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What's News

Business & Finance

Uber CEO Kalanick will take an indefinite leave of absence amid a sweeping investigation into the ride-hailing company's workplace culture. **A1**

◆ **The yield-curve inversion** in China has worsened, a sign of bond-market stress as Beijing tries to clean up the financial system. **A1**

◆ **The EU proposed** plans that could force London clearinghouses that deal with euro contracts to move to the bloc after Brexit. **B1**

◆ **Saudi Arabia is slashing** its U.S. oil exports, intensifying efforts to cut a global supply glut that has been pummeling crude prices. **B1**

◆ **Verizon completed** its purchase of Yahoo's internet assets, which will be merged with AOL to form a new unit led by AOL's chief. **B1**

◆ **U.S. authorities** are probing allegations that funds stolen from Malaysian fund 1MDB were used to buy an energy firm. **B11**

◆ **Centene plans** to expand its ACA offerings to three new states, even as other health insurers retreat. **B2**

◆ **Italy's Alitalia filed** for bankruptcy in the U.S., as it faced losing access to New York's JFK airport. **B2**

◆ **Fiat's diesel emissions** were much higher on the road than in lab tests, researchers found. **B3**

World-Wide

◆ **Macron said** the door remains open for Britain to stay in the EU, even as a politically weakened May faces Brexit talks. **A3**

◆ **The number of Britons** applying for citizenship elsewhere in the EU has jumped since the Brexit vote. **A3**

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

◆ **North Korea freed** a U.S. college student arrested during a visit last year, but his parents said they were told he is in a coma. **A4**

◆ **A drone** believed to be from North Korea flew to a U.S. missile-defense battery in South Korea to take photos, Seoul said. **A4**

◆ **Senators said** Trump's budget proposal, which includes large State Department cuts, won't make it through Congress. **A6-A7**

◆ **Sessions denied** before a U.S. Senate panel that he met with any Russian officials in 2016 to discuss the presidential campaign. **A7**

◆ **The Senate unveiled** additional sanctions on Russia to punish Moscow for its military activities and alleged election meddling. **A7**

◆ **The White House** is expected to scale back U.S. policy changes that it says aid the Cuban government. **A4**

Journal Report

Asian tech firms were once dismissed as copycats. Now they are being emulated in the West. **WSJ D.Live Asia, Pages B7-10**

CONTENTS

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Attorney General Calls Talk of Collusion With Russia 'Detestable Lie'

ALEX BRANDON/ASSOCIATED PRESS

ADAMANT: U.S. Attorney General Jeff Sessions emphatically denied meeting with Russian officials last year to discuss the presidential campaign. In testimony before a Senate committee, he also defended his decision to recommend ex-FBI Director James Comey's firing. **A7**

Trump, Yellen Find Amity

Selection process to nominate the next leader of the Federal Reserve to begin soon

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 observ-

Please see FED page A7

◆ Senators question Tillerson about budget........................ A6

Uber's Kalanick To Take Leave

BY GREG BENSINGER

Uber Technologies Inc. Chief Executive Travis Kalanick said he would take an indefinite leave from the company he built into the world's most valuable startup, as the ride-hailing giant announced sweeping changes to its workplace culture following a series of scandals.

Mr. Kalanick said in an email to Uber's 12,000 employees Tuesday that he would shift his responsibilities to his direct reports while he is away, stepping in only for major strategic decisions. The leave is necessary, the 40-year-old co-founder of the ride-hailing company said, "to become the leader that this company needs."

His missive to staff came just as Uber announced partial results of a nearly four-month investigation into its workplace culture by former U.S. Attorney General Eric Holder's law firm. The executive summary from Covington & Burling LLP, made public as Uber addressed staff in an all-hands meeting at its San Francisco headquarters, made broad recommendations that were approved by the company's seven-member board.

The recommendations include transferring some of Mr. Kalanick's responsibilities to other managers, including a new chief operating officer position that Uber has been recruiting for but hasn't filled. The report also calls for Uber to install more independent board seats; elevate the role of the recently hired chief diversity officer, Bernard Coleman; create an oversight committee; establish leadership coaching for executives;

Please see UBER page A2

TOTAL ENVISIONS LIFE AFTER OIL PEAKS

French energy giant is betting it can also produce and sell electricity

BY RUSSELL GOLD

France's Total SA, one of the world's largest oil companies, sent its top executives to Silicon Valley last summer, where they met with tech investors and futurists. At Tesla Inc.'s Bay Area factory, a Total executive tweeted a photo of a gleaming, red Model S—an electric car that burns no oil products at all.

The trip was meant to "open their minds," said Total Chairman and Chief Executive Patrick Pouyanné.

Total, like its peers Exxon Mobil Corp. and Royal Dutch Shell PLC, was built to service the world's massive demand for crude oil. Betting that demand will peak in the next few decades, Mr. Pouyanné wants to turn his company into one of the world's biggest suppliers of electricity, or what he often calls "the energy of the 21st century."

More than any other oil major, Total sees electricity as a hedge against oil's eventual decline and is assembling a new business around it. Last summer, it paid $1 billion for a French maker of industrial batteries. It bought a small utility that supplies gas and renewable power to households in Belgium and owns a majority stake in SunPower Corp., a California company that makes high-efficiency solar panels for governments,

Please see TOTAL page A8

Macron: EU's Door Still Open to U.K.

CHRISTOPHE ARCHAMBAULT/AGENCE FRANCE-PRESSE/GETTY IMAGES

FACE TO FACE: French President Emmanuel Macron, right, told visiting Prime Minister Theresa May the U.K. could still remain in the EU, adding uncertainty to Brexit talks in the wake of the U.K. election. **A3**

You Seem Tense! Hang On, I'll Get My Pneumatic Sander

* * *

Turned off by pricey massage devices, some professionals turn to basic power tools

BY RACHEL BACHMAN

Randy Fruchter says the exchange has happened a few times. He leans over a man lying prone on his massage table and turns on a buzzing, handheld device.

"Hey, that sounds like a jigsaw," the client says.

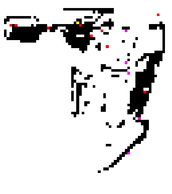
"Actually," Mr. Fruchter replies, "it is a jigsaw."

A year ago, the massage specialist in Orange County, Calif., balked at the $3,500 price of a massage device. Instead, Mr. Fruchter bought a $100 cordless jigsaw, filed down the blade and covered the point with a hard-rubber stopper. He uses the device daily to work on painful hips and stiff upper backs.

"In five minutes I can get about 30 minutes of work done," Mr. Fruchter says.

The popularity of massage is rising along with the price of electric gadgets for it. So some do-it-yourself-ers are raiding garages and Home Depot and turning power tools into turbocharged robo-masseurs.

Bill De Longis, head strength coach at Trinity College in Hartford, Conn., uses a jigsaw—with a lacrosse ball pierced and epoxied to its business end—for limbering the limbs of the school's varsity athletes. He calls it his "jig-sawge." He opted to hack the $60 saw after seeing a similar massage tool priced at $600.



A jigsaw with rubber stopper

"I'm at a Division III school, so we don't have a lot of money to spend on luxury items like that," Mr. De Longis says.

The coach also has appropriated an orbital sander (with sandpaper removed) and a battery-powered car buffer,

Please see TOOL page A8

INSIDE

EUROPEAN PRESSPHOTO AGENCY

AUSTRALIA'S CHINA PREDICAMENT

CHINA'S WORLD, A2

THE TEENAGE SPIRITUAL CRISIS

LIFE & ARTS, A12

China's Yield Curve Grows More Bizarre

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:

Spread Squeezed

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

Spread between one- and 10-year Chinese bond yields

Source: Wind Info

THE WALL STREET JOURNAL.

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

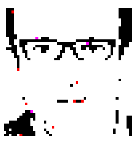
Please see YIELDS page A8

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.

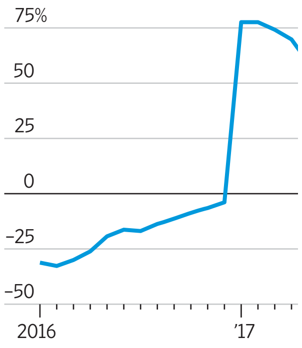
Increasingly, Chinese money pays the bills. It was unflagging Chinese demand for iron ore, coal and other commodities that kept Australian mines in business through the global financial crisis. China buys one-third of Australia's exports, and Chinese tourists are the biggest spenders Down Under.



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.

JIM REGAN/REUTERS



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.

Chinese iron-ore demand has given a boost to mines such as Christmas Creek in Western Australia's Pilbara region.

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, our own," Prime Minister Malcolm Turnbull told reporters.

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, 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 Jiann 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."

One of the real-estate developers named in the investigative report, Huang Xiangmo, used a nationalist-leaning Chinese newspaper, the Global Times, to attack the Australian media for singling out his political contributions. It was, he said, "not only racist, but also snobbish."

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.

UBER

Continued from Page One

and roll out mandatory sensitivity training for employees.

The report's summary also zeroed in on aspects of a corporate culture it says reinforces exclusionary and other poor behavior. Uber's 14 cultural values, for instance, include mandates to "always be hustlin'" and "toe stepping," as well as ground rules for alcohol consumption at the office and romantic relationships among colleagues.

But the summary stopped short of exposing any incidents at Uber or identifying employees. It isn't clear whether any employees will be dismissed as a result of the investigation, though Uber on Monday parted ways with Emil Michael, the chief business officer, as a result of the probe.

Uber is taking action to shore up its reputation after a damaging February blog post by former software engineer Susan Fowler Rigetti, who alleged a male-dominated workplace permissive of sexual harassment and sexism. The claims compelled Uber to hire Covington & Burling to conduct an investigation, which included interviews with more than 200 employees and separate online focus groups.

Mr. Kalanick's announcement that he will take a leave of absence is a surprising twist in the controversial eight-year history of Uber. The company, guided by a CEO with a pugnacious leadership style, bulldozed into new markets while battling local regulators and competitors around the world, raising over $15 billion in funding in the process. A self-described "hustler," Mr. Kalanick is known for instituting hard-charging business tactics and a workplace that rewarded high performers above all else. He has also ensured that all major decisions go through him, while diminishing his deputies' roles.

Nonmedical leaves of absences for CEOs are rare for a company of Uber's size, employment experts say, and often leaders don't return. Mr. Kalanick's leave is unique in that he is also grieving the death of his mother, who was killed last month in a boating accident that also left his father seriously injured.

Mr. Kalanick is protected in his position because of his share-based voting power. Along with co-founder Garrett Camp and early employee and former Uber CEO Ryan Graves, he has a large majority of the voting shares. The rest of the board is currently made up of insiders and investors, though Uber on Monday took the first steps toward changing the makeup by naming Nestlé SA executive Wan Ling Martello as a director.

Uber faces a significant leadership void at a time of crisis. In recent months, Mr. Kalanick has lost about a half-dozen direct reports and several other senior executives—through resignations or firings—including the leaders of operations, marketing, finance, communications and self-driving car development. Mr. Michael, whose last day was Sunday, was effectively considered Mr. Kalanick's No. 2 and was a confidant. Uber is actively searching for financial and operating chiefs as well as a general counsel.

IMAGO/ZUMA PRESS

CEO Travis Kalanick, who ordered the probe led by Eric Holder.

In Mr. Kalanick's absence, Uber said it would be run by a committee of 14 executives, including the chief technology officer, regional managers and heads of legal, product, operations and other areas.

Mr. Holder's team emphasized the role of an eventual chief operating officer as a "full partner with the CEO." A former No. 2 to Mr. Kalanick, Jeff Jones, left in March after just six months, calling the values of Uber out of line with his own. Uber has interviewed executives for the role with public company experience, including from Walt Disney Co. and Wal-Mart Stores Inc., though some have already removed their names from the running.

Companies often conduct 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.

Over the past several weeks, Uber workers have been summoned to the nearby San Francisco office of Covington & Burling 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. That investigation continues.

YIELDS

Continued from Page One

higher return. It usually reflects 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 Haiqing, 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 that the severe credit crunch four years ago won't repeat itself this month because the central 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 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 market expectations. "Don't panic," it urged investors.

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

An inverted yield curve usually reflects pessimism about a country's prospects.

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.

CORRECTIONS & AMPLIFICATIONS

The U.S. stock market fell 23% in a single day in the Black Monday crash in 1987. A Page One article Tuesday about the CBOE Volatility Index incorrectly said that the market fell 26% that day.

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

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WORLD NEWS

Door Still Open to U.K., Macron Tells May

Visiting after electoral setback, British leader says she will stick to her Brexit talks schedule

By William Horobin
And Jason Douglas

CHRISTOPHE ARCHAMBAULT/AGENCE FRANCE-PRESSE/GETTY IMAGES

British Prime Minister Theresa May met with French President Emmanuel Macron at the Élysée Palace in Paris on Tuesday.

PARIS—French President Emmanuel Macron said the door remains open for the U.K. to stay in the European Union, reflecting uncertainties over coming exit negotiations as politically weakened U.K. Prime Minister Theresa May scrambles to plot a course out of the bloc.

Mr. Macron made his comments standing alongside U.K. Prime Minister Theresa May after the two dined together in Paris on Tuesday. The dinner brought Mrs. May face to face with a politically emboldened defender of the EU just days after losing her parliamentary majority in elections.

Mrs. May's bruising setback in the parliamentary election has blurred the U.K.'s strategy for Brexit negotiations that are due to start in less than a week. With weakened support, Mrs. May could struggle to deliver her campaign promise of hard-nosed negotiations to get a clean break with the EU.

"The door obviously remains open as long as the Brexit talks aren't concluded," Mr. Macron said.

Mr. Macron noted that he respects the British vote to exit and said once the negotiations start it would be harder to make a U-turn.

Mrs. May said she would stick to the timetable for beginning the Brexit talks. The U.K. government will strive to keep a "deep and special partnership" with the EU, especially on matters of trade, she said.

The meeting was the first test of Mrs. May's stature on the European stage after her Conservative Party lost its parliamentary majority in a U.K. election she called with the aim of strengthening her mandate to negotiate Brexit.

The stumble at the polls was widely blamed on a botched campaign by Mrs. May and a successful showing by Jeremy Corbyn, the veteran left-wing leader of the main opposition Labour Party. Mr. Corbyn's pledges to nationalize railways and pay for college tuition struck a chord with voters weary of years of government belt-tightening, especially the young. Conservative plans to lift a ban on hunting foxes and reform elderly care fell flat.

The rebuke from voters has cast doubt on Mrs. May's ability to stay in office or govern effectively. Earlier Tuesday, she met with lawmakers from Northern Ireland's Democratic Unionist Party to forge a loose alliance, giving her government the extra votes it needs to retain power.

A big question mark now hangs over the U.K.'s Brexit strategy. Mrs. May had advocated a clean break with the bloc, but some in her party are pushing for a softer approach that puts economic security first.

"There is a unity of purpose among people in the United Kingdom. It is a unity of purpose, having voted to leave the EU, that the government gets on with that," Mrs. May said.

Mr. Macron is a tough interlocutor for Mrs. May on European matters. The 39-year-old won France's presidential election in May by campaigning as an outspoken defender of a stronger Europe. His rival in the second-round runoff, National Front leader Marine Le Pen, trumpeted the U.K. vote to leave the EU as a success story and called for France to do the same.

"My wish is that we don't use up energy talking about modalities of Brexit, but that in the eurozone and the EU we can continue talking about necessary projects to go further," Mr. Macron said.

The French leader notched up a second victory over Ms. Le Pen on Sunday as his party won the first round of the legislative election by a large margin, setting it up to win as many as 455 seats in the 577-seat National Assembly, according to polling firms. The National Front is expected to win five seats at most, the same polls show.

In his presidential campaign, Mr. Macron made pledges that are anathema to Mr. May. He wants to strengthen the eurozone—to which the U.K. doesn't belong—with a dedicated parliament, a finance minister and a budget. Mr. Macron also said he would increase cooperation with Germany to create a European defense headquarters.

