need maturity. You need to be careful. When the wind is coming here or it's coming there or it's snowing or it's too cold, people start to say, "Hey, I don't like this weather. I don't like that."

So, you need to have people who have a certain maturity at saying, "Yeah, you know, this isn't going to be easy. But I need to stay put. And I need to make sure that when I come to China, I love the place."

Because I've seen too many people coming and saying, "Hey, I've been sent by my company to come here." And then a year later they say, "Oh, this place, I don't like."

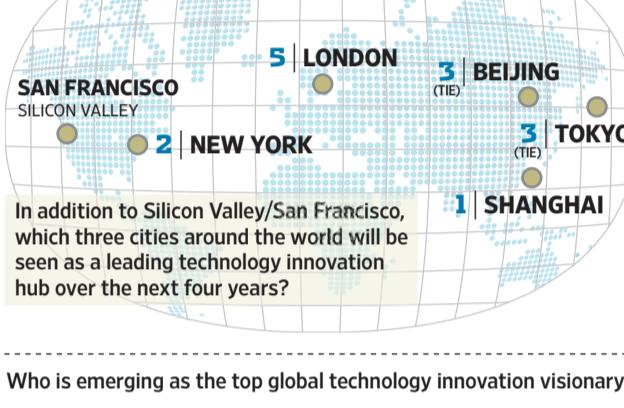
Why? Because it's very difficult. Because it's complex. Yeah, sure. But you know what? If you do well, if you have a long-term mind-set and if your company is committed to doing business in China, you'll experience a fantastic life, I can tell you that.

High Profile

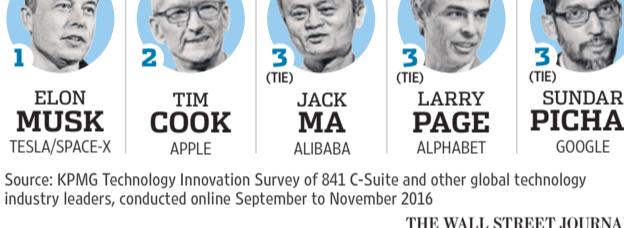
How technology industry leaders around the world answered some questions on technology innovation in a KPMG survey

Which country shows the most promise for disruptive technology breakthroughs that will have a global impact?

U.S. 26% China 25% India 11% U.K. 10%



In addition to Silicon Valley/San Francisco, which three cities around the world will be seen as a leading technology innovation hub over the next four years?



Source: KPMG Technology Innovation Survey of 841 C-Suite and other global technology industry leaders, conducted online September to November 2016

THE WALL STREET JOURNAL.

Morgan Stanley

Capital Creates More Commerce

New technology can make even small businesses big. E-commerce leader Alibaba Group built an online and mobile marketplace connecting small businesses to customers in China and beyond. Morgan Stanley helped take the company public, leading a \$25 billion IPO — the largest in history. Alibaba's subsequent growth is helping fulfill the company's ambition of giving rural communities access to goods and services once considered out of reach. Across the globe, we're working to advance the technologies that help more people to prosper. Capital creates change.

morganstanley.com/alibaba

JOURNAL REPORT | WSJ D.LIVE ASIA



an original investor in Ofo. I think you did the series A at about a \$30 million valuation? And now they're at \$2 billion, in what, 12 months?

MR. SU: It was just operating in several universities in Beijing. They were doing maybe 30,000 to 40,000 rides a day. As of last week we are doing, like, 20 million daily average rides. They have maybe seven million bikes in a hundred cities. So Ofo and Mobike now dominate the bike space. The growth has been phenomenal.

MR. WINKLER: Are these companies profitable?

MR. SU: Not yet. Ofo is going through this neck-to-neck competition with Mobike. Both are getting subsidies and waiving periods of usage. But eventually, when things settle down, I think the numbers will work.

MR. WINKLER: What companies starting today will be the next Baidu, Alibaba and Tencent?

MR. SU: We were looking at software services and security. You know, this is a space we're very interested in. No. 2: all this micropayments. If you walk today in Shanghai and Beijing you are starting to see pop-up KTV [karaoke TV] booths with two or three seats. You scan your phone, you open the door, you go in and you can sing two songs, take pictures with your friends, capture the image and send it to whatever account you have. It's instant gratification. And that's all powered by mobile, powered by payment. Areas like that we are very interested in, where young consumers will be very interested.

MR. WINKLER: Payments is so strategic for some of these companies,

MR. SU: Yes. I think the next few years you will see lots and lots of innovation in payment on mobile that's going to drive a lot of consumption, change in behavior. I think all this is driving a lot of changes in consumers. And there's very minimal friction to using these services.

MS. CHAN: The way Chinese app companies think and the designers think is they want to grow deep, not just wide. Meaning, they want to control all aspects of your day from

Where VC Money Is Going in China

Connie Chan and David Su discuss venture-capital trends, and what investors can learn about products that come out in China first

Venture capitalists are often among the first to recognize big trends in technology, and, if they're lucky, to back the companies best positioned to profit from those trends.

Wall Street Journal reporter Rolfe Winkler sat down with two successful VCs familiar with China's tech market, Connie Chan, a partner at Andreessen Horowitz, and David Su, founding managing partner of Matrix Partners China, to find out where tech—and the money—are headed next. Edited excerpts follow.