The two leaders on Tuesday also discussed security and how to deepen cooperation on antiterrorism in Europe as well as between their two countries. After the dinner, Mrs. May and Mr. Macron attended a soccer match between England and France to pay homage to the victims of recent terror attacks in Manchester and London.

Britons Seeking Citizenship Elsewhere

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

*By Nina Adam
in Frankfurt
and Bertrand Benoit
in Berlin*

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 all 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.

"We never thought it was necessary [to apply for German citizenship], because we felt European," said Stephan Hale, a British businessman in Berlin. But after the June 2016 referendum on Brexit, he added, "all of a sudden this risk is appearing and you say 'damn it, I still want to be part of this nice union.' "

A few weeks later, he and his family lodged their request and took their citizenship tests—a German exam and a test of their knowledge of the country and its laws. He obtained German citizenship together with his British wife and three children last month.

EU Raises Heat on Nations That Bar Asylum

By Valentina Pop

SRDJAN STEVANOVIC/GETTY IMAGES

Hungarian police use tear gas to push back migrants trying to cross the border from Serbia.

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.

A majority of EU states voted in 2015 to distribute around the bloc up to 160,000 asylum seekers who had arrived in Italy and Greece, infuriating many in Central Europe who saw it as an unfair imposition from Brussels.

By mid-June, near the planned two-year end date of the program, just 20,869 people were relocated.

"When it comes to relocation, let me be crystal clear: [it] is a legal obligation, not a choice," said EU migration commissioner Dimitris Avramopoulos in announcing the European Commission's decision.

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.

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 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 Prime 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.

WORLD WATCH

CHINA

Panama Establishes Relations With 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 the decision and said Taipei would immediately end all foreign aid and bilateral cooperation with Panama.

A joint statement carried by Xinhua and posted on the Panamanian president's website said 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 comes amid pressure by Beijing on Taiwanese President Tsai Ing-wen, whose Democratic Progressive Party advocates independence for the island.

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

—Eva Dou and Jenny W. Hsu

BRAZIL

Rio Former Governor Is Jailed for 14 Years

Former Rio de Janeiro state Gov. Sérgio Cabral was sentenced to 14 years in prison for corruption and money laundering, becoming one of the most high-profile Brazilian politicians yet convicted in the sprawling "Car Wash" probe.

Judge Sergio Moro found Mr. Cabral guilty of receiving around 2.7 million Brazilian reais ($816,450) in bribes and laundering some of the proceeds.

The money had been skimmed off an overpriced construction contract for a refinery built by state-owned oil company Petróleo Brasileiro SA, or Petrobras, on the outskirts of Rio.

According to Brazil's Globo TV station, Mr. Cabral's attorney said he plans to appeal.

Once considered a likely presidential candidate, Mr. Cabral rode the commodity boom to political stardom during his 2007-14 term, as Rio experienced a fleeting renaissance that culminated in its winning bid for the 2016 Olympics.

With state coffers flush with cash from rising oil prices, Mr. Cabral attacked the city's notorious crime problem by implementing a community policing program in favelas, or slums, long controlled by drug gangs.

He propped up employment by drastically expanding the state's payroll and spent billions of dollars on infrastructure projects, such as a new Metro line, whose costs, prosecutors say, have been inflated by corruption.

As a result, Rio state is now in the throes of an epic fiscal crisis, unable to pay the salaries or pensions.

After falling in 2012 to the lowest level in decades, violence has come roaring back, with more than 5,000 murders last year and 920 killings by police officers, in a state home to some 16.6 million people.

Tuesday's case is only the first to be ruled upon against Mr. Cabral, the son of a well-known music critic who rose from modest origins in Rio de Janeiro's working-class north side.

In addition to Car Wash, Mr. Cabral is the target of parallel investigations into graft from Rio's state health-care system, infrastructure projects and public works ahead of the 2014 World Cup and 2016 Olympics.

—Paul Kiernan

BALINT SZLANKO/ASSOCIATED PRESS

TAKEN ILL: Two brothers were treated for food poisoning on Tuesday at a camp for displaced people east of Mosul. Iraq's health minister said 752 people were sickened and at least two died after a Monday night meal to break the Ramadan fast.

PHILIPPINES

Some Filipinos Take Aim at Nation's Name

Filipino Congressman Gary Alejano thinks the Philippines could do a lot better for itself if it weren't named after a 16th-century Spanish king.

"If we want to be truly independent, then we should throw away the bonds of colonialism by establishing our own national identity," Mr. Alejano said late Sunday, ahead of the Philippines's Independence Day on Monday.

The Spanish rule, which began under King Philip II, followed by nearly 50 years of American rule have "muddled our identity as a people and a nation," he said.

To push the ball along, Mr. Alejano has filed a bill in Congress to finance a search for possible alternatives, much as Indonesia and other former European colonies renamed themselves after securing independence.

Mr. Alejano—a former marine captain who recently failed in a bid to impeach President Rodrigo Duterte for his war on drugs—didn't suggest any new names himself. But there are some ideas out there.

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 Maharlika, originally a reference to an ancient warrior caste and a close relation to the term "merdeka," or freedom, in Indonesian and Malaysian languages.

—James Hookway

U.S. Is Set To Tighten Curbs on Cuba Travel

By Felicia Schwartz

WASHINGTON—The Trump administration likely will scale back policy changes it believes have benefited the Cuban government while preserving some of the increased commercial activity that has begun after former President Barack Obama moved to normalize U.S.-Cuban ties, Secretary of State Rex Tillerson said.

President Donald Trump is expected to announce an amended Cuba policy during an appearance in Miami on Friday, people familiar with administration discussions said.

The White House hasn't confirmed Mr. Trump's plans.

Sen. Bob Corker (R., Tenn.), chairman of the Senate Foreign Relations Committee, said during a hearing on Tuesday that he knew Mr. Trump would announce the changes on Friday, and asked Mr. Tillerson to explain them further.

"The general approach is to allow as much of this continued commercial and engagement activity to go on as possible because we do see the sunny side…we see the benefits of that to the Cuban people," said Mr. Tillerson, who appeared before the committee as a witness. "But on the other hand, we think we have achieved very little in terms of changing the behavior in the regime in Cuba, its treatment of people, and it has little incentive today to change that."

The people familiar with the deliberations said Trump administration officials are considering steps to tighten enforcement of travel restrictions that had been loosened during the Obama administration.

The administration also is considering elimination of regulations that allowed individuals to plan their own cultural exchanges.

Mr. Tillerson said Tuesday that interagency deliberations are continuing. Cuban officials didn't immediately respond to a request for comment.

Under changes approved previously, people electing to travel on "general licenses" have had to self-certify the reasons for their travel and keep receipts for several years, but generally haven't been asked for specific details when returning to the U.S. That could change under the new policy.

The Trump administration also is looking at tightening what transactions are allowed with Cuba's government, which officially and through affiliates control much of the transportation and hotel infrastructure on the island.

The Trump administration has worked with Sen. Marco Rubio (R., Fla) and Rep. Mario Diaz-Balart (R., Fla.) on making changes to the policy announced by Mr. Obama in 2014.

Since that time, the U.S. and Cuba have reopened embassies in both capitals and a flurry of U.S. businesses have begun to develop deals on the island.

Pyongyang Frees American Student

Parents have been told Otto Warmbier is in a coma; former NBA player visits North Korea

North Korea released an American college student arrested during a visit last year and sentenced to 15 years in prison, but his family said in a statement they were informed their son is in a coma.

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

GUO YINA/XINHUA/ZUMA PRESS

American Otto Warmbier arriving for his trial in Pyongyang in 2016. He was given a 15-year jail term.

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 sentenced Mr. Warmbier to 15 years of hard labor.

The student's parents, Fred and Cindy Warmbier, said they were told their son has been in a coma since March 2016 but they learned of his condition only one week ago, according to a statement given to the Associated Press.

They said: "We want the world to know how we and our son have been brutalized and terrorized by the pariah regime" in North Korea, the AP said.

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 known number of Americans detained in North Korea at three. Kim Dong-chul, a Korean-American businessman, was sentenced to 10 years of hard labor in April 2016 on charges of spying and stealing trade secrets.

The other two detainees are affiliated to a university in Pyongyang set up by a Christian Korean-American businessman. Tony Kim, an accounting professor, was detained in April of this year. And Kim Hak-song 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," adding that the Trump administration wouldn't comment further.

The president of the University of Virginia, Teresa A. Sullivan, said Mr. Warmbier was in a coma, citing his family. Prior to his detention, the student had been on track to graduate from UVA in May.

"While the entire University of Virginia community is relieved to learn of Otto's release from North Korea, we are deeply concerned and saddened to learn from his family that he is in a coma," Ms. Sullivan said in a statement Tuesday.

The company sponsoring Mr. Rodman's trip to North Korea is PotCoin, a digital-payment network for marijuana transactions. While Mr. Rodman's visit was in no way official, the company nonetheless trumpeted his ties to President Donald Trump as well as North Korean leader 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 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 and Jon Kamp in Boston contributed to this article.

Drone Photographed South Korea Missile 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.

SOUTH KOREAN DEFENSE MINISTRY/ASSOCIATED PRESS

The drone, with a wingspan of about 8 feet, carried a chip with photos of the site where the U.S. deployed its Thaad defense system.

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 "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.

Physicians Flee Chaotic Venezuela to Work in Safer Places

By Ryan Dube

ANCUD, Chile—On a recent day in this remote island town, 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 two 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 Páez, a sociologist at Venezuela's Central University.

The numbers have accelerated since President Nicolás Maduro took over in 2013, Mr. Páez said, with businessmen, university professors, farmers and oil workers abandoning a country riven by authoritarian rule and protests. Venezuelans are flooding into neighboring Colombia and Brazil.

They have also 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 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 health ministry showed maternal mortality in the country 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 Correa, 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 Chile in droves, attracted to the political stability in Latin America's most developed nation. Last year, nearly 23,000 Venezuelans received visas, up from 439 in 2006, with recent arrivals including many young, well-educated professionals, according to the head of Chile's immigration office, Rodrigo Sandoval.

Last year, 1,313 Venezuela-educated physicians, more than any other foreign group, took a test to work in Chile's public-health system, up from just 16 in 2011, according to exam administrators.

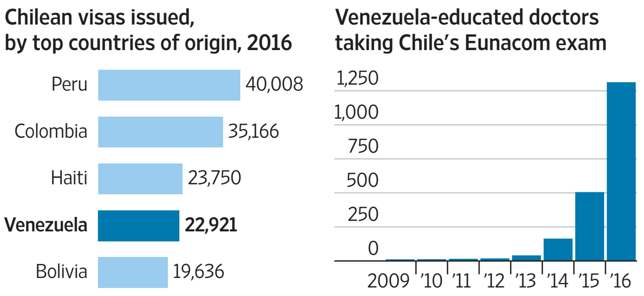
Many more could arrive. In 2016, 88% of medical students in their final year at four Venezuelan universities said they hoped to emigrate after graduation, according to research by Iván de la Vega, a Venezuelan sociologist.

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

"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."

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.



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

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U.S. NEWS

FED

Continued from Page One

ers 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 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 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. This hasn't been a problem yet because Mr. Trump's administration hasn't managed to move its agenda through Congress.

Some observers caution against reading much into Mr. Trump's silence on Fed policy because the central bank hasn't done anything to upset the administration. 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.

"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.


KEVIN LAMARQUE/REUTERS (COHN); CHARLES REX ARBOGAST/AP

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

U.S. WATCH

BORDER ADJUSTMENT TAX

GOP Lawmaker Floats Five-Year Phase-In

The top House Republican tax legislator floated a five-year phase-in to his controversial "border adjustment" idea on Tuesday in a bid to blunt mounting opposition to the concept.

The phase-in offered by Rep. Kevin Brady is a response to critics who worry about the disruption that border adjustment could cause for companies, supply chains and consumers. It is a sign that Mr. Brady continues to press ahead with border adjustment and refine details of that plan rather than drop the proposal as some Republicans are urging.

"This reflects really the input we've gotten," Mr. Brady, the chairman of the House Ways and Means Committee, said at the annual meeting of The Wall Street Journal's CFO Network. "A very gradual five-year phase in really resolves the major challenges." Mr. Brady also said his plan would include targeted rules for the financial services, insurance, communications and digital-services industries.

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.

—Richard Rubin

PUBLIC SAFETY

Baltimore Police Step Up Patrols

Baltimore's police department is putting as many officers as possible out on the streets in a show of force after a violent night left six people dead around the city. Police Commissioner Kevin Davis said all patrol officers and detectives will have 12-hour mandatory shifts, and every sworn officer assigned to specialized units or administrative tasks will be deployed. As of Tuesday, the city had recorded 158 homicides this year, up from 124 during the same period last year.

—Scott Calvert

Senators Question Tillerson About Budget

Secretary of state fields queries on proposed cuts; Russia and North Korea also on agenda

By Felicia Schwartz

JACQUELYN MARTIN/ASSOCIATED PRESS

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

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 administration of President Donald Trump 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.

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 constituted a strategy to pull back from world affairs, Mr. Tillerson said he didn't see the situation that way.

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

Explaining the administration's perspective, 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 facing the Senate Appropriations Committee subpanel that oversees the State Department budget.

He will face two House committees on Wednesday.

The Trump proposal would cut spending at the State Department 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," Mr. Graham added.

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."

He said Russia and China are key players in this effort and that the U.S. would raise North Korea sanctions in a high-level meeting with the Chinese next week.

Lawmakers Offer New Russia Sanctions

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 would also 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. But the new proposal would limit his ability to act without congressional approval. Sanctions imposed by Congress and written into law have traditionally been stronger and harder to repeal than ones imposed by presidential administrations using executive orders.

The key outlines of the deal were described in broad terms in a press release, with more details expected this week. The proposed legislation would also 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 Russia 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 cyberintrusions that affected Western elections.

"These additional sanctions will also send a powerful and bipartisan statement to Russia and any other country who might try to interfere in our elections that they will be punished," said Sen. Chuck Schumer of New York, the Democratic leader in the Senate.

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 also levied additional sanctions in retaliation for alleged Russian interference in the 2016 election.

J. SCOTT APPLEWHITE/ASSOCIATED PRESS

Sen. Chuck Schumer, the Senate's Democratic leader, left, says new sanctions would 'send a powerful and bipartisan statement to Russia.'

SAUL LOEB/AGENCE FRANCE-PRESSE/GETTY IMAGES

Attorney General Jeff Sessions testified before the Senate Intelligence Committee on Tuesday.

Sessions Calls Russia Collusion Talk 'Appalling'

By Aruna Viswanatha And Paul Sonne

U.S. Attorney General Jeff Sessions forcefully denied meeting with any Russian officials in 2016 to discuss the presidential campaign, calling allegations that he had undisclosed meetings with them an "appalling and detestable lie."

In testimony before the Senate Intelligence Committee on Tuesday, Mr. Sessions also specifically denied holding any private meetings with the Russian ambassador to the U.S. at the Mayflower Hotel, a Washington establishment that has been the subject of speculation in recent days.

The attorney general said if there had been any brief interaction with the Russian ambassador during an event at the Mayflower, he doesn't remember it. He had previously disclosed two brief encounters with the ambassador, Sergey Kislyak.

"Not one...improper thing" happened at any of those meetings, he said.

Mr. Sessions defended his decision to recommend the firing of former Federal Bureau of Investigation Director James Comey, saying that his recusal on the investigation into Russia's alleged interference in the 2016 election didn't extend to his broad oversight of the Justice Department.

Democrats and others have raised questions in recent days about why Mr. Sessions was involved in the dismissal, given President Donald Trump's suggestion that he fired Mr. Comey in part because of his handling of the investigation into Russia's alleged meddling in the U.S. election.

That recusal "does not and cannot interfere with my ability to oversee the Department of Justice, including the FBI, which has an $8 billion budget and 35,000 employees," Mr. Sessions said.

The FBI is investigating whether members of Mr. Trump's campaign collaborated with the Russian government to influence the presidential election. Russia has denied interfering in the election, and Mr. Trump and his staff have dismissed allegations of Russian collusion.

Sen. Dianne Feinstein (D., Calif.) asked Mr. Sessions about the timeline of events leading up to Mr. Comey's firing. She asked if the president already had decided to fire him before Mr. Sessions and his deputy's letter of recommendation about Mr. Comey's dismissal.

"I believe it's been made public that the president asked us our opinion, it was given, and he asked us to put that in writing, and I don't know how much more he said about it than that, but I believe he has talked about it and I would let his words speak for themselves," Mr. Sessions says.

She asked whether Mr. Sessions ever discussed reasons for firing Mr. Comey with the president. Mr. Sessions declined to answer the question.

"I'm not able to discuss with you, to confirm or deny, the nature of private conversations I had with the president," Mr. Sessions says.

—Rebecca Ballhaus contributed to this article.

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 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 election.

Sen. Susan Collins (R., Maine) on Tuesday 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 testified on the Justice Department's budget after Attorney General Jeff Sessions bowed out to testify Tuesday at a Senate Intelligence Committee hearing about the Russia investigation.

—Del Quentin Wilber and Sharon Nunn

TOTAL

Continued from Page One

businesses and households.

If all goes to plan, a large piece of Total's business will one day be selling electricity to homeowners and businesses, some generated by natural gas it has extracted and some from solar panels and battery packs. By 2035, Mr. Pouyanné said, 20% of Total's energy output will be low-carbon energy such as electricity from renewable sources like wind and solar. The company recently created a "gas, renewables and power" reporting segment, which in 2016 earned about 5% of Total's $9.42 billion net operating income.

For decades, Total and other large oil companies have employed a model pioneered by John D. Rockefeller over a century ago. They find crude, pump it out of the ground, refine it into different fuels and chemicals, then sell these products to motorists, airlines and manufacturers. As oil prices rise and fall, different parts of this value chain make money.

Today, a prolonged downturn in oil prices has dented revenues and profits at the world's large producers. Oil demand is expected to come under further pressure as auto makers improve fuel efficiency, electric vehicles become more popular and many countries push ahead with commitments to burn fewer carbon-intensive fuels.

Producing and selling electricity is a very different business. While oil is a commodity that can be extracted in one locale and stored, shipped and sold to other parts of the world, electricity must be produced and consumed simultaneously. Power grids tend to be regional, so electricity generated in Europe can't be sold to Latin America.

Most electricity is generated from coal or natural gas, and increasingly from wind, solar and other renewable energy sources. Burning oil currently generates just 4.3% of global electricity, a share that has halved in the past two decades and is expected to shrink to 2.5% by 2025, according to the International Energy Agency, a Paris-based group that monitors energy trends.

Total is already a large producer of natural gas, a cleaner-burning fuel that is expected to overtake coal by 2040 as a source of electricity because of its flexibility and lower emissions, according to the IEA. While rivals including Exxon and Shell are also bulking up on natural gas production, Total wants to go further and enter the power business.

Predicting and betting on shifts in energy consumption is a notoriously tricky business. U.K. energy giant BP PLC invested heavily in solar power in 2000, only to shut that business in 2011 after struggling to make money. Shell in 2008 pulled out of a large offshore wind power project near the mouth of London's River Thames after costs mounted.

"Oil companies like to talk about themselves as energy companies, but they are not energy companies. They are commodity companies," said Bob Lukefahr, who helped develop BP's renewable strategy in the 2000s.

Capital budgets are beholden to commodity prices and new oil ventures are costly, which make it difficult for companies to make large investments into new types of power, said Mr. Lukefahr.

At the same time, companies should be ready for the changes brought by technology, said Adam Sieminski, who stepped down as the head of the Energy Information Administration, the statistical arm of the U.S. Energy Department, in January. "You don't want to be the best buggy-whip manufacturer in the world," he said.

THOMAS PADILLA/MAXPPP/ZUMA PRESS

Under CEO Patrick Pouyanné, Total has accelerated its expansion into electricity as a hedge against a possible drop in oil demand.

Mr. Pouyanné said Total remains "first an oil-and-gas company," and that remains a lucrative business. The company's net income last year, $6.2 billion, was second only to the much-larger Exxon among its Western oil peers. At the same time, he said some investors feel Total needs a diversification plan if governments and the public increasingly demand cleaner energy.

"They have some questions about what will be the impact of climate change on our company. We are trying to bring them some answers," he said.

Some of the challenges are apparent in Mr. Pouyanné's own household. He said he tried and failed to persuade his wife that they should buy an electric car. He still drives a Renault with a conventional engine.

Most industry forecasters expect oil to remain a major source of energy fueling global economies. The IEA says consumer demand for oil will keep growing for another two decades unless governments take sharper action to curb emissions.

But electricity consumption is expected to grow faster than oil—2% a year through 2040, compared with oil's 0.5% growth, according to the IEA.

Underlying this shift is a global push to use fuels with lower carbon emissions. Over 140 countries have ratified an 2015 agreement struck in Paris to reduce emissions as a way to tackle climate change. Their methods generally include shifting away from oil and coal toward energy sources like gas, renewables and even nuclear, which all generate electricity. The U.S. has since said it plans to pull out of the accord.

Producing clean energy was much more expensive in the late 1990s and early 2000s, when oil companies conducted highly public experiments with alternative energy sources. Production costs for solar panels and other renewable energy projects have since plummeted.

"Sometimes you can be wrong if you are 15 years" too soon, said Mr. Pouyanné.

Shell last year led a consortium that won a bid to build a wind farm off the coast of Holland that could power a million homes at prices lower than competing coal and gas projects. Norwegian oil-and-gas company Statoil ASA recently announced plans to increase its spending on renewables from 5% today to at least 15% by 2030, with an emphasis on offshore wind.

Mr. Pouyanné, 53 years old, accelerated Total's expansion into electricity after two events rattled the company. In October 2014, Total's then-CEO, Christophe de Margerie, was killed in an airplane crash in Russia. Mr. Pouyanné, who was running Total's refining and chemicals business, was quickly promoted to the top job.

At the same time, a glut of oil was overwhelming demand, causing oil prices to collapse from a high of $107.26 a barrel to $53.27 by the end of the year. Total recorded a $5.7 billion loss in the final quarter of 2014, its worst quarterly result in decades, and the first quarter with Mr. Pouyanné at the helm.

"I became CEO at the worst possible moment," he said.

He took over a nearly century-old company with fossil fuel operations in 130 countries. Like its fellow Western oil companies, Total had large exploration, refining and chemical divisions. Mr. Pouyanné began cutting costs including the company's capital budget. Total returned to profitability in 2015 even as oil prices fell further. Oil currently trades around $46 a barrel.

Mr. de Margerie, his predecessor, was outspoken about the challenges facing the oil business. At an industry conference in London in 2007, the former CEO surprised the crowd by declaring that oil-production growth forecasts were too optimistic because of depleting conventional reservoirs.

That outlook prompted Total to begin exploring alternative sources of energy. It paid $1.37 billion for a 60% stake in SunPower in 2011, and scooped up smaller stakes in early-stage clean-energy startups.

Total's stake in SunPower has since lost more than half its market value amid a sharp decline in prices of solar panels. SunPower has posted losses for the past two years.

Unlike oil and gas, where output can be turned up or down in response to demand, solar energy is produced only when the sun is shining. Its value to consumers and power companies is limited unless the energy can be stored. That thinking drove Mr. Pouyanné in 2016 to purchase Saft Groupe SA, a French battery maker.

Saft supplied high-end batteries for satellites, airplanes and smart meters. While much of the battery industry focused on bringing down prices, Saft specialized in long-life and durability. When the European Space Agency sends a robotic rover to Mars in 2020, the exploration vehicle will use Saft batteries.

Saft Chairman and CEO Ghislain Lescuyer said Saft is looking for ways to work with SunPower. While he declined to discuss details, such a partnership could produce a solar panel-and-battery combination that could compete with Tesla—which recently acquired SolarCity Corp.—and other companies exploring similar energy products.

Tom Werner, SunPower's Chairman and CEO, said the company benefits from Total's focus on long-term strategy and size, even though it can be at odds with the speed and nimbleness required of a solar company. "There is no model to emulate," he said.

Last June, Total acquired another piece of the puzzle it is trying to assemble when it paid about $200 million for Lampiris NV, a gas and renewable power retailer in Belgium. After operating for a little over a decade in the Belgian residential energy market, the company won more than one million customers.

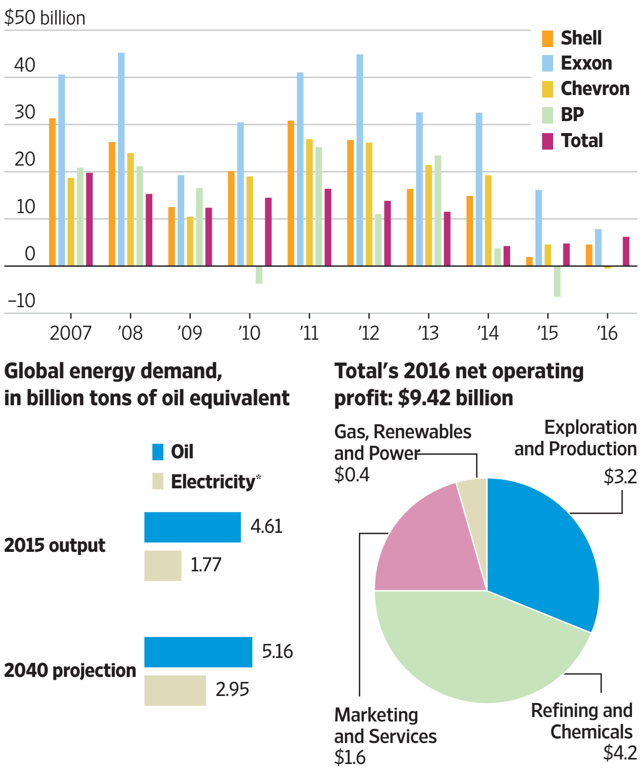
Now that Total controls companies that generate, store and sell electricity, Mr. Pouyanné is trying to figure out how to fit the pieces together.

"To be clear, these are investments," he said of Total's foray into electricity. "We have to be patient."

'I became CEO at the worst possible moment,' says Total's Patrick Pouyanné.

Energy Prospecting

A prolonged decline in oil prices has dented profits of large oil companies. As global electricity demand grows, France's Total is pivoting to focus more on generating power from gas and renewable energy.



Sources: Capital IQ (profits); International Energy Agency (demand); Company filings (Total's operating profit)

THE WALL STREET JOURNAL.

TOOL

Continued from Page One

which Trinity's baseball pitchers and women's lacrosse team use to warm up.

Using power tools for massage seems to have originated among weightlifters and other serious athletes. The idea spread on social media, and now power tools can be found everywhere from chiropractors' offices to tie-dyed campouts.

Nova Han, artistic director for the Electric Forest music festival in Rothbury, Mich., equipped a 1940s Quonset hut-style space on the event's grounds with massage tables. Last summer, staff members dressed like Rosie the Riveter and worked rotating shifts for 12 hours a day, giving short car-buffer massages to concertgoers.

"When they come out of it, they're almost in this really blissful state," says Ms. Han, adding that the massages will return for this year's festival, which starts June 22.

Tod Whitfield, a retired Toronto police detective, was so intrigued by his CrossFit gym's car-buffer massager that he experimented on his body's sore spots with a half-dozen tools in his home machine shop. The most effective, he reports, is a pneumatic-powered sander whose scratchy surface he replaced with a lamb's wool bonnet.

"The pad spins in a circular motion, but the shaft also spins on its own axis, which gives you this dual action," says Mr. Whitfield, who has used the sander on an aching shoulder and hip. "It gives this nice sort of vibration."

A spokesman for Clarence, N.Y.,-based Dynabrade, maker of Mr. Whitfield's sander, was surprised to hear of someone massaging himself with company products, some of which are used in industrial finishing for tractors and motorcycles.

"Some of our orbital sanders, they're around 12,000 rpm," Dynabrade's Ron Veiders says. "It could cause abrasions or whatnot, or even contusions. It wouldn't be something I would encourage."

Peter Roberts, coach and owner of Quantum CrossFit, where Mr. Whitfield first saw car-buffer massage, says the buffer is especially effective on the lower body, including inner-thigh muscles. "But if you accidentally hit your testicle, it doesn't feel great," he says. "I'll just say that."

Kyra Williams, a personal trainer and powerlifting coach based in Tampa, Fla., uses a car buffer regularly since a friend introduced her to the idea. "I thought it was a little odd, but she brought it into the gym and other people were going crazy about how great it felt," she says. "So I figured I'd give it a shot, and it feels pretty awesome."

Power tools can be part of a team's warm-up, says Michael Rehfeldt, the University of Cincinnati men's basketball team's director of strength and conditioning. He has four Black & Decker Random Orbit Waxer/Polishers for use before games.

"It's good for increasing blood circulation and almost has a numbing effect, almost like a massager," he says. "It heats up the muscle and creates blood flow."

Tim Perra, vice president of public affairs for Stanley Black & Decker, says, "We do not condone, approve or recommend that our tools be used for any application beyond those for which the tool was designed and intended."

Kelly Starrett, a coach, physical therapist and author, recalls topping a reciprocating saw with a lacrosse ball years ago but said the contraption was too intense for massage. The San Francisco gym founded by Mr. Starrett and his wife, Juliet, also has an industrial buffer/polisher for human use.

ROB ALCARAZ/THE WALL STREET JOURNAL

Bill De Longis, strength coach at Trinity College in Hartford, Conn., has forsaken pricey massage devices for a customized jigsaw and a car buffer to treat student athletes.

"We call it 'informed free-styling,' " Mr. Starrett says. "The number of things I have tried to use off-label in order to improve human performance is considerable."

Mr. Starrett also is a founding owner of TimTam, a deep-tissue massager company that launched last year. The $400 device was created from a jigsaw mold, according to Tom Pepe, managing director of TT Therapeutics, which owns TimTam.

Power tool-massage fans boast of their devices' versatility. Last year Mr. De Longis at Trinity College reinstalled the blade on his jigsaw massager and used it to saw wood for boxes he built for doing squat exercises. Another of his retooled massagers also does double duty.

"I intend to buff my car with it this summer," he says.

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

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, seen below at the 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.

CLOCKWISE FROM TOP: ELIZABETH SHAFIROFF FOR THE WALL STREET JOURNAL (2); HENDERSON LEWIS; REBECCA FERRIER

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 Mike 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-together 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 support, he pledged emotional support for Annette, by attending to "her ideas, her emotions and who she is," says Mr. Furio, a Columbus, Ohio, civil engineer. And he asked for Deb and Steve Drapac's blessing, rather than their permission.

He'd barely gotten started when Mr. Drapac says he choked up, and the conversation dissolved in hugs, kisses and congratulations.

The tradition serves another, distinctly modern purpose: It allows suitors to draw in-laws into planning the elaborate wedding rituals that follow. Dan Oliver, an accountant at a New York hedge fund, invited Jennifer **Friedman's** mother and stepfather, Linda and Leon Kurzweil, to dinner at the 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.

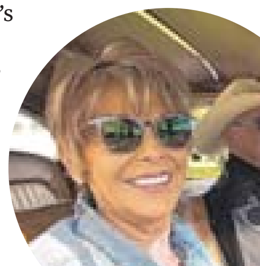
MY RIDE | By A.J. Baime

A RUSTED BUICK'S SECOND LIFE

JESS MCGLOTHLIN FOR THE WALL STREET JOURNAL

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

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 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 cannot 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.

REVIEW & OUTLOOK

South Korea's Defense Blunder

Moon Jae-in's decision to suspend deployment of a missile-defense system last week signals how the new South Korean President will approach the threat from North Korea as well as relations with the U.S., China and Japan. Like his center-left predecessors, Mr. Moon wants to play a balancing role between the regional powers and convince North Korea to negotiate an entente. This naïvete puts South Korea's security in peril.