MR. WINKLER: Where is venture capital flowing right now, in China and the U.S.?

MR. SU: Software services is a space we've been investing in over the last four years. Human capital is getting increasingly expensive in China. In the last four years we probably invested in about 30 companies in early to early growth stage. We're seeing tremendous growth in that space.

We're also looking at security. We're looking at enter-

prise-security, internet-security companies.

MS. CHAN: A couple of years ago my partner, Marc Andreessen, wrote an essay saying "software is eating the world." We think that same message holds true today. If you look now at all these traditional industries that were not software-led, they are doing whatever they can to build software teams, engineering teams. Look at the auto industry, for example.

We're seeing so much disruption happening. We're looking at a lot of areas where traditional industries are getting massively disrupted by software.

MR. WINKLER: Why doesn't Andreessen invest in China?

MS. CHAN: We have a strong operating-partner focus where we introduce networks of investors, engineers, product designers, marketing folks to all of our portfolio companies. And a large part of our network is centered in Silicon Valley. So our biggest value-

add is most likely to a company that has its headquarters in and is based in the U.S. Most likely Silicon Valley. We have made investments outside of the country. But that's definitely not the norm.

However, we do spend a lot of time thinking about China. I come to China, I come to Hong Kong quite frequently because I think there's so much to learn. There are so many portfolio companies trying to figure out their China strategy.

MR. WINKLER: We've heard many times that China is full of technology copycats. That has reversed a little bit. Give us examples where you've had a portfolio company learn something product-wise, rolled something out because they saw it here first.

MS. CHAN: Earlier this year we made an investment in LimeBike [a bike-sharing company based in San Mateo, Calif.]. After talking to lots of my Chinese investor friends who had invested in Ofo and Mobike, the two leaders in bike sharing

in China, I learned about the unit economics of this model, and I saw some very strong product market fit. In many ways, LimeBike is kind of a China copycat in the sense that they're taking that Mobike, Ofo model and bringing it to the states.

MR. WINKLER: David, you are

Venture-Capital Flows

Equity financings for venture-backed companies* ■ 2012 ■ 2016

By company location



*Equity financings include cash investments by professional venture-capital firms, corporations, other private-equity firms and individuals into companies that have received at least one round of venture funding.

†China doesn't include Taiwan or Hong Kong

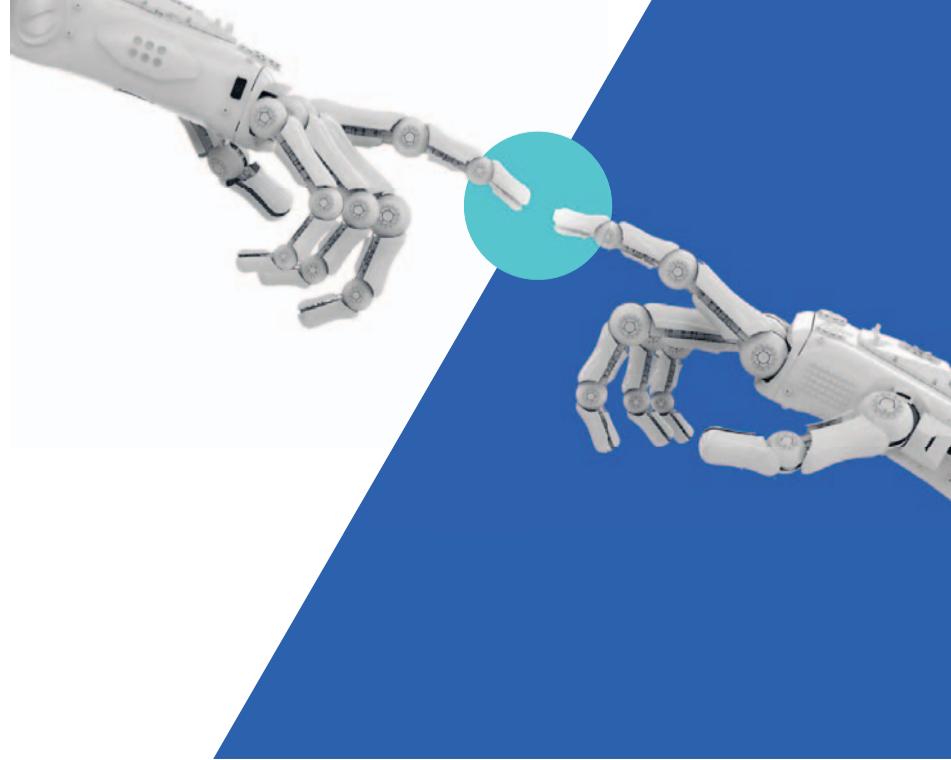
Source: Dow Jones VentureSource

THE WALL STREET JOURNAL.

Digital/McKinsey

Digital McKinsey is proud to partner with WSJ D.Live Asia

For our latest thinking on digital reinvention visit mckinsey.com and subscribe to receive our articles and reports. Or follow us @DigitalMcKinsey



What's Holding Back Fintech

Jonathan Larsen says it's partly customers, partly technology and partly regulators

Jonathan Larsen is the new chief innovation officer at Chinese insurance giant Ping An Insurance (Group) Co. of China Ltd. The former global head of retail banking at Citigroup Inc., Mr. Larsen now runs Ping An's \$1 billion Hong Kong investment fund, which is on the hunt for deals in the financial-technology space.

Mr. Larsen spoke with Andrew Dowell of The Wall Street Journal to discuss where fintech is headed and what he thinks is holding it back.

Edited excerpts follow.

MR. DOWELL: Why are banks still so bad at technological innovation?

MR. LARSEN: There's an enormous amount of opportunity to overhaul banking and financial services generally. So why hasn't it happened yet?

I can tell you, it isn't an easy transition. First, clients are quite sticky in their preferences and their behavior, so while it may make sense to us to move everybody on to mobile instantly, there are plenty of people who are quite happy and comfortable with the way they're doing business. Second, most of these banks have layers and layers of technology. Simply wiping the floor and starting over is an option, but it's a very challenging, risky and costly option. And

third, regulators put brakes on institutions everywhere. Cloud computing is a really good example. There are very few regulators in the world who truly understand cloud computing and have clear guidelines about what is and isn't acceptable.

MR. DOWELL: How would you assess fintech's prospects?

MR. LARSEN: This technology transformation is going to happen. But it's going to happen at different paces in different areas of the business. Think of the functions that take place within financial-services institutions as being sort of decomposed or atomized, and then re-solved in a new way using technology.

And some of those things can scale to be business models. I think we've seen that clearly in mobile payments.

MR. DOWELL: Ping An also has a position in Chinese lender Lufax. Do you want to talk a little about what Ping An's interest is in fintech?

MR. LARSEN: In the last decade or so, Ping An has made a massive investment in technology. It has 20,000 technology developers and scale platforms that run on blockchain. We're doing advanced research into voice recognition

and facial recognition for all kinds of different applications.

Alongside that, [founder, chairman and CEO] Peter Ma has been able to incubate and create new platforms repeatedly. Lufax is a good example. We're talking about a \$19 billion company as of its last valuation round. GoodDoctor.com is another one—140 million registered users, consulting physicians via chat and image.

There are probably a dozen similar potential platforms that are at various stages of incubation within the group. And then there is a huge amount of effort around artificial intelligence and machine learning in particular.

Our vision is that our business will be a data business.

MR. DOWELL: What types of investments is the \$1 billion Global Voyager Fund seeking?

MR. LARSEN: Our focus will be mostly strategic and our sweet spot is investments in the \$10 million to \$30 million range. That will naturally lead to bigger opportunities for companies that are in their rapid scaling phase. [We want to invest in] people we can learn from. We can access their capabilities through joint-venture agreements, distribution deals, technology deals, licensing. The cooperation can take many forms.

The Optimistic Promise Of Artificial Intelligence

Andrew Ng and Tong Zhang on how AI is going to be like electricity, transforming every industry

Artificial intelligence may be one of the technology world's current obsessions, but many people find it scary, envisioning robots taking over the world.

Two top experts in the field—Andrew Ng, a Stanford University adjunct professor and former AI scientist at Alphabet Inc.'s Google and Chinese internet giant Baidu Inc., and Tong Zhang, executive director of the AI Lab at Tencent Holdings Ltd.—sat down with The Wall Street Journal's global technology editor, Jason Dean, to explain why they believe the opportunities associated with this technology far outweigh the bad.

Edited excerpts follow.

The new electricity

MR. DEAN: Let's start with the scary stuff because that's the

most fun. The title of this panel refers to "the singularity," or the idea that artificial intelligence will become so powerful that robots will take over. Andrew, I know you're skeptical of that. What should we be worried about with AI and where are the biggest opportunities?

MR. NG: Worrying about evil AI robots today is a lot like worrying about overpopulation on the planet Mars. You know, some day we might get to Mars and we might actually overpopulate it and we'll need to worry about it then. But today, we haven't even landed on Mars yet, so I don't know how to productively work on that problem.

Having gotten the scary stuff out of the way, I think AI is the new electricity. Whatever industry you work in, AI

will probably transform it, just as 100 years ago the rise of electricity transformed industry after industry—everything from transportation and communications to manufacturing to health care.

So I hope that whatever industry you're in, you'll figure out how to leverage AI, because I think it will create new winners and losers in almost every category.

MR. DEAN: Tong, do you share that basic optimism?

MR. ZHANG: Yes. Nowadays, AI can solve a lot of specialized problems, in some cases even better than humans. But there is no single solution for AI to solve all problems simultaneously.

It takes a lot of human effort to deliver a specialized AI system for medicine, for example. And that doesn't translate to other problems as easily as some people might think. That isn't singularity. That's far from it.

MR. DEAN: Part of the hype around AI is that every company in the technology industry and even some that aren't are saying, "Oh, we're doing great stuff with AI." It can be hard to tell how much of that is real and how much of that is baloney. Where do you think there is more malarkey than actual substance in the AI talk?

MR. NG: Here is one pattern that might be useful for spotting when AI might affect your industry or some other industry you care about. First,

the industry is digitized, meaning activity is moved to computers. That creates data, which gives AI an opportunity to come in and eat the data and automate decisions or do things more intelligently.

The single most lucrative application of AI today might be online advertising, or deciding what ad to show people. Because the online advertising realm has always been a digital realm, there is tons of data, and as a result the AI for that is very sophisticated today.