The ability of the U.S.-made Terminal High-Altitude Area Defense (Thaad) to protect against missile attacks from the North isn't at issue. Nor is cost, since Washington is picking up the $1 billion tab. The system is only controversial because China is angry that the radar can peer into its airspace. Beijing is imposing unofficial economic sanctions on Seoul to force it to abandon Thaad.

Mr. Moon has buckled under Chinese pressure and decided to delay the placement of new launchers for up to two years as his government conducts an environmental assessment. National Security Adviser Chung Eui-yong tried to reassure the U.S. that Seoul will adhere to the agreement to deploy Thaad.

But Mr. Chung's promise was undermined by an unidentified presidential official who told the media last week that the need for Thaad is "not urgent." That prompted incredulity among many Koreans, since the North continues to test its missiles almost every week along with apocalyptic threats.

The new President bows to Chinese pressure on missile defense.

The Joongang Daily newspaper wrote, "We are absolutely dumbfounded by the remarks," while the Korea Herald opined, "Given the higher frequency of the North's missile tests in recent months, the complete deployment of the system is urgent. Anti-missile capability has become a matter of survival for the South."

Mr. Moon also tried to reassure Sen. Dick Durbin of Illinois, the second-ranking Senate Democrat, who visited Seoul in late May, that he wouldn't reverse the decision to deploy Thaad. But Mr. Durbin came away even more concerned about the new President's plans. "It's my fear that he thinks—I hope I'm wrong—that [Moon] thinks that South Korea has a better chance working with China to contain North Korea than working with the United States," he told the Washington Examiner.

Anything short of dismantling the Thaad radar and the two sets of launchers deployed by the previous government is unlikely to appease Beijing. Abroad and at home, Mr. Moon's attempt to please everyone is bound to backfire. Meanwhile, North Korea may be emboldened to escalate its missile and other military provocations to test the new administration.

Mr. Moon still has time to fix his mistake before he meets President Trump in Washington later this month. Environmental assessments can and should be waived when national security is at stake. If Thaad doesn't satisfy that requirement, it's hard to imagine what does.

Trump's New Sugar High

The Trump Administration last week announced a new agreement with Mexico to guarantee that sugar prices in both countries will remain well above the world market price. U.S. Commerce Secretary Wilbur Ross framed the deal as a big win—and it is, for the few sugar producers on both sides of the border. The losers are millions of consumers.

No industry has enjoyed as much protection under the North American Free Trade Agreement (Nafta) as sugar producers and refiners. Mexico raised its sugar-import tariffs from third countries in 1994 to match U.S. protection levels and thereby form a customs union. While most of the U.S. economy had to adapt to competition from Canada and Mexico starting in 1994, the U.S. market remained heavily protected from Mexican sugar until 2008.

Even when the market opened, U.S. sugar interests refused to adapt and filed antidumping and countervailing duty suits against Mexican exports. In 2014 the U.S. Commerce Department ruled in their favor. Mexico could have fought that ruling at a Nafta arbitration panel but its sugar lobby also likes high prices. So instead it agreed to comply with a U.S.-stipulated minimum price and quota, and to restrict the amount of refined sugar it ships. In other words, both sides conspired to run a sugar cartel.

Winning in trade apparently means higher prices for consumers.

Enter President Trump, who the sugar titans saw as a vehicle for even more protection. In March Mexico voluntarily suspended permits for exporting sugar to the U.S. as a precaution against the possibility that the U.S. would cancel the 2014 agreement and impose tariffs. Last week's deal is an attempt to avoid those new duties in exchange for further limits on Mexican sugar exports to the U.S.

The new minimum price for raw sugar will be 23 cents a pound, up from 22.5 cents. The world-market price is about 14 cents. Refined sugar will now be set at 28 cents a pound, up from 26 cents. Mexico sugar exports to the U.S. will now be 70% raw and 30% refined, up from 53% raw and 47% refined.

Yet the American Sugar Alliance still doesn't support the deal because of what it calls a "loophole" that could allow refined Mexican sugar into the U.S. in case of shortages under the Soviet-style quota system that predicts U.S. supply every year.

If this is a glimpse into Team Trump's trade policy, it isn't pretty. The deal suggests the strategy is to use government power to enforce cartels that protect politically powerful producers, and Mexico's decision to roll over may encourage White House protectionists to ask for more. So much for the little guy.

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.

Obama put climate gestures above toxic waste remedies.

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.

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 repasts 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 pregnancy 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. Santaniello
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 to 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.

It's a fictional belief that capital punishment is a powerful deterrent to murder and makes society safer. Wisconsin never had the death penalty and consistently has a murder rate below states with capital punishment. Nationally, murder rates are lower in states without the death penalty.

The U.S. should accept the fact that capital punishment doesn't deter crime and that the real function of the death penalty isn't rehabilitation but retribution.

Sandy Meyr
Madison, Wis.

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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 operations 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."

ASSOCIATED PRESS

Traditional Russian dolls with contemporary faces.

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. involvement 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 end its media incitement 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.

Attack of the Killer Petunias

By Henry I. Miller

Sometimes government regulators do things that aren't merely misguided but gratuitously stupid. A classic example came last month, when the U.S. Agriculture Department called for the destruction of at least 13 varieties of petunias with striking hues. These plants don't pose any danger to health or the natural environment. But because they were crafted with modern genetic-engineering techniques, technically they're in violation of 30-year-old government regulations.

These petunias, first developed in the 1980s, have been sold around the globe for years without incident. Then in 2015 a Finnish plant scientist noticed bright-orange petunias at a train station in Helsinki. He recalled that such a variety was genetically engineered three decades prior but never commercialized. The scientist took a stem and later confirmed that it contained foreign DNA—a corn gene that confers the vivid color and a tiny sequence of DNA from a virus that turns on the newly inserted gene.

He tipped off Finnish regulators, who notified their counterparts in Europe and North America. Since no government had issued permits to sell these varieties, the result was a petunia purge. Untold numbers of beautiful and completely harmless flowers and seeds were destroyed. The USDA said the flowers could be burned and the seeds ground up.

The USDA's Animal and Plant Health Inspection Service has long regulated the importation and interstate movement of "plant pests," which can include plants, bacteria, fungi, viruses and more. If someone wants to introduce a plant or other organism included on the USDA's pest list into the field, a permit is required. If the organism isn't on the list, it can be introduced without government approval.

But for a quarter-century, this process has had an evil twin: a regime focused exclusively on plants altered or produced with the most precise genetic-engineering techniques if they contain even a snippet of DNA from a plant pest.

The original concept of a plant pest, something known to be harmful, has been tortured into a new category: a "regulated article." For decades the definition of this category has required virtually every genetically engineered plant to undergo a lengthy case-by-case review, regardless of potential risk. An edible plant can take longer.

If a researcher wants to perform a field trial with a regulated article such as the forbidden petunias, he must submit extensive paperwork to the Agriculture Department. After conducting tests for years at many sites, the developer can then submit a large dossier of data and request "deregulation" by the USDA for cultivation and sale.

Harmless flowers are destroyed since they were genetically modified but not Washington-approved.

These requirements make genetically engineered plants extraordinarily expensive to develop and test. On average, each costs about $136 million, according to Wendelyn Jones of DuPont Crop Protection.

This is probably why the developers of the genetically engineered petunias never commercialized them legally. At around $5 for 5,000 seeds, there is no way to recover the regulatory costs.

The USDA's discriminatory treatment of genetically engineered plants ignores science. Plants always have been selected by nature and bred by humans or mutated to create new varieties with enhanced resistance to insects, disease, weeds, herbicides and environmental stresses.

Grain yields in particular have increased dramatically over the past 50 years. Like the contraband petunias, plants have also been modified for qualities attractive to consumers, such as seedless watermelons.

Government should regulate similar products or activities in a similar way, and the degree of oversight should be proportionate to risk. For new varieties of plants, risk is a function of such characteristics as toxicity or weedlike qualities.

It doesn't matter how a new gene is introduced. What's important is whether that gene's expression confers risk on other organisms or natural ecosystems. The only new gene expressed in the Helsinki petunias imparts a unique orange hue—harming no one—but the Agriculture Department subjects such plants to extensive and burdensome regulation.

Since it's illegal to sell the genetically engineered petunias without a permit, regulators have told vendors to destroy them.

I have a better idea. Agriculture Secretary Sonny Perdue should instruct his subordinates to invoke "enforcement discretion" and not take action against the sellers. Or he can ask growers to donate the flowers to cancer wards in pediatric hospitals. There's a difference between petunias and plutonium.

Dr. Miller, a physician and molecular biologist, is a fellow at Stanford University's Hoover Institution. He was founding director of the Food and Drug Administration's Office of Biotechnology.

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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%.


JON KRAUSE

> You have to doubt your previous understanding of God, and replace it with a better one.

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."

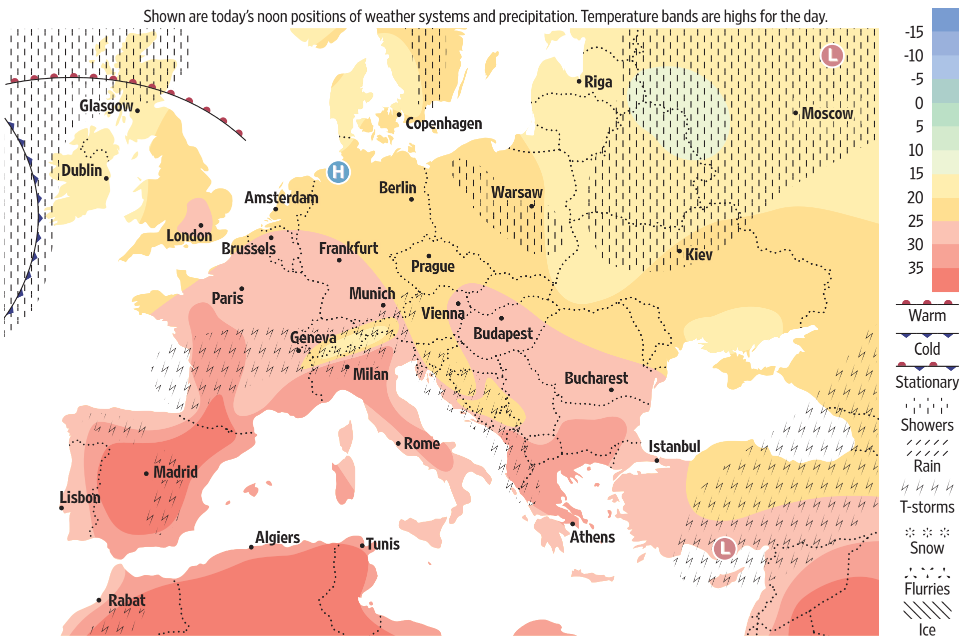
Thomas still believes in God. The earth and solar system are too complex and fragile not to have something influencing and connecting everything, he says. "Whether whatever created us, loves us, is a different matter," he says. He doubts there is an afterlife and isn't troubled by that.

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

AccuWeather.com

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

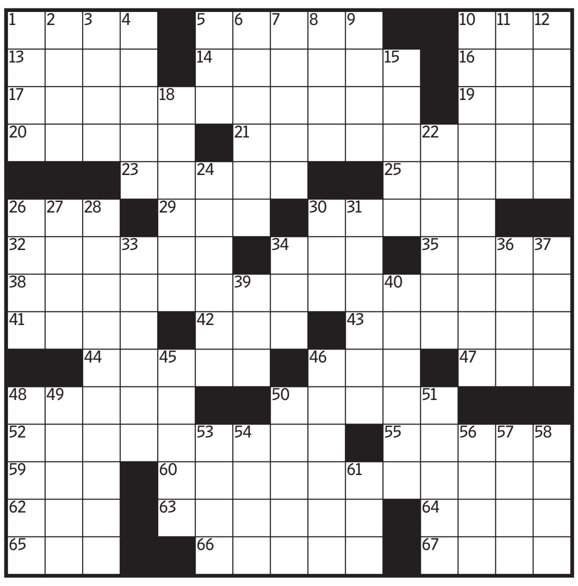


Global Forecasts

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

City	Today Hi	Lo	W	Tomorrow Hi	Lo	W
Amsterdam	24	14	pc	27	14	t
Anchorage	14	7	c	16	9	pc
Athens	32	22	s	31	21	s
Atlanta	31	23	t	32	23	t
Baghdad	45	25	s	39	23	s
Baltimore	28	19	t	27	18	pc
Bangkok	33	25	t	34	25	pc
Beijing	36	19	s	38	19	pc
Berlin	21	11	pc	25	16	pc
Bogota	17	9	c	19	9	pc
Boise	24	12	s	25	14	c
Boston	21	14	s	22	14	s
Brussels	25	15	s	28	13	t
Buenos Aires	17	11	c	20	17	pc
Cairo	34	22	s	35	23	s
Calgary	17	7	sh	19	9	pc
Caracas	31	26	t	31	26	pc
Charlotte	33	22	t	33	22	t
Chicago	33	22	t	33	20	t
Dallas	34	25	pc	35	26	s
Denver	29	11	s	31	13	pc
Detroit	29	19	pc	30	19	t
Dubai	41	33	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
Geneva	27	17	t	29	16	t
Hanoi	33	27	r	35	27	t
Havana	31	23	pc	31	23	t
Hong Kong	33	28	t	33	28	t
Honolulu	29	22	t	29	23	t
Houston	33	24	pc	34	24	pc
Istanbul	27	20	s	25	19	sh
Jakarta	33	26	pc	32	25	sh
Johannesburg	22	6	s	21	4	s
Kansas City	30	21	t	35	22	t
Las Vegas	37	24	s	40	25	s
Lima	22	16	s	22	16	pc
London	25	14	s	24	13	pc
Los Angeles	28	17	s	31	17	s
Madrid	38	22	t	38	21	pc
Manila	32	26	t	33	26	t
Melbourne	15	9	pc	15	6	c
Mexico City	24	13	pc	25	13	pc
Miami	31	26	pc	31	26	t
Milan	32	21	t	31	21	t
Minneapolis	32	19	pc	31	20	s
Monterrey	36	21	pc	37	21	pc
Montreal	22	11	s	25	16	pc
Moscow	17	8	sh	13	8	r
Mumbai	31	26	r	31	25	r
Nashville	34	22	t	31	22	t
New Delhi	41	28	t	41	28	pc
New Orleans	30	24	sh	30	24	t
New York City	27	15	s	23	16	s
Omaha	34	19	pc	36	22	t
Orlando	30	22	t	29	22	t
Ottawa	22	10	pc	24	16	c
Paris	27	16	s	29	12	t
Philadelphia	29	17	pc	26	17	pc
Phoenix	40	23	s	43	25	s
Pittsburgh	28	20	t	28	20	t
Port-au-Prince	35	23	sh	34	24	pc
Portland, Ore.	21	12	c	19	15	sh
Rio de Janeiro	24	20	r	24	19	pc
Riyadh	46	28	s	45	28	s
Rome	29	17	pc	29	19	s
Salt Lake City	26	15	s	31	16	pc
San Diego	23	16	pc	25	17	pc
San Francisco	21	12	pc	22	14	s
San Juan	31	26	pc	31	26	sh
Santiago	17	5	pc	17	8	pc
Santo Domingo	33	24	sh	32	23	pc
Sao Paulo	20	15	c	20	15	pc
Seattle	19	11	c	17	13	sh
Seoul	28	18	pc	29	19	s
Shanghai	27	18	pc	28	19	pc
Singapore	30	26	c	31	26	pc
Stockholm	22	11	pc	23	13	pc
Sydney	20	12	s	20	13	pc
Taipei	28	22	r	25	22	r
Tehran	35	24	s	38	23	s
Tel Aviv	28	21	s	28	20	s
Tokyo	25	19	r	25	20	pc
Toronto	22	14	pc	23	19	t
Vancouver	17	10	pc	16	11	r
Washington, D.C.	31	20	t	27	21	c
Zurich	27	14	pc	29	16	t

The WSJ Daily Crossword | Edited by Mike Shenk



POLE POSITION | By John Wrenholt

Across

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

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

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

Previous Puzzle's Solution

H	A	H	A		M	A	M	B	A		B	E	E	F
I	S	A	Y		A	R	O	A	R		E	X	P	O
D	I	R	E	C	T	O	R	S	C	U	T	T	E	R
E	N	D		R	E	U	N	I	O	N		R	E	D
		B	E	E		S	I	N		K	I	A		
	K	I	T	C	H	E	N	S	I	N	K	E	R	
G	O	T	C	H	A				N	O	E	X	I	T
I	R	T		E	N	T	R	A	N	T		T	S	A
B	E	E	N		G	O	O	N	S		B	R	E	D
B	A	N	A	L		S	I	T		D	E	A	N	S
			M	U	D	S	L	I	D	E	R			
I	N	T	A	K	E				E	L	A	I	N	E
B	A	R	B	E	C	U	E	S	P	I	T	T	E	R
I	D	O	L		A	S	S	E	T		E	A	R	S
S	A	T	E		F	E	T	C	H		S	L	O	E

TECHNOLOGY: MICROSOFT'S NEW SURFACE LAPTOP TO MAKE ITS DEBUT B4

Euro vs. Dollar 1.1201 ▼ 0.03% FTSE 100 7500.44 ▼ 0.15% Gold 1265.80 ▼ 0.02% WTI crude 46.46 ▲ 0.82% German Bund yield 0.269% 10-Year Treasury yield 2.206%

EU Wants U.K. Clearing Business

Bloc's proposal would force some London clearinghouses to relocate to Continent

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 of chunk of business in euros to move into the EU. In a draft law, the European Commission also said that large, or "systemic," clearinghouses operating outside the EU would be subject to tougher oversight including on-site inspections and access to financial accounts.