The fintech industry is another area where a lot has moved to the digital realm. Health care is a bit further behind. So is construction. But you see this pattern where first comes digitization, which creates data, and then comes the AI.

Lifelong learners

MR. DEAN: Let's be predictive. My nine-year-old twins are in the phase now of coming to me and saying what they want to be when they grow up. What jobs should I tell them probably won't exist once they are adults? Radiology is one you've mentioned before. What else is in the target zone?

MR. NG: If any of you have friends or children in medical school—AI is getting much better at reading radiology images, frankly. So if any of your friends are going through medical school and graduating with a degree in radiology, I think they might have a perfectly fine five-year career as a radiologist. Maybe 10 years.

Again, the broader pattern

is that in any task in which a lot of people are doing relatively routine, repetitive work, that creates a very strong incentive for AI teams to come and automate that task.

There is one other rule of thumb, which is that almost anything a typical human can do with less than one second of mental thought, we can probably now or in the near future automate using AI.

Take a security guard looking at a video feed and saying, "Are there people in this? Are they doing something suspicious?" That task is actually a lot of one-second judgment thoughts strung together, so I think a lot of it can be automated.

I do think we're entering an era in which lifelong learning is no longer optional. The old model of education, where you go to college for four years and coast through the next 40 makes no sense in today's rapidly changing world.

In IT, half the stuff we invent today will be obsolete in five years. The sands are constantly shifting. You have to keep learning. This is becoming much more pervasive elsewhere in our economy, too.

So tell your children: "Learn to be lifelong learners."

MR. DEAN: It seems like the U.S. and China are the two

Tong Zhang and Andrew Ng

MANUEL WONG/DOWN JONES

Thinking About AI

How consumers in the U.S. feel about some aspects of the growing use of artificial intelligence

HOPES

63%

Agree AI will help solve complex problems that plague modern societies

FEARS

46%

Believe AI will harm people by taking away jobs

FEARS

23%

Believe AI will have serious negative implications

WEIGHING THE PROS AND CONS

80%

Say it's more important to have access to more affordable legal advice than to preserve the jobs of lawyers

69%

Would rather have more affordable, convenient and reliable transportation than preserve the jobs of taxi drivers

64%

Would rather have instant access to quality customer service than preserve the jobs of customer-service representatives

Source: PricewaterhouseCoopers survey of 2,500 U.S. consumers and business leaders, conducted in February 2017

THE WALL STREET JOURNAL

THE ETERNAL MOVEMENT

Ulysse Nardin, from the movement of the sea to the perpetual innovation of Haute Horlogerie. For over 170 years, the powerful movement of the ocean has inspired Ulysse Nardin in its singular quest: to push back the limits of mechanical watchmaking, time and time again.

ULYSSE NARDIN
SINCE 1846 LE LOCLE - SUISSE

Freak Blue Cruiser
Flying carrousel-tourbillon
7-day power reserve
Silicium technology
ulyssenardin.com

JOURNAL REPORT | WSJ D.LIVE ASIA



MANUEL WONG/DOW JONES (2)

The Future of Messaging Apps

Kavin Bharti Mittal and Ji-Hoon Rim talk about how the apps are changing, and how they plan to take on the industry's leaders

In Asia, many smartphone users use messaging apps to watch videos, make calls, hail rides and play games. And U.S. giants **WhatsApp** and **Snapchat** are getting more competition from challengers from Asia. To get a glimpse of what the future may hold for messaging apps, Wall Street Journal senior editor Yun-Hee Kim spoke with Kavin Bharti Mittal, founder and chief executive of India's **Hike Messenger**, and Ji-Hoon Rim, CEO of South Korea's **Kakao Corp.**

Here are edited excerpts of the discussion.

What's ahead

MS. KIM: What is the next-generation messaging app going to look like?

MR. MITTAL: Artificial intelligence. I personally think that the next messenger is going to be the virtual personal assistant.

MR. MITTAL: Yeah, absolutely. I'm a big believer that we're at a stage in the evolution of technology where humans are still forced to adapt to the way

technology works. And I think AI's going to change that.

It's going to spin it backward, where technology can finally adapt itself to how human beings live their lives.

We're only using AI in small amounts of the application today in Hike.

Based on the time of the day, based on your location, based on the weather, we can change the recommendation of stickers [images people can send to other users] that you see in your palette. It's a very small example of what's possible with big data and AI inside messaging apps going forward.

I'm pretty confident that we could show how the future is going to be. Because Korea is relatively small. We can showcase how it really works.

The competition

MS. KIM: How does Kakao plan to use artificial intelligence in its KakaoTalk messaging platform?

MR. RIM: It's going to be natural-language processing and understanding. In the mobile service right now, we're already connected to the biggest franchise deliveries like Pizza Hut, Burger King. All those

things you can actually order on mobile right now, and get delivered.

If that's connected with AI and a conversational [user interface], rather than typing or touching the phone, you can just say, "Please order the same pizza that I did last week." Or "I want to go to Hong Kong Disneyland. Please call me a taxi."

I'm pretty confident that we could show how the future is going to be. Because Korea is relatively small. We can showcase how it really works.

MS. KIM: But in India, WhatsApp actually has double the amount of users as Hike. What are they doing right? And what do you guys need to do to catch up?

MR. MITTAL: We don't look at Hike as catching up at all. We've made it very clear that for us to win, WhatsApp doesn't have to lose.

As a matter of fact, people use WhatsApp and Hike very, very differently together on their phones.

Hike is used with seven,

industry, you try to sort of compete as little as possible. You go around the competition.

We focus on the youth. In India, about half a billion people are under the age of 24.

So we focus on our user base and deliver what is important to them. In India, given that you have so much diversity, it allows for people like us to exist, because we can solve very local problems at scale.

MS. KIM: But in India, WhatsApp actually has double the amount of users as Hike. What are they doing right? And what do you guys need to do to catch up?

MR. MITTAL: We don't look at Hike as catching up at all. We've made it very clear that for us to win, WhatsApp doesn't have to lose.

As a matter of fact, people use WhatsApp and Hike very, very differently together on their phones.

Hike is used with seven,

eight, 10 close friends. Whereas WhatsApp is used with your parents, your driver, your colleagues, your plumber.

The more pervasive Facebook and WhatsApp are, the more the need for Hike. Because in a market like India, there is a very large divide between the older, conservative population and the younger youth who are much more liberal. As a result of which, people need a space to be themselves. And Hike is that application.

MS. KIM: Kakao hasn't really gained much traction overseas. What went wrong?

MR. RIM: I don't want to say it was wrong. Actually, it was a path that we chose. We realized that it's going to be very tough for us to compete as a messenger globally, because they were big companies.

We chose a path where we'll do platform business in Korea, since we're a dominant player, and we'll do content business globally. Content here means offering music, gaming, entertainment and comics.

MS. KIM: Do you have plans to take Hike outside of India?

MR. MITTAL: Not yet. We feel that the market is very big. There is enough and more for us to work on in India.

Do we foresee ourselves going outside the country? Well, we'd hope so.

There are many countries out there like Bangladesh, Sri Lanka, Africa as well, that have a very similar characteristic to India. Where data's tricky, where smartphones are cheap.

Maybe in the next 12 to 18 months, we'll consider one of these markets.

Where the money goes

MS. KIM: You've raised more than \$250 million from investors. What are you using the funding toward? Is it improving your features or expanding perhaps outside of your home market?

MR. MITTAL: Definitely improving the product. We're big believers that as consumers get used to technology, consumer

needs grow. So you can't stay stagnant in the technology space. You have to keep evolving and improving your product 24/7.

We've been working on a lot of stuff that we've launched in the last six months. Hike, by the end of 2017, will look very different.

Because we have the funding, and more important, we have a lot of access to people like **Tencent** [a Chinese company that created the messaging app WeChat and backs Hike].

There are a lot of insights we've got around what WeChat's doing with the platform, or what they're doing with messaging, what they're doing with photos, what they're doing with videos, what they're doing with calling, payments and a bunch of other stuff. We've definitely used that to improve our own set of tactics and strategy in India.

MS. KIM: In light of the terrorist attacks in Europe and the U.S., there has been a lot of debate about whether messaging companies like yourselves should give away data of their users to government agencies. I wanted to hear your thoughts on that issue.

MR. MITTAL: One thing that we do well with Hike is we actually don't store any messages. We just don't do it. We don't plan to change that over time.

But I think it's not wrong for the governments to ask for data if the situation is right.

I can only speak for India. The internet is so new in India that the government's also trying to figure out what the rules are in the online world. What does it mean to have security and privacy online in the virtual world?

Because now people spend four hours of their day on average on the internet. In a country like India, one day you'll have a billion people accessing the internet through their smartphones. So time will tell.

MR. RIM: Privacy of data is very important. And Kakao puts in every effort to keep it up.



InvestHK

HONG KONG FINTECH WEEK

23 – 27 October 2017

Hong Kong Convention and Exhibition Centre

SAVE THE WEEK!

Dive in the insightful discussions on FinTech with entrepreneurs, investors, regulators, start-ups and more from Hong Kong, China and around the world, with ample and target-oriented networking opportunities throughout the Week.

www.fintechweek.hk

fintechweek.hk



fintech@investhk.gov.hk



@HongKongFinTech

Sign Up for Latest Updates:



Facebook



Twitter



LinkedIn



Anthony Tan and Doug Parker

The Ride-Sharing Boom

Anthony Tan and Doug Parker on where the industry—and driverless cars—is heading in Asia

Few battles in the tech world have been as bruising as the global ride-sharing wars. Who will come out on top?

In Southeast Asia, Singapore's GrabTaxi Holdings Pte. is slugging it out with Uber Technologies Inc. and others for dominance. Grab is now in 55 cities across the region. It

launched a mobile-payments business known as GrabPay, recently bought an Indonesian e-commerce firm and is teaming up with Cambridge, Mass., startup nuTonomy Inc. to test self-driving cars in Singapore.

Grab co-founder Anthony Tan and Doug Parker, chief operating officer of nuTonomy, sat down with Jason Anders, The Wall Street Journal's global business editor, to discuss where the industry is headed in Asia.

Edited excerpts follow.

Perfect complement

MR. ANDERS: Ride sharing is booming, especially here in Asia. Anthony, Grab is focused on Southeast Asia, on letting folks hail private cars, taxis and motorbikes. But lately, you've been pushing pretty aggressively into mobile payments and other businesses. Why?