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.

The proposed new supervisory powers give the EU more leverage to push clearing business into the bloc. It is the latest skirmish in an increasingly heated battle over thousands of jobs in the U.K.'s financial center, across banking, insurance and asset management.

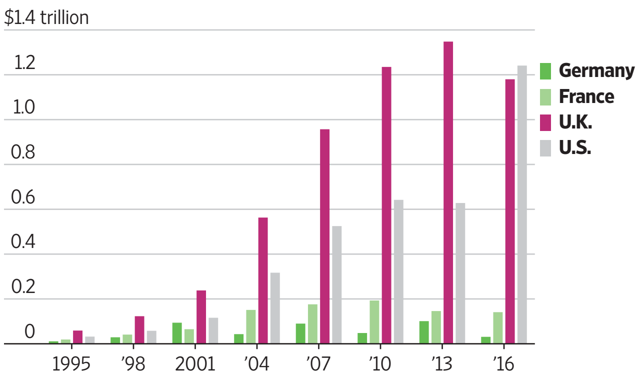
"As we face the departure of the largest EU financial center, we need to make certain adjustments to our rules," said EU financial-services chief Valdis Dombrovskis.

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.

Clearing Hit

Daily turnover of interest-rate derivatives



Source: Bank for International Settlements

THE WALL STREET JOURNAL.

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

Please see BREXIT page B2

Saudis Reduce Crude 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 represents what 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 decline by another 100,000 barrels a day, these people said, which would mark 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 first announced in November. On Tuesday, U.S. crude rose 38 cents a barrel, or 0.8%, to $46.46.

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.

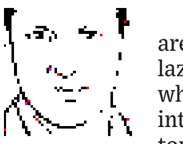
But Aramco has also been raising prices to its U.S. customers as part of its effort to stop them from stockpiling so much oil in the world's most closely watched storage tanks. Earlier this month it boosted prices for its light and medium

Please see OIL page B2

HEARD ON THE STREET

By Justin Lahart

Valuable Data Are Hiding in Plain Sight



Companies are a little lazy about what they put into regulatory filings. Investors are profoundly lazy about reading them.

Compare a company's most recent annual report with its previous one, and you will quickly notice the language doesn't change much. Hot-dog seller **Nathan's Famous** has talked about the damage done to its flagship Coney Island location in 2012 in the exact same language three years in a row.

Do investors still care? Nathan's isn't taking any chances, nor do other companies. There is, says Harvard Business School economist Lauren Cohen, an incredible amount of inertia in the language companies use in quarterly and annual regulatory filings, known as 10-Qs and 10-Ks, respectively. That is partly because corporate lawyers push back against alterations, worried they might expose a company to legal risks.

When the language in filings does change, investors should sit up and notice. Not that they do.

Mr. Cohen and economists Christopher Malloy and Quoc Nguyen downloaded all the 10-K and 10-Q filings with the Securities and Exchange Commission from 1994 through 2014 and used textual-analysis software to create a similarity score showing how the language in corporate filings differed from one period to the next.

They then looked at stock performance following filings. The finding: Shares of companies that had significant changes did much worse than those of companies that didn't. This was particularly true when it came to changes in the risk factors section of 10-Ks.

Indeed, a strategy of buying shares of companies with no significant risk-factor changes and betting against companies with major changes would have returned more than 22 percentage points more than the overall market annually.

The similarity score for data-storage company **NetApp**, for example, fell sharply when it released its 10-K in June 2011. The company's shares had more than quadrupled from their financial-crisis low, but that run ended. Over the next year, its stock fell 41% while the S&P 500 rose 4%.

Tracking risk-factor

Please see HEARD page B2

DEAN HUTTON/BLOOMBERG NEWS

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 Some Global Retailers

By Alexandra Wexler

LUANDA, Angola—With a population of more than a billion people with a median age of 20 years, Africa should be a retailer's dream.

But a combination of corporate hubris, strategic missteps and the crash in commodity prices has made navigating the continent's nascent consumer landscape a bigger-than-expected challenge for the world's largest merchants.

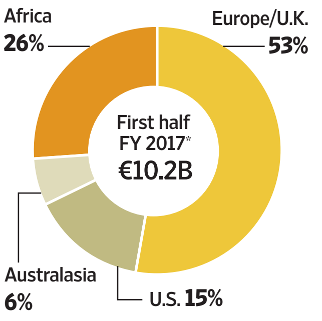
The home-furnishings chain known as "Africa's IKEA," **Steinhoff International Holdings** NV, last week reported a 48% jump in revenue to €10.17 billion ($11.56 billion) in the six months ended March 31, with profit rising 9% to €706 million. But much of that increase in revenue came after acquisitions in more-developed markets, such as last year's $2.4 billion deal to buy 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

Pieces of the Pie

Steinhoff's revenue by region



*For the six months ending March 31, 2017

Source: the company

THE WALL STREET JOURNAL.

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 largest 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. Walmart'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 Mutual Property, a South African real-

Please see AFRICA page B2

Yahoo Enters Merger Under New Leadership

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, who became Yahoo CEO in 2012, has opted to resign 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.

PATRICK T. FALLON/BLOOMBERG NEWS

AOL's Tim Armstrong is taking the baton from Marissa Mayer.

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 "decktop" 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 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

Please see CEO page B4

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

AFRICA

Continued from the prior page
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 62.8 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.

BREXIT

Continued from the prior page
that after Brexit, the U.K. won't be answerable to EU courts or regulators, a problem if a major London clearinghouse topples over. 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 proposed law, EU supervisors would tighten oversight and then decide whether to encourage big euro clearers to move into the trading bloc. If they don't comply, European banks that clear with them will get hit with an extra capital charge.

EU officials said Tuesday's proposal won't affect its current deal with the U.S., which took nearly four years to reach and allows U.S. entities like **CME Group** Inc. and **Intercontinental Exchange** Inc. to do business with European banks.

The Paris-based European Securities and Markets Authority will define what a "systemic" clearinghouse is. The proposal would give clearinghouses 12 to 18 months to prepare to move their business.

The ECB has previously sought to limit the clearing of euro contracts outside the eurozone, but it was rebuffed by the European Court of Justice in 2015.

Clearinghouses in London have argued that forcing them to move activities into the EU would push up the cost of clearing and potentially cause financial instability.

BUSINESS & FINANCE

Health Insurer Bucks Trend

Centene to expand its offerings in insurance marketplaces as rivals retreat amid uncertainty

By Anna Wilde Mathews


ANDREW INNERARITY/REUTERS

CEO Michael F. Neidorff said 'we do very well in the exchanges.'

Centene Corp. said it would expand its offerings in the Affordable Care Act insurance marketplaces, entering three new states and bucking a trend of insurers retreating amid uncertainty about the future of the exchanges.

Centene, a Medicaid-focused insurer that has been able to eke out profits in the marketplaces while many competitors have lost money, said it would begin selling exchange plans in Kansas, Missouri and Nevada next year. It will increase the area where it sells marketplace plans in six more states: Florida, Georgia, Indiana, Ohio, Texas and Washington.

Centene said it would stop offering marketplace plans in Massachusetts next year, due to low enrollment. Overall, the company is aiming to offer plans in 15 exchange states next year, up from 13 currently, a spokeswoman said.

Centene's CEO, Michael F. Neidorff, said in an interview that it is too soon to say if his company will be entering counties that are projected to have no exchange insurer next year, but "where there's a need, we're going to try to fill that need."

About 45 counties across Ohio, Washington and Missouri have appeared likely to be without any products available through their insurance marketplaces in 2018.

In Ohio, where Anthem Inc. said it planned to pull out of the marketplace in 2018, a spokesman for the state insurance regulator said that the regulator's previous announcement that 18 counties appeared set to lack exchange plans already factored in the impact of Centene's filing.

A spokeswoman for the insurance regulator in Washington state said that Centene's 2018 exchange filing didn't include the two counties in the state that are currently projected to be without marketplace insurers. She said the regulator is "still working with insurers to see if any are willing to go into the bare counties, Klickitat and Grays Harbor." Right now, Premera Blue Cross sells exchange plans in those two counties, but it said it doesn't intend to do so next year.

A spokesman for the Missouri insurance regulator had no immediate comment about the status of the counties there that appear poised to have no exchange insurers next year in the wake of an announced exit by **Blue Cross and Blue Shield of Kansas City.**

In Kansas, a spokesman for the state regulator said Centene appeared to be going into two counties Blue Cross and Blue Shield of Kansas City was leaving, which seems to leave the state set so far to have two exchange insurers in every county.

Mr. Neidorff said that Centene's expansion reflects that "we do very well in the exchanges; it's been a good business segment for us." Despite the lack of clarity around the future of the ACA, as Republicans in Congress work to pass a health-care bill, Mr. Neidorff said Centene is making its calls based on the information it has now, rather than the possible changes to come.

"We think we have the agility to deal with the various regulatory environments," he said. "We tend to make decisions around the facts that are known at that point in time."

He also said that in the end, policy makers "will want the vulnerable population to have health care."

It isn't the first time that Centene has made a bold bet while other insurers were retreating from the ACA business. This year, the company agreed to offer plans in Arizona's Maricopa County after all its competitors pulled out, assuring that enrollees in Phoenix had an exchange option. The company's ACA plan enrollment grew sharply this year, to 1.2 million people as of the end of March, from 537,000 at the end of 2016.

Alitalia Files for Bankruptcy in U.S.

By Tom Corrigan

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

Alitalia, which is working to find a buyer, 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 file for bankruptcy in the U.S. to aid sale or restructuring processes in their home countries. Like chapter 11, chapter 15 immediately halts lawsuits and blocks creditors from seizing assets.

The carrier 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 shareholders. Court papers filed Monday show Italy's government has agreed to provide about €600 million ($672 million) in emergency financing to keep the airline operating while it works to find a buyer.

Alitalia has struggled to pay its bills and has lost billions of dollars over decades, amassing more than $3 billion in debt.

According to Alitalia's court papers, one of JFK's terminal operators threatened to suspend the airline's lease 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. Alitalia's U.S. operations account for about 30% of its total revenue, and about half of that is generated from flights to and from JFK.

On Monday, Judge Sean Lane, who will oversee the airline'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 June 26.

Italy's government put the airline up for sale after fruitless talks with unions and shareholders, including Abu Dhabi-based **Etihad Airways.**


TELENEWS/EUROPEAN PRESSPHOTO AGENCY

The Italian airline is in the midst of an insolvency process in its home country, and the government has put Alitalia up for sale.


SAUDI ARAMCO/REUTERS

Aramco has been raising prices to U.S. customers, trying to stop them from stockpiling as much oil.

OIL

Continued from the prior page
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 reduce 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 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. Clipper-Data, 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 following OPEC's meeting in Vienna.

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."

HEARD

Continued from the prior page
changes is something even investors without programming chops can do for themselves. Professionals can use services such as FactSet, which has a function called blackline to highlight differences in filings. Individual investors can accomplish as much by pasting text from two 10-Ks into separate Microsoft Word documents and using the compare function, or by using text comparison sites such as textdiff.com.

In the 10-K it released in March 2014, copper and fiber-optic wire maker General Cable added a paragraph to its risk factors stating it was reviewing commission payments to its subsidiary in Angola. That September, it announced it was investigating possible bribe payments in Angola, Thailand and India, and its stock fell sharply.

The stock underperformance of companies that make big changes to their risk factors suggest that as a group, they aren't merely updating their filings to reflect risks that investors have already learned about, but providing information about emerging ones.

What is really striking, however, is that the stock-market reactions to these risk-factor changes occur gradually. Companies are providing investors with material information, and investors aren't noticing it.

Some of that probably has to do with the form in which the information is getting provided. Annual reports are big, and getting bigger. University of Notre Dame economist Bill McDonald finds that the average 10-K filed last year weighed in at over 26,000 words, nearly three times as many as 20 years ago. That is the equivalent to the text on around 10 pages in The Wall Street Journal, but about 100 times duller.

Fiat Emissions Criticized

By Mike Spector


LARRY W. SMITH/EUROPEAN PRESSPHOTO AGENCY

West Virginia University researchers say diesel Ram pickups violate allowable U.S. emissions levels.

West Virginia University researchers found **Fiat Chrysler Automobiles** NV vehicles with diesel engines produced significant emissions discrepancies between the road and the lab, resembling earlier conclusions they reached with **Volkswagen** AG cars that helped expose a long-running deception.

Diesel-powered Ram pickup trucks when tested on the road produced nitrogen-oxide emissions as much as 25 times above allowable levels in the U.S., and similarly equipped Jeep Grand Cherokee sport-utility vehicles as much as eight times, according to a report on the researchers' findings reviewed by The Wall Street Journal. Those results were for 2015 models, while 2014 models had "significantly increased" emissions on the road compared with the lab, the report said.

The 74-page report, expected to be released in coming weeks, tested five model-year 2014 and 2015 vehicles and found significant emissions discrepancies between on-road performance and lab tests, despite Fiat Chrysler's attempts last year to address the excess pollution in part through a recall of 2014 models. The report stopped short of concluding whether the Italian-U. S. auto maker used illegal software meant to dupe regulators.

The findings add to mounting pressure on Fiat Chrysler, which the U.S. Justice Department in May accused of using illegal defeat-device software on nearly 104,000 2014-2016 Ram pickup trucks and Jeep Grand Cherokees with diesel engines to cheat emissions tests. The models used software to pass government emissions tests and then turned down or shut off controls to let the vehicles emit illegally high levels of pollution, according to a Justice Department civil lawsuit filed against the auto maker. Fiat Chrysler has denied using defeat devices.

Fiat Chrysler disputed the university findings, pointing to factors in on-road testing that allegedly skewed the results. The auto maker pointed to the university conducting on-road tests that departed from U.S. environmental regulators' test procedures by being done at 50% higher average speeds, with 600 to 700 pounds more payload and under dissimilar road conditions.

U.S. regulatory tests are limited to the lab, and Fiat Chrysler contends on-road testing results are problematic absent agreed-upon standards.

"Each of the above may increase emissions readings, therefore rendering invalid a comparison of on-road and off-road test results," the company said in a written statement, adding that the factors make comparisons misleading. The auto maker also took issue with researchers procuring parts from a salvage yard for aspects of its testing.

Fiat Chrysler attempted to discuss the findings in detail with university researchers to no avail, the company said.

"We stand by the research and the results," a university spokesman said. "There is no question in our mind of the integrity of the report and the results we reported."

Fiat Chrysler in its statement claimed the research "appears to have been commissioned by a plaintiffs' law firm for the purposes of litigation." According to people familiar with the matter, former Wall Street investment-banking executives are among the backers of the research through an outside firm.

The Justice Department lawsuit's formal accusation that Fiat Chrysler used illegal software went further than a violation notice the Environmental Protection Agency delivered to the auto maker earlier this year. The EPA in January said the auto maker failed to disclose auxiliary emission-control devices, rendering them unlawful. Adding defeat-device violations could push penalties against Fiat Chrysler above $8 billion, far higher than the $4.6 billion the EPA previously estimated.

It isn't clear whether the government will pursue penalties that high. Volkswagen, though agreeing to billions of dollars in legal settlements, ultimately paid less than the maximum fines to address regulators' accusations.

Fiat Chrysler, which has offered a fix it believes will address regulators' concerns, has denied using defeat devices. Responding to the suit in May, Fiat Chrysler said it would "defend itself vigorously, particularly against any claims that the company engaged in any deliberate scheme to install defeat devices to cheat U.S. emissions tests."

Fiat Chrysler previously recalled 2014 Jeep Grand Cherokees and Ram pickups with diesel engines to replace the select catalytic converter in an effort to address degradation that could lead to excess emissions. West Virginia University researchers found the Jeeps' emissions improved after the recall, though they were still elevated. The emissions performance of the Ram trucks didn't significantly change after the recall, the university researchers found.

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, and 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 country's largest banks, 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 Synchrony 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 health-care 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 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.

John Flannery and Jeffrey Bornstein worked together at GE Capital.

Also the company won't be increasing the scope of its financial services business even if regulations ease, a proposition that drew a guffaw from Mr. Immelt. GE Capital had shrunk to about $10 billion of revenue last year, down from more than $58 billion in 2001 when Mr. Immelt took over in 2001.

Activist shareholder Trian Fund Management LP worked with GE to set new goals in March for cost cuts and industrial operating profit. Mr. Flannery shares the investor's view that a company the size of GE, which more than $100 billion in annual spending, should be able to find $1 billion in annual savings, he has told people.

In Energy, Deal Makers Wanted

By Rheaa Rao
And Tatyana Shumsky

MICHAEL NAGLE/BLOOMBERG NEWS

Energy firms like Marathon have recruited new finance chiefs.

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.

CFO JOURNAL

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 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/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 assets 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.

Three finance chiefs have 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.

Proterra Raises Funds, Eyes IPO

By Tim Higgins

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 near Los Angeles and in South Carolina, has sold more than 400 buses to cities and communities such as Dallas and Philadelphia. The vehicles sell for $750,000 each. Proterra declined to say how many buses it sold last year or disclose revenue.

Besides BMW's i Ventures and Mr. Gore's Generation Investment Management LLP, Proterra has more than a dozen investors, including General Motors Co.'s venture fund and venture-capital firms like Kleiner Perkins Caufield & Byers.

"My view is if you can get BMW's help and you're working on lightweight materials and electric cars, and you can get Generation's help in terms of understanding how to be a public company before you're a public company—especially in the green space—let's do it," said Ryan Popple, Proterra chief executive.

Proterra bolstered its executive ranks last month with the hiring of two senior executives with experience taking companies public. JoAnn Covington, former general counsel of Rocket Fuel Inc., was named chief legal officer. Amy Ard, who previously worked for AMG Advanced Metallurgical Group NV became chief financial officer. Both worked on their respective companies' IPOs. Proterra also named former Michigan Gov. Jennifer Granholm to its board in March.

Mr. Popple, a former Tesla Inc. executive, has said the company could file for an IPO this year or in 2018. In an interview, he was coy about a timeline for an IPO, saying the company could file soon or wait awhile with the cash raised.

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

Microsoft Laptop Shines but Smudges

Microsoft's first full-fledged laptop isn't a reinvention of the portable computer. It's more of a reupholstering.

I mean that both literally and figuratively. The interior of the Surface Laptop, which arrives in stores this week, is covered in soft fabric. Snack lovers, be warned: This laptop isn't compatible with Doritos fingers.

The rest of the $1,000-and-up machine is surprisingly traditional. It's a handsome new dressing on the slim, lightweight workhorse design **Apple** popularized with the MacBook Air nine years ago. After using the Surface Laptop for a week, I found it to be a dependable road warrior—but I'm still not sure why Microsoft made it.

I love Microsoft's other Surface hardware for evolving the idea of a PC. The Surface Pro made the world realize a finger-operated tablet could be a real computer. The Surface Book pioneered a new form of laptop that detaches from its keyboard. The Surface Studio reinvented the desktop as a giant swiveling touch screen.

But the Surface Laptop is...just another under-3-pound aluminum laptop. Making a touch-friendly Windows 10 rival to the MacBook is a good idea—but it's already been done. One of my favorites, Dell's XPS 13, is just as powerful and nearly as slim as Microsoft's, and its base price is $200 less.

Microsoft says it made the Laptop with students in mind. It's the first computer to run a special version of its operating system called Windows 10 S, designed to make computers safer and easier to run. Its biggest change is that you can only download apps from the Windows Store, which vets them. That's a good idea, in theory. But right now, some pretty important apps are missing from the store, like Google's Chrome and Adobe's Photoshop Lightroom.

That's not to say the Laptop is a bad laptop. Here's what's good:

Power

Microsoft didn't skimp on Intel's latest chipset. I could even stream three videos at once without triggering the annoying whir of a fan to keep it from overheating.

Battery

The Laptop lasted slightly longer than 10 hours in my brutal web-surfing test—a half-hour longer than the 13-inch MacBook Pro and 15 minutes longer than a similarly equipped Dell XPS 13.

Screen

The screen is a stunner, packing in more pixels than even the latest MacBook Pro. You can touch it and even write on it with a stylus (sold separately). Unlike touch PCs such as **HP**'s Spectre x360, though, you can't swing the screen all the way around to make it lie flat.

If you're considering getting one, particularly for business use, there are a few caveats to keep in mind. Here's what's bad:

Ports

Along with a Mini DisplayPort for an external monitor, there's just one old-fashioned USB-style port. That's not enough. Besides, in the next few years you'll probably need the newer USB-C plugs. The Dell XPS 13 has both the old and new—and an SD-card reader.

Memory

The $1,000 base model comes with just four gigabytes of RAM, half what you get for that price from Apple or Dell. I recommend eight for a computer you plan to hold on to for a few years, which immediately hikes up the price to $1,300.

Sound

The speakers, nestled in an unusual spot behind the keys, are anemic and can't hold a candle to the MacBook Pro.

And that takes us to the most controversial element of all: fashion. You're going to either love or hate the cloth interior. Unfortunately, you can't buy the Surface Laptop without it. A fraction of the people I've shown it to say they think it makes the laptop feel more homey. I can picture the focus group where Microsoft decided that millennials would prefer a cuddly laptop.

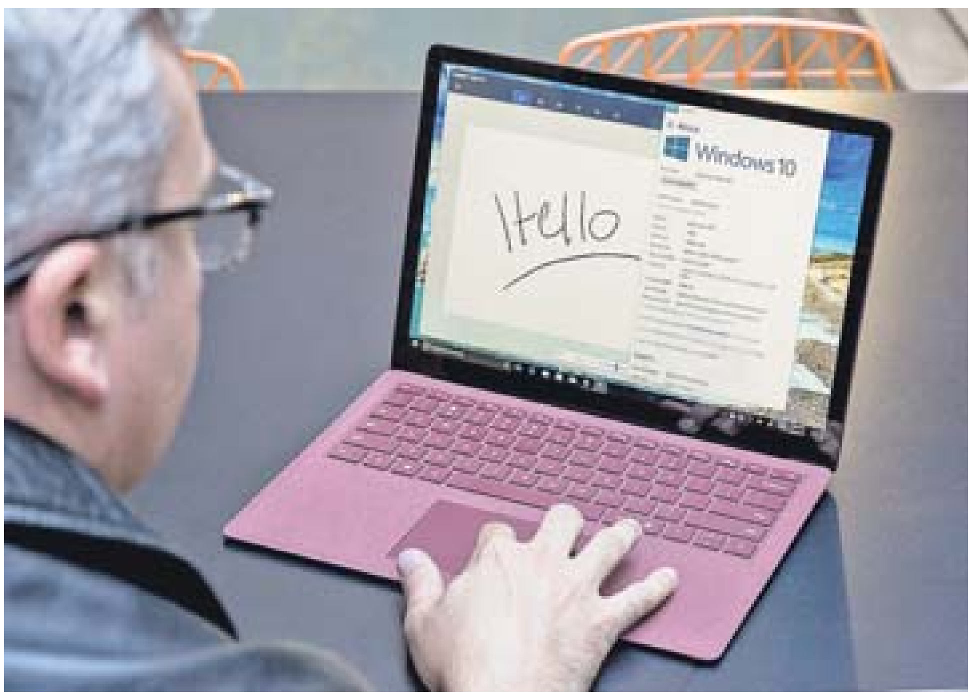
Placing cloth where your filthy hands rest is asking for trouble. Made of a synthetic fabric called Alcantara, also used on race-car seats and inside Louis Vuitton purses, Microsoft says it's "easy to clean and durable." It puts the same material on some Surface 4 covers, to mostly positive reviews.

So where does that leave the Surface Laptop? Its slim, nearly seamless body is a thing of beauty, but it doesn't advance much in important areas like battery life.

Unless you're really smitten by that design, the Laptop has few talents that would lead me to recommend it over the Dell XPS 13 or other promising new ultra-portable laptops arriving this summer.

The Laptop's price is a particular head-scratcher for students. More and more of them are choosing Chromebooks, which offer great performance on Google's web-centric operating system for $500 or less. While other Windows 10 S computers will directly compete in that price range, Microsoft's own offering can't. Microsoft adds some value by including a free year's subscription to Microsoft Office, but in the age of Google Docs, that's no longer a must-have for students.

At $1,300—the cheapest configuration worth considering—you've hit the same price as the MacBook Pro that Apple updated last week.



JASON HENRY FOR THE WALL STREET JOURNAL

The Surface Laptop has its virtues, but placing cloth where your hands rest is asking for trouble.

No Virtual Reality for Microsoft's New Xbox

By Sarah E. Needleman

There was a surprising omission at **Microsoft** Corp.'s press conference ahead of a big videogame industry gathering: virtual reality.

Microsoft's new Xbox One X console won't support the emerging technology, once considered one of the hottest—and overly hyped—bets in gaming. The decision draws a sharp distinction between the new Xbox and rival PlayStation 4 machines from **Sony** Corp.

At a launch event Sunday, Microsoft said the Xbox One X, known as "Project Scorpio" while in development, will support 4K high-definition gaming and backward compatibility. The machine will launch Nov. 7 and cost $499, $100 more than Sony's high-end PlayStation 4 Pro, which made its debut last fall.

Virtual reality never came up. In an interview with The Wall Street Journal, Xbox marketing chief Mike Nichols said VR is more popular and better suited for personal computers than consoles. "The opportunity on PC is larger, because the install base is larger and we think the customer experience will be better on PC," he said.

The VR omission was jarring considering Microsoft's E3 presentation last year left viewers with the impression Project Scorpio would hook up to a high-end headset, with many speculating on compatibility with Facebook Inc.'s Oculus Rift. Mr. Nichols blamed that on poor messaging around the console's power.

Microsoft said it is focusing on supporting mixed reality, which blends the digital and real world, through products such as its own HoloLens.

Still, the decision could prove a wise hedge as VR has been slow to take off, at least with console and PC gamers. Sony this month said that it has sold about one million units of its PlayStation VR since October, while research firms estimate Facebook's Oculus and HTC Corp.'s Vive lag behind in sales despite being on the market since spring 2016.

BUSINESS NEWS

CEO

Continued from page B1

reports that the company plans to lay off around 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.

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 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.


ELIJAH NOUVELAGE/REUTERS

Marissa Mayer's departure from Yahoo was widely expected.

Crown Casino Employees Are Charged in China

By Mike Cherney in Sydney and Wayne Ma in Beijing

Eighteen employees of Australian casino operator **Crown Resorts** Ltd., including senior executive Jason O'Connor, will 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, some of whom were responsible for selling tour packages, these people said.

Australia's Department of Foreign Affairs and Trade said authorities are continuing to provide consular assistance to the detained Australians, though it didn't answer any specific questions about their cases.

Mr. O'Connor oversaw 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.

Casinos in Australia and New Zealand reported declines in their VIP businesses in the months after the arrests.

—Junya Qian in Shanghai contributed to this article.

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.

BOSS TALK

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:

MICHAEL BUCHER/THE WALL STREET JOURNAL

WSJ: Where are you in the decision-making process with regard to the exchanges?

Mr. Swedish: It's a question of wanting to stay in, delving into the math that will dictate the decision that we're responsible for making on behalf of the stability of our company, as well as the performance that we can give our customers. The last thing I want to do is give them a substandard product, substandard price, and if we can't meet that test, then there's some very serious doubt we can remain in some markets.

WSJ: What options are on the table regarding the exchanges?

Mr. Swedish: There are still decisions yet to be made regarding [federal cost-sharing payments] and the continuation of the [ACA tax on health insurers], which is now under a moratorium. The challenge for us is pricing relative to the decisions that may be made, which could translate to as much as 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 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.

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.

WSJ.COM

Watch the video and find more management coverage at WSJ.com/Management

BUSINESS WATCH

SEARS

Job Cuts to Total 400 At Corporate Offices

Sears Holdings Corp. on Tuesday said it is cutting 400 jobs at its corporate offices as part of its restructuring plan.

The struggling retailer said the bulk of job cuts will be at its Hoffman Estates, Ill., headquarters, adding that it worked to leave open positions unfilled and reduce contract workers before cutting full-time jobs.

The planned job cuts are in addition to the $1.25 billion restructuring plan the company unveiled earlier this year. Sears Holdings said that so far, actions such as paying down debt, cutting expenses and reducing the size of its pension plan have created $1 billion in annualized cost savings.

The owner of Kmart and Sears stores raised doubts in March that it could generate enough money to cover its obligations over the next 12 months. The company said the disclosure was triggered by an accounting rule that recently took effect and didn't reflect management's expectations for the business's near-term health.

—Imani Moise

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.

Mr. Levin 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

SHIPBOB

Warehouse Startup Aims to Expand

Warehouse startup **ShipBob** raised $17.5 million in a funding round led by Bain Capital Ventures, which will allow the company to open e-commerce distribution centers in more cities, the company said Tuesday.

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

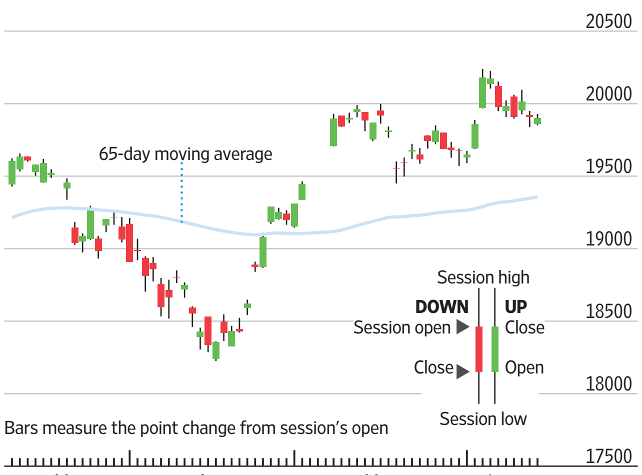
MARKETS DIGEST

Nikkei 225 Index

19898.75 ▼9.83, or 0.05%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 4.10%
52-wk high/low	20177.28	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

388.75 ▲2.13, or 0.55%

High, low, open and close for each trading day of the past three months.