MR. TAN: The payments experi-

ence and the entire ride-sharing experience—they are perfect complements, right? Today we do about 2.5 million rides a day. That's a lot of small transactions, ranging from \$3 or \$4 to \$11. And you just sort of use GrabPay all the time. That frequency builds a habit. That habit then becomes something you're comfortable with. Our credit wallet, because of that, has grown about 80% month on month.

MR. ANDERS: You recently bought Kudo in Indonesia, which helps consumers who don't have internet connections, or even bank accounts, buy things by connecting them with local agents who they can deal with face-to-face. What does that have to do with ride-hailing?

MR. TAN: Think about the digital divide. In Southeast Asia there are about 630 million people and a lot of them still don't have a bank account.

They don't have smartphone penetration. It's growing very fast but is far from where it needs to be. GrabKudo has about 400,000 agents. They are community guys and they come up to [people] and they say, "Hey, if you want access to any of the e-commerce

sites, I can get you access. Do you want to sign up as a Grab driver?" They have been signing up thousands of drivers on a daily basis.

MR. ANDERS: So Doug, nuTonomy is looking to make the case that not only do we not need to own cars, we actually don't need drivers. How do you convince ride-hailing companies that this is where they should be investing?

MR. PARKER: There has been a big step change in experience from the taxicab drive of the 1990s in New York City to the taxicab or Uber, Grab or Lyft drive of today. Autonomous [driving] is the next big step change. Your experience today is about 10 times better than the old taxicab ride, but there are things you probably don't like about it. Maybe I would like to sit in the front. I'd like to look out a front window, control the radio myself, control the temperature.

Autonomous is also going to be a safer ride. Something like 1.4 million people die every year in auto accidents. That's equivalent to 10 747s crashing every day. You would never let United get away with something like that, or Boeing.

Please see TAN page R7

The Technology Battle Raging in Indonesia

Nadiem Makarim and William Tanuwijaya on the targeted market—and how to tap into it

Consumer spending is booming in Southeast Asia, thanks in part to the growing adoption of smartphones and other technologies that make it easier to shop for goods and services and to pay for them.

Indonesia, with the world's fourth-largest population, is a market where local tech companies and regional giants alike are focused on tapping the potential of e-commerce.

Nadiem Makarim, founder and chief executive of Go-Jek Indonesia, which started with motorcycle-hailing service and has expanded into other online services, and William Tanuwijaya, co-founder and CEO of Indonesian online marketplace Tokopedia, discussed the opportunities and challenges in their home market with The Wall Street Journal's technology editor, Jason Dean.

Following are edited excerpts of their conversation.

MR. DEAN: In the past the In-

donesian tech market has been somewhat overshadowed by other regional giants like China and India. But it's becoming a real battleground. Let's start with why. William, Tokopedia is an online consumer-to-consumer marketplace. What makes Indonesia an attractive market for this business, especially given how fragmented it is and relatively poor?

MR. TANUWIJAYA: The beauty of Indonesia is that you can really predict the future, by learning what happened in the past from the U.S. market, China market, Japan market, India market.

It's very similar with China in 2008.

Indonesia's GDP per capita last year is the same as China's in 2008. We also have 3G, 4G now in Indonesia. So we can see the boom that will happen if in the next five years we can follow that pattern.

Branching out
MR. DEAN: Nadiem, you started out with ride sharing for motorcycles and you've expanded into food delivery, package delivery, on-demand beauty and cleaning services, and payments.

What's driving your expansion into so many different areas?

MR. MAKARIM: First and foremost, as William said, the opportunity in Indonesia is really massive.

I think that the risk is actually in not diversifying. We are big students of China, India and other regions. And it's very obvious that it is difficult to defend a single vertical. The dynamics of competition always dictate that someone with a lower price will always come in, et cetera.

But what is defensible, from what we've seen in China's case, is a platform. A platform is basically a mind-set; it's a thinking of your business that follows the consumer's need as opposed to what you think the business is.

So that is the primary philosophy of Go-Jek, to go where the consumer goes and to be ruthlessly obsessive about customer needs and the problems they face.

So for us, diversification is a matter of not only survival, but thriving and being able to defend ourselves as an overall platform.

MR. DEAN: How do you decide then what to move into and what not to?

MR. MAKARIM: We target all of the highest-frequency middle-class transactions that a person does in their daily life and move it to your smartphone.

So let's look at how a person lives in Indonesia in the



William Tanuwijaya and Nadiem Makarim

middle class.

Your highest-frequency transactions are transportation, food, sending stuff around, buying [cellphone] air time, and then paying for stuff at a store. And then of course you've got utilities, bills. And so our goal is to cover that gamut of transactions so that you will not be required to transact outside of your smartphone.

And that's why Go-Pay is now one of the biggest focuses of Go-Jek, because it's the glue that ties the platform all together. In a country where you've got 70% of the population that is unbanked and the remaining 30% is severely underbanked, it's practically an open market for this kind of innovation.

What we call the four unicorns within our business are transportation, logistics, food and payments. Those are our four kind of core pillars.

Sizing up the market

MR. DEAN: Indonesia's total population is about 260 million. How much of that is really addressable for both of you?

Not everybody, right? You mentioned the middle class you're targeting. What is the

size of the middle class within that total number?