Year-to-date		▲ 7.56%
52-wk high/low	396.45	308.75
All-time high	414.06	4/15/15

S&P 500 Index

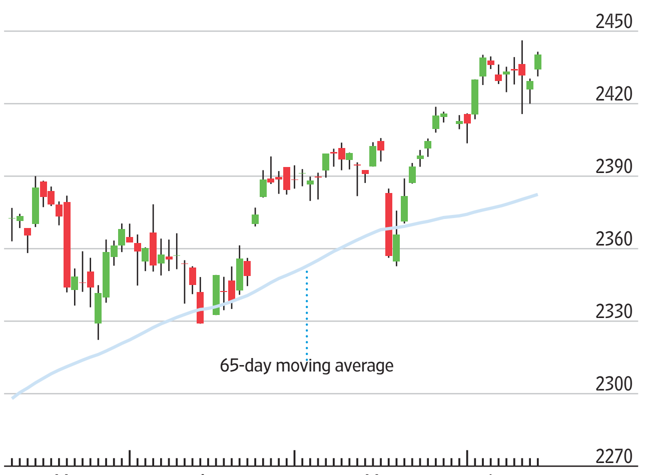
Data as of 4 p.m. New York time

2440.35 ▲10.96, or 0.45%

High, low, open and close for each trading day of the past three months.

	Last	Year ago
Trailing P/E ratio	24.15	24.29
P/E estimate *	18.97	17.92
Dividend yield	1.95	2.16
All-time high:	2440.35, 06/13/17	

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.



International Stock Indexes

Data as of 4 p.m. New York time

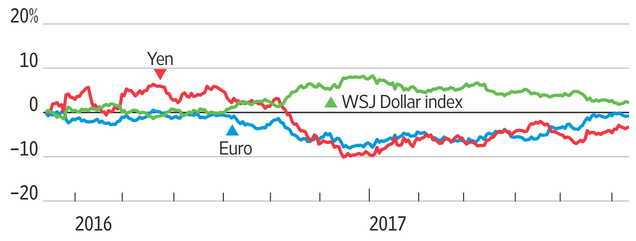
Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2782.77	9.64	0.35	2193.75	2791.48	10.1
	MSCI EAFE	1896.14	9.80	0.52	1471.88	1956.39	10.5
	MSCI EM USD	1010.36	1.44	0.14	691.21	1044.05	27.2
Americas	**DJ Americas**	586.14	3.14	0.54	480.90	587.15	8.5
Brazil	**Sao Paulo Bovespa**	61846.98	146.75	0.24	48066.67	69487.58	2.7
Canada	**S&P/TSX Comp**	15375.26	–8.54	–0.06	13609.58	15943.09	0.6
Mexico	**IPC All-Share**	49026.22	–102.54	–0.21	43902.25	50154.33	7.4
Chile	**Santiago IPSA**	3709.91	24.63	0.67	3057.91	3786.05	15.1
U.S.	**DJIA**	21328.47	92.80	0.44	17063.08	21332.77	7.9
	Nasdaq Composite	6220.37	44.90	0.73	4574.25	6341.70	15.6
	S&P 500	2440.35	10.96	0.45	1991.68	2446.20	9.0
	CBOE Volatility	10.53	–0.93	–8.12	9.37	26.72	–25.0
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
Austria	**ATX**	3173.80	5.24	0.17	1981.93	3212.50	21.2
Belgium	**Bel-20**	3910.86	11.37	0.29	3127.94	4055.96	8.4
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
Greece	**ATG**	797.13	12.53	1.60	517.10	800.08	23.8
Hungary	**BUX**	35588.70	254.22	0.72	25126.36	35610.30	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
Poland	**WIG**	60518.24	163.68	0.27	42812.99	62666.49	16.9
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
Sweden	**SX All Share**	592.94	4.34	0.74	443.66	595.45	10.9
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	100000.79	27.1
U.K.	**FTSE 100**	7500.44	–11.43	–0.15	5788.74	7598.99	5.0
Asia-Pacific	**DJ Asia-Pacific TSM**	1630.31	4.43	0.27	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	26063.06	17.5
India	**S&P BSE Sensex**	31103.49	7.79	0.03	25765.14	31309.49	16.8
Japan	**Nikkei Stock Avg**	19898.75	–9.83	–0.05	14952.02	20177.28	4.1
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

Source: SIX Financial Information;WSJ Market Data Group

Currencies

London close on June 13

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0629	15.9028	0.2
Brazil real	0.3023	3.3082	1.6
Canada dollar	0.7553	1.3241	–1.5
Chile peso	0.001511	662.00	–1.2
Colombia peso	0.0003409	2933.22	–2.3
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0553	18.0717	–12.8
Peru sol	0.3052	3.2767	–2.3
Uruguay peso-e	0.0351	28.500	–2.9
Venezuela bolivar	0.100150	9.99	–0.1
Asia-Pacific			
Australia dollar	0.7537	1.3268	–4.4
China yuan	0.1471	6.7986	–2.1
Hong Kong dollar	0.1282	7.7983	0.6
India rupee	0.0155	64.3750	–5.3
Indonesia rupiah	0.0000751	13308	–1.6
Japan yen	0.009084	110.08	–5.9
Kazakhstan tenge	0.003164	316.07	–5.3
Macau pataca	0.1245	8.0339	1.5
Malaysia ringgit-c	0.2346	4.2625	–5.0
New Zealand dollar	0.7220	1.3850	–4.1
Pakistan rupee	0.0095	104.800	0.4
Philippines peso	0.0202	49.530	–0.2
Singapore dollar	0.7239	1.3815	–4.5
South Korea won	0.0008862	1128.44	–6.6
Sri Lanka rupee	0.0065475	152.73	2.9
Taiwan dollar	0.03307	30.238	–6.8
Thailand baht	0.02948	33.920	–5.3
Europe			
Bulgaria lev	0.5728	1.7458	–6.1
Croatia kuna	0.1511	6.618	–7.7
Euro zone euro	1.1201	0.8928	–6.1
Czech Rep. koruna-b	0.0428	23.342	–9.1
Denmark krone	0.1506	6.6398	–6.1
Hungary forint	0.003660	273.22	–7.2
Iceland krona	0.010001	99.99	–11.5
Norway krone	0.1185	8.4377	–2.4
Poland zloty	0.2671	3.7434	–10.6
Russia ruble-d	0.01757	56.913	–7.1
Sweden krona	0.1149	8.7041	–4.4
Switzerland franc	1.0321	0.9689	–4.9
Turkey lira	0.2841	3.5196	–0.1
Ukraine hryvnia	0.0384	26.0655	–3.8
U.K. pound	1.2747	0.7845	–3.2
Middle East/Africa			
Bahrain dinar	2.6512	0.3772	0.01
Egypt pound-a	0.0551	18.1340	0.01
Israel shekel	0.2835	3.5276	–8.3
Kuwait dinar	3.2952	0.3035	–0.7
Oman sul rial	2.5964	0.3852	0.05
Qatar rial	0.2730	3.663	0.6
Saudi Arabia riyal	0.2667	3.7500	–0.02
South Africa rand	0.0782	12.7959	–6.6

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	88.34	–0.10	–0.11	–4.95

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points: Latest	Previous	Month Ago	Year ago	Yield: Previous	Month ago	Year ago
5.250	**Australia** 2	1.619	25.9	25.2	38.7	92.5	1.612	1.682	1.635
4.750	10	2.410	20.2	18.8	31.4	50.1	2.402	2.642	2.112
3.000	**Belgium** 2	-0.572	-193.1	-195.3	-183.1	-119.6	-0.594	-0.537	-0.486
0.800	10	0.586	-162.3	-162.6	-153.5	-130.8	0.587	0.793	0.303
0.000	**France** 2	-0.505	-186.4	-187.4	-174.6	-114.6	-0.515	-0.451	-0.436
1.000	10	0.609	-160.0	-160.6	-148.5	-119.6	0.607	0.843	0.415
0.000	**Germany** 2	-0.717	-207.6	-211.5	-196.7	-125.3	-0.756	-0.672	-0.543
0.250	10	0.269	-193.9	-196.4	-193.3	-158.7	0.250	0.394	0.024
0.300	**Italy** 2	-0.279	-163.8	-162.6	-147.6	-68.1	-0.266	-0.181	0.029
2.200	10	1.977	-23.1	-19.7	-7.6	-23.7	2.017	2.251	1.374
0.100	**Japan** 2	-0.112	-147.1	-147.0	-147.1	-98.5	-0.111	-0.176	-0.275
0.100	10	0.065	-214.4	-215.5	-228.3	-177.1	0.059	0.044	-0.160
4.000	**Netherlands** 2	-0.680	-203.9	-205.9	-189.7	-124.6	-0.700	-0.603	-0.536
0.750	10	0.478	-173.1	-174.5	-172.5	-147.1	0.469	0.603	0.141
4.750	**Portugal** 2	0.066	-129.3	-127.8	-99.0	-44.0	0.082	0.305	0.271
4.125	10	2.927	71.8	75.2	103.2	159.6	2.965	3.360	3.207
2.750	**Spain** 2	-0.308	-166.8	-166.1	-155.6	-70.6	-0.301	-0.262	0.004
1.500	10	1.418	-79.1	-78.1	-71.2	-10.7	1.433	1.615	1.504
4.250	**Sweden** 2	-0.731	-209.0	-209.9	-194.8	-124.9	-0.740	-0.654	-0.539
1.000	10	0.405	-180.3	-182.7	-173.0	-112.8	0.386	0.597	0.483
1.750	**U.K.** 2	0.148	-121.1	-128.6	-118.4	-33.4	0.073	0.110	0.377
4.250	10	1.036	-117.3	-124.7	-123.8	-40.0	0.966	1.089	1.212
1.250	**U.S.** 2	1.359	...	...	...	...	1.359	1.295	0.710
2.375	10	2.209	...	...	...	...	2.214	2.328	1.611

Commodities

Prices of futures contracts with the most open interest — 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.; **MDEX:** Bursa Malaysia Derivatives Berhad; **TCE:** Tokyo Commodity Exchange; **COMEX:** Commodity Exchange; **LME:** London Metal Exchange; **NYMEX:** New York Mercantile Exchange; **ICE-EU:** ICE Futures Europe. *Data as of 6/12/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	381.25	4.00	1.06%	393.75	360.75
Soybeans (cents/bu.)	CBOT	939.25	1.00	0.11	1,034.50	915.50
Wheat (cents/bu.)	CBOT	444.75	10.75	2.48	488.75	416.00
Live cattle (cents/lb.)	CME	120.950	-0.600	-0.49%	127.650	99.400
Cocoa ($/ton)	ICE-US	2,043	-45	-2.16	2,281	1,767
Coffee (cents/lb.)	ICE-US	128.70	-1.10	-0.85	163.75	127.65
Sugar (cents/lb.)	ICE-US	13.99	-0.22	-1.55	20.50	13.93
Cotton (cents/lb.)	ICE-US	71.82	-0.62	-0.86	75.72	69.81
Robusta coffee ($/ton)	ICE-EU	2024.00	-6.00	-0.30	2,283.00	1,871.00
Copper ($/lb.)	COMEX	2.5965	-0.0190	-0.73	2.8400	2.4725
Gold ($/troy oz.)	COMEX	1268.70	-0.20	-0.02	1,300.30	1,155.00
Silver ($/troy oz.)	COMEX	16.850	-0.094	-0.55	18.725	16.060
Aluminum ($/mt)*	LME	1,892.50	-10.00	-0.53	1,972.00	1,688.50
Tin ($/mt)*	LME	18,955.00	-20.00	-0.11	21,225.00	18,760.00
Copper ($/mt)*	LME	5,783.00	19.00	0.33	6,156.00	5,491.00
Lead ($/mt)*	LME	2,095.00	-20.00	-0.95	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,515.50	19.50	0.78	2,958.50	2,450.50
Nickel ($/mt)*	LME	8,980.00	115.00	1.30	11,095.00	8,780.00
Rubber (Y.01/ton)	TCE	185.30	-1.60	-0.86	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2,393.00	-27.00	-1.12	2,966.00	2,390.00
Crude oil ($/bbl.)	NYMEX	46.75	0.43	0.93	58.30	44.45
NY Harbor ULSD ($/gal.)	NYMEX	1.4514	0.0260	1.82	1.7901	1.3846
RBOB gasoline ($/gal.)	NYMEX	1.5051	0.0171	1.15	1.8859	1.4543
Natural gas ($/mmBtu)	NYMEX	2.964	-0.060	-1.98	3.5770	2.8880
Brent crude ($/bbl.)	ICE-EU	48.80	0.51	1.06	60.21	46.98
Gas oil ($/ton)	ICE-EU	431.25	1.75	0.41	529.00	415.75

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on Jun 13

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3268	1.6914	1.3695	0.0121	0.1702	1.4861	1.0023	...
Canada	1.3241	1.6877	1.3665	0.0120	0.1698	1.4828	...	0.9977
Euro	0.8928	1.1381	0.9215	0.0081	0.1145	...	0.6744	0.6728
Hong Kong	7.7983	9.9396	8.0494	0.0708	...	8.7344	5.8897	5.8768
Japan	110.0810	140.3200	113.6100	...	14.1160	123.2900	83.1500	82.9800
Switzerland	0.9689	1.2350	...	0.0088	0.1242	1.0852	0.7318	0.7302
U.K.	0.7845	...	0.8097	0.0071	0.1006	0.8786	0.5925	0.5912
U.S.	...	1.2747	1.0321	0.0091	0.1282	1.1201	0.7553	0.7537

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.15889%**	0.44230%
Three month	**1.24556**	0.65480
Six month	**1.42322**	0.93390
One year	**1.73567**	1.25325
Euro Libor		
One month	**-0.40286%**	-0.35900%
Three month	**-0.37143**	-0.28329
Six month	**-0.29929**	-0.16600
One year	**-0.18043**	-0.03257
Euribor		
One month	**-0.37300%**	-0.35300%
Three month	**-0.33100**	-0.26200
Six month	**-0.27000**	-0.15900
One year	**-0.14900**	-0.02100
Yen Libor		
One month	**-0.03464%**	-0.08943%
Three month	**-0.01093**	-0.04100
Six month	**0.01771**	-0.01514
One year	**0.12929**	0.07693

	Offer	Bid
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2000**	1.1000
Six month	**1.3500**	1.2500
One year	**1.6000**	1.5000

	Latest	52 wks ago
Prime rates		
U.S.	**4.00%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.50**	1.00
Fed-funds target	**0.75-1.00**	0.25-0.50
Call money	**2.75**	2.25
Overnight repurchase rates		
U.S.	**1.04%**	0.48%
Euro zone	**n.a.**	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