MR. MAKARIM: The middle class is kind of the fattest chunk. You've still got this middle-lower to lower class that's quite big as well. In our business, we are necessity products in many ways, both William's company and my own.

Everyone needs food. Everyone needs to get around. Everyone needs stuff. So the addressable market really is not so much the income level, it's how many people have an Android. IOS as well, but IOS is in the higher end of the spectrum.

MR. DEAN: So what is that now? What is the penetration of mobile phones or smartphones?

MR. MAKARIM: I believe right now smartphone penetration is at around 70, 80 million.

MR. TANUWIJAYA: Google last year announced that Indonesia already has 100 million internet users. But from that 100 million internet users, only perhaps 40 million have a bank account, 3% have a credit card.

We see this gap between people that are already online but they cannot transact on-

line. And we see this opportunity to innovate.

So, for example, the past two years we're building cash collection points at stores in Indonesia. People can buy online and pay in cash through their nearby store.

Looking abroad?

MR. DEAN: What about the idea of going beyond Indonesia? Do you think about that now at all?

MR. MAKARIM: We think about it all the time.

We have two principles. One is you cannot win Southeast Asia without winning Indonesia. We have to be comfortable across all our verticals before expanding.

The second principle is we do not believe in just expanding for the sake of expanding. We believe in partnerships with locally founded companies.

MR. TANUWIJAYA: We are sort of the same school.

In the past eight years, Tokopedia is only focused on the Indonesian market. And we think that it's big enough.

Our vision is to really democratize commerce technology. That done, and then we'll consider to expand in other markets.

Feeling Good

Consumer confidence grew last year in Southeast Asia, with optimism increasing in all three measures of confidence in the Philippines and Thailand and in the region overall

Level of optimism in the fourth quarter of 2016

■ Percentage-point change from the first quarter



Source: Nielsen Co. survey of nearly 3,000 consumers in Southeast Asia, including nearly 500 each in the Philippines and Thailand.

THE WALL STREET JOURNAL.

Milner

Continued from page R1
what I'm saying is that in order for all of us to reap the benefits of AI, for example, as soon as possible we need a certain amount of concentration of capital so that those projects get funded.

A separate setup

MR. BAKER: Can China go on, in political terms and from an investment perspective, to continue to develop its own separate internet companies? And Facebook and everybody else will just have to deal with the rest of the world?

MR. MILNER: The interesting

byproduct of these massive companies that have been created is that the employees and the founders of those companies, obviously they reap the benefits of the success. And the byproduct of this is the creation of a very vibrant angel community.

From the angel community follows a VC community. And then a VC community is followed by growth stage, late stage and then public stage [companies]. In order to create a Silicon Valley-type phenomenon, an angel community is critical. And an angel community is really very dependent on those massive success stories. So that's how the cycle gets going.

MR. BAKER: Our opening poll question was about finding intelligent life. Some people would be happy if we found more intelligent life on Earth first rather than finding intelligent life in the rest of the universe.

You've got a very strong interest in this. You've put up money for a prize. Why is this something you regard as so important?

MR. MILNER: We should be looking beyond the horizon. I truly believe that we collectively as a civilization should allocate a small fraction of our resources to try to solve existential questions. "Are we alone in the universe?" is one of those existential questions.

in it?

MR. PARKER: We will still have a safety driver in the car for a number of years. There is a long process to convince regulators that this is safe. We have to find the right way to prove, through on-road tests, that this is entirely safe to take the driver out. Part of that is we're going to have remote safety officers who will monitor the cars and take over if there is a problem.

'Brothers in this'

MR. ANDERS: NuTonomy is working with different ride-hailing partners and auto makers. Many of these companies are locked in some pretty bitter blood feuds. How do you stay neutral?

MR. PARKER: Right now, we're trying to work with the good guys—the Grabs and the Lyfts of the world that really want to drive a better experience for people. But also, at this point, Grab and Lyft aren't competing with each other. We actually have three partnerships with ride-hailing companies. We haven't announced the third one yet.

MR. ANDERS: You haven't announced the third one yet? Here we are. Let's have it.

MR. PARKER: I know. It's a great forum. But...

MR. ANDERS: Anthony, let's talk about competition. Uber gave up the fight with Didi [Chuxing Technology Co.] in

China, and I know Didi is one of your investors. How are you going to avoid one of these really protracted, and wildly expensive, battles in Southeast Asia?

MR. TAN: It is very different in Southeast Asia. For one thing, Grab embraces the taxi world. In Singapore, Grab combines all the taxis, all the cars, with one touch of a button. And because we work so closely with the Singapore government, they have allowed us to be the first company with the ability to price dynamically for taxis, which is essentially a public utility vehicle. So with just Grab, you now get taxis that can have dynamic pricing at peak hours, and be cheaper than the meter during off-peak hours.

MR. ANDERS: If Didi wanted to acquire Grab outright, would you be open to it?

MR. TAN: Right now, we work hand in hand. They aren't types who say, "I want to be the boss, and that's it." They are much more like, "We're brothers in this. How do we make sure that we win this local style, respecting the local nuances."

They realize that Southeast Asia is a fragmented market. The countries are similar in many ways but still so different in terms of language, religion, etc. The ability to embrace that fragmentation but also see the common patterns is what Didi respects about us.

It's kind of like people who are scared of flying. They aren't scared of the engineering, or that the plane won't fly. It's that they have no control. It's the same thing with autonomous cars. We have to get used to the fact that the car is going to make the right choice. Every time.

MR. ANDERS: How long will it be before I hail a car, and it picks me up without a driver

Tan

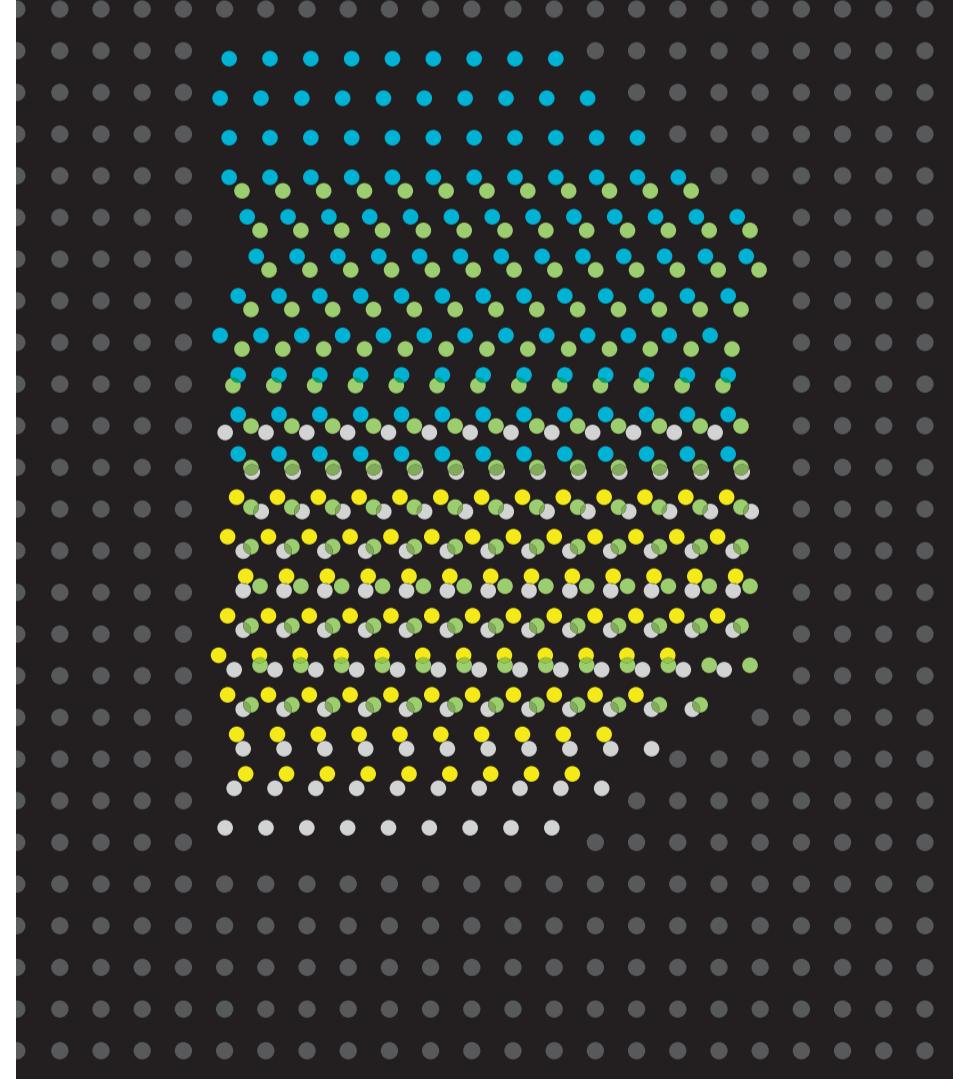
Continued from page R6
So once you have big companies taking on this role of driving the cars, we are going to end up with a safer, more comfortable, more efficient ride.

MR. ANDERS: You've worked with Grab on a test in Singapore. And you just announced you're going to collaborate with Lyft on a similar test in Boston, with real-world riders. What are you learning from these tests?

MR. PARKER: When you start putting people [in self-driving cars] who aren't roboticists or scientists, what they tell you is amazing. They have a lot of fear when they first get in, when the car starts driving itself. But after five minutes, they're playing with their phones. So there is this very fast adoption curve. But when the car goes to make a turn at a busy traffic light for the first time, it is a little scary.

It's kind of like people who are scared of flying. They aren't scared of the engineering, or that the plane won't fly. It's that they have no control. It's the same thing with autonomous cars. We have to get used to the fact that the car is going to make the right choice. Every time.

MR. ANDERS: How long will it be before I hail a car, and it picks me up without a driver



THE WALL STREET JOURNAL.

D.LIVE

LAGUNA

The Montage, Laguna Beach, CA

October 16-18, 2017

REQUEST YOUR INVITATION:
DLIVE.WSJ.COM

Proudly supported by:

EPSON

EXCEED YOUR VISION

NETJETS

ULYSSE NARDIN

SINCE 1846 LE LOCLE - SUISSE

© 2017 Dow Jones & Co., Inc. All rights reserved. 3DJS599

How much downtime can you afford?

For 20 years, we've been helping companies unleash the power of their apps to get where they want to go:
Faster. Smarter. Safer.

WeMakeAppsGo.com



WE MAKE APPS **GO** FASTER.
SMARTER.
SAFER.