4 p.m. New York time

Asia Titans

Cur	Stock	Sym	Last	% Chg	YTD% Chg
HK$	AIAGroup	1299	56.05	0.81	28.11
¥	AstellasPharma	4503	1363.50	0.59	-16.01
AU$	AustNZBk	ANZ	28.39	2.45	-6.67
AU$	BHP	BHP	23.67	0.55	-5.55
HK$	BankofChina	3988	3.83	0.26	11.34
HK$	CKHutchison	0001	99.30	-0.45	12.97
HK$	CNOOC	0883	8.69	0.46	-10.41
AU$	CSL	CSL	137.65	1.93	37.09
¥	Canon	7751	3882.00	-0.67	17.81
¥	CentralJapanRwy	9022	18030	-0.22	-6.24
HK$	ChinaConstructnBk	0939	6.41	0.63	7.37
HK$	ChinaLifeInsurance	2628	24.90	0.20	23.27
HK$	ChinaMobile	0941	83.90	0.60	2.07
HK$	ChinaPetro&Chem	0386	6.39	0.47	16.18
AU$	CmwlthBkAust	CBA	81.13	2.45	-1.55
¥	EastJapanRailway	9020	10875	0.88	7.67
¥	Fanuc	6954	21425	-0.88	8.13
¥	Hitachi	6501	677.00	0.70	7.12
TW$	Hon Hai Precisn	2317	102.00	...	21.14
¥	HondaMotor	7267	3057.00	-0.29	-10.48
KRW	HyundaiMtr	005380	164500	1.23	12.67
HK$	Ind&Comml	1398	5.19	0.39	11.61
¥	JapanTobacco	2914	4101.00	-0.63	6.69
¥	KDDI	9433	3024.00	0.57	2.18
¥	Mitsubishi	8058	2293.00	-0.24	-7.91
¥	MitsubishiElectric	6503	1602.00	-0.22	-1.69
¥	MitsubishiUFJFin	8306	734.00	0.10	1.92
¥	Mitsui	8031	1533.00	1.59	-4.60
¥	Mizuho Fin	8411	201.00	0.15	-4.19
¥	NTTDoCoMo	9437	2697.50	-0.19	1.30
AU$	NatAustBnk	NAB	30.12	2.45	-1.79
¥	NipponTeleg	9432	5250.00	0.08	6.88
¥	NissanMotor	7201	1075.00	-0.19	-8.55
¥	Panasonic	6752	1484.50	0.41	24.80
HK$	PingAnInsofChina	2318	51.75	0.49	33.38
$	RelianceIndsGDR	RIGD	41.05	1.11	30.11
KRW	SamsungElectronics	005930	2270000	0.04	25.97
¥	Seven&I Hldgs	3382	4703.00	0.36	5.61
¥	SoftBankGroup	9984	9078.00	-1.63	16.91
¥	Sony	6758	4037.00	-0.71	23.27
¥	Sumitomo Mitsui	8316	4283.00	0.63	-3.97
HK$	SunHngKaiPrp	0016	120.50	1.09	22.96
TW$	TaiwanSemiMfg	2330	208.00	0.24	14.60
¥	TakedaPharm	4502	5601.00	...	15.84
HK$	TencentHoldings	0700	272.40	0.67	43.60
¥	TokioMarineHldg	8766	4983.00	0.57	3.90
¥	ToyotaMtr	7203	5874.00	-0.10	-14.60
AU$	Wesfarmers	WES	40.74	1.70	-3.32
AU$	WestpacBanking	WBC	30.81	2.80	-5.49
AU$	Woolworths	WOW	26.08	0.50	8.22

Stoxx 50

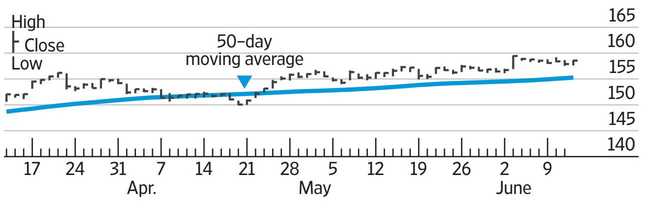
Cur	Stock	Sym	Last	% Chg	YTD% Chg
CHF	ABB	ABBN	24.43	0.83	13.73
€	ASMLHolding	ASML	116.70	1.30	9.42
€	AXA	CS	24.10	0.12	0.48
€	AirLiquide	AI	110.15	0.92	4.26
€	Allianz	ALV	173.25	-0.20	10.35
€	AB InBev	ABI	101.30	0.35	0.75
£	AstraZeneca	AZN	5261.00	-0.45	18.56
€	BASF	BAS	86.34	0.37	-2.23
€	BNP Paribas	BNP	63.35	-0.06	4.62
£	BT Group	BT.A	296.80	-0.57	-19.11
€	BancoBilVizAr	BBVA	7.42	0.91	16.79
€	BancoSantander	SAN	6.06	-0.10	22.18
£	Barclays	BARC	206.30	0.51	-7.68
€	Bayer	BAYN	119.90	1.22	20.95
£	BP	BP.	470.15	-0.16	-7.74
£	BritishAmTob	BATS	5414.00	-0.88	17.15
€	Daimler	DAI	65.90	0.40	-6.82
€	DeutscheTelekom	DTE	16.88	-0.44	3.21
£	Diageo	DGE	2324.00	0.02	10.14
€	ENI	ENI	14.00	0.29	-9.50
£	GlaxoSmithKline	GSK	1684.00	-0.68	7.81
£	Glencore	GLEN	294.30	0.05	6.11
£	HSBC Hldgs	HSBA	688.20	-0.49	4.76
€	INGGroep	INGA	15.24	-0.23	14.02
£	ImperialBrands	IMB	3560.00	-0.81	0.49
€	IntesaSanpaolo	ISP	2.59	0.47	6.60
€	LVMHMoetHennessy	MC	227.65	1.58	25.50
£	LloydsBankingGroup	LLOY	68.59	-0.74	9.73
€	LOreal	OR	187.35	-0.08	8.04
£	NationalGrid	NG.	1018.00	0.74	-1.94
CHF	Nestle	NESN	80.75	0.25	10.54
CHF	Novartis	NOVN	78.80	0.90	6.34
DKK	NovoNordiskB	NOVO-B	290.90	0.87	14.21
£	Prudential	PRU	1785.00	-0.22	9.68
£	ReckittBenckiser	RB.	7879.00	-0.48	14.42
£	RioTinto	RIO	3217.50	-0.88	1.87
CHF	RocheHldgctf	ROG	250.70	0.44	7.78
£	RoyDtchShell A	RDSA	2129.50	-0.12	-5.04
€	SAP	SAP	93.59	1.11	13.02
€	Sanofi	SAN	85.34	0.58	10.98
€	SchneiderElectric	SU	67.55	0.16	2.18
€	Siemens	SIE	126.75	0.40	8.52
€	Telefonica	TEF	10.03	0.10	13.72
€	Total	FP	45.47	-0.03	-4.79
CHF	UBSGroup	UBSG	15.75	1.81	-1.25
€	Unilever	UNA	49.39	-0.08	26.27
£	Unilever	ULVR	4256.50	-1.02	29.28
€	Vinci	DG	77.69	0.12	20.08
£	VodafoneGroup	VOD	223.80	-0.20	11.98
CHF	ZurichInsurance	ZURN	286.20	0.67	2.07

DJIA

Cur	Stock	Sym	Last	% Chg	YTD% Chg
$	AmericanExpress	AXP	80.59	0.52	8.79
$	Apple	AAPL	146.59	0.80	26.57
$	Boeing	BA	191.12	0.59	22.76
$	Caterpillar	CAT	105.75	-0.30	14.03
$	Chevron	CVX	108.10	0.06	-8.16
$	CiscoSystems	CSCO	31.70	1.44	4.90
$	Coca-Cola	KO	45.03	0.16	8.61
$	Disney	DIS	106.57	-0.44	2.25
$	DuPont	DD	83.85	2.08	14.24
$	ExxonMobil	XOM	82.95	0.02	-8.10
$	GeneralElec	GE	28.45	-1.69	-9.97
$	GoldmanSachs	GS	224.15	1.01	-6.39
$	HomeDepot	HD	153.95	1.16	14.82
$	Intel	INTC	35.88	0.42	-1.08
$	IBM	IBM	154.25	-0.60	-7.07
$	JPMorganChase	JPM	87.27	0.33	1.14
$	J&J	JNJ	132.03	0.16	14.60
$	McDonalds	MCD	149.82	0.91	23.09
$	Merck	MRK	63.26	-1.03	7.46
$	Microsoft	MSFT	70.65	1.25	13.69
$	Nike	NKE	54.32	0.54	6.87
$	Pfizer	PFE	32.58	-0.37	0.31
$	Procter&Gamble	PG	88.02	-0.25	4.69
$	3M	MMM	209.17	0.86	17.14
$	Travelers	TRV	126.04	0.29	2.96
$	UnitedTech	UTX	120.04	0.13	9.51
$	UnitedHealth	UNH	181.12	1.04	13.17
$	Visa	V	95.07	1.68	21.85
$	Verizon	VZ	46.45	-1.57	-12.98
$	Wal-Mart	WMT	79.50	0.33	15.02

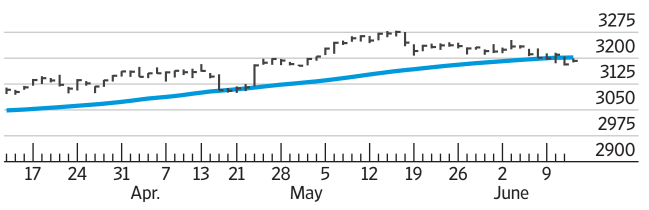
Asia Titans 50

Last: **158.55** ▲ 0.66, or 0.42% — YTD ▲ **12.5%**



Stoxx 50

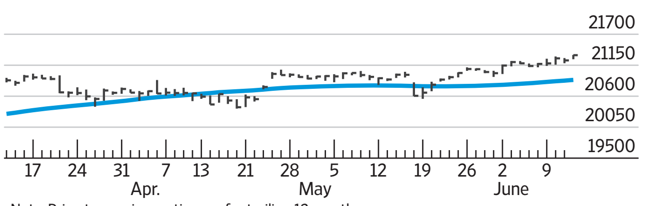
Last: **3192.14** ▲ 10.21, or 0.32% — YTD ▲ **6.0%**



Dow Jones Industrial Average

P/E: 21

Last: **21328.47** ▲ 92.80, or 0.44% — YTD ▲ **7.9%**



Note: Price-to-earnings ratios are for trailing 12 months
Sources: WSJ Market Data Group; Birinyi Associates

JOURNAL REPORT | WSJ D.LIVE ASIA

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 successful 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 and what I do 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 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.

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

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 acquisitive 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.

Going global

MS. KIM: *Ctrip.com has pretty much consolidated China's online travel market. Do you see further room for consolidation in the global market?*

MS. SUN: We are the No. 1 player in the China market. There is lots of room for us to further penetrate into the second-tier and third-tier cities. In the global space, though, Ctrip is an infant. I think the golden years are yet to come. So we are very excited about the future opportunities.

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 did you decide to invest?*

MS. SUN: India will overtake China as the most populous country in the world. Although the GDP per capita is quite low, it has potential to grow the affluent portion of its people. And these people will be able to travel.

The India market is very similar to China in the sense that it's very localized. Only local people know how to deal with the government, how to develop that market. We believe MakeMyTrip is a very good player in that market.

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.

Baidu's Turnaround Strategy

President Qi Lu's view on how the driverless-car race is shaping up

MANUEL WONG/DOW JONES (2)

***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 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.

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.

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.

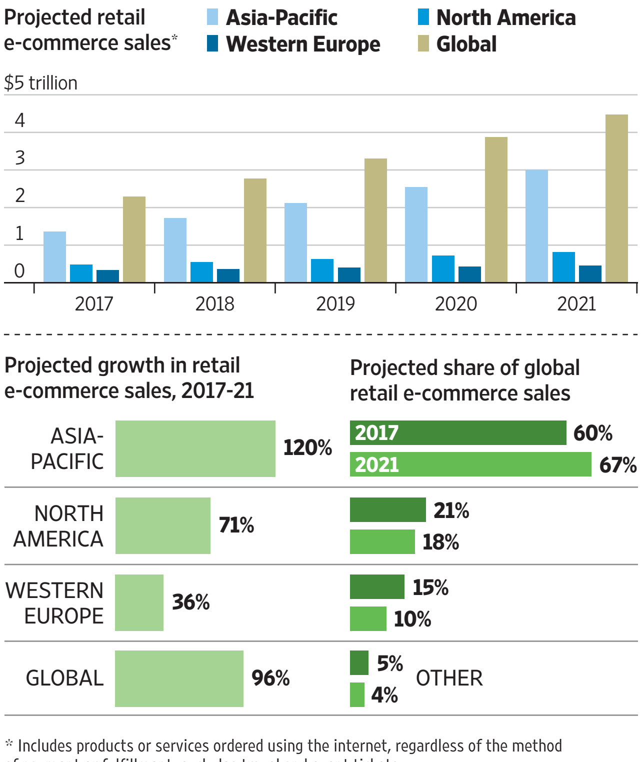
The other channel is the European and the U.S. market. We believe it's only a matter of time before many Chinese brands such as Huawei Technologies and others become world-renowned. So we are going to concentrate on high-end Chinese products and try to introduce them to developed overseas markets.

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 battlefront 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.

Asia Leads a Boom

Retail sales online are expected to surge in the next few years, led by shoppers in Asia



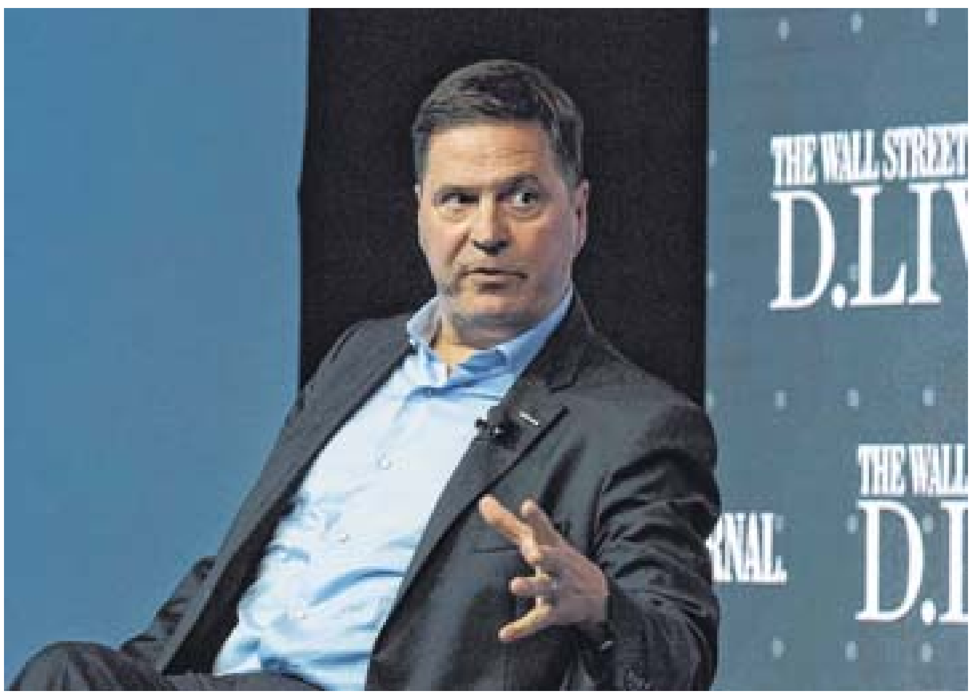
* Includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets

Source: eMarketer

THE WALL STREET JOURNAL.

Microsoft's Perspective On the Chinese Market

Alain Crozier explains why tech companies must change their mind-set to succeed in China



MANUEL WONG/DOW JONES

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 Surface. 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 also more reforms that really help companies like Microsoft make decisions like this one.

MR. ANDERS: *With Windows 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, 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 this. 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."

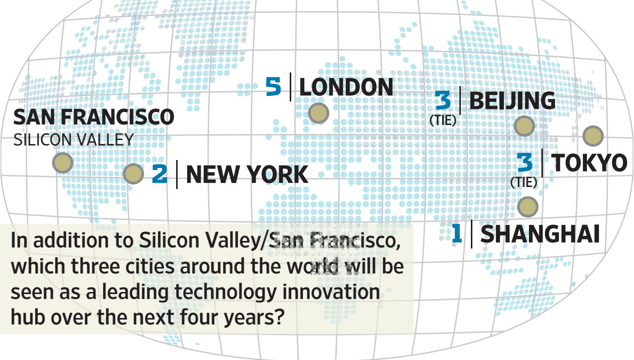
Why? Because it's very difficult. Because it's complex. Yeah, sure. But you know what? If you do well, if you have a long-term mind-set and if your company is committed to doing business in China, you'll experience a fantastic life, I can tell you that.

High Profile

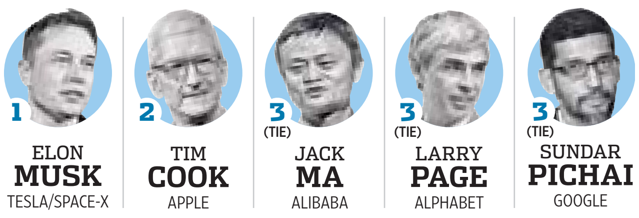
How technology industry leaders around the world answered some questions on technology innovation in a KPMG survey

Which country shows the most promise for disruptive technology breakthroughs that will have a global impact?

U.S.	China	India	U.K.
26%	25%	11%	10%



Who is emerging as the top global technology innovation visionary?



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.

David Su and Connie Chan

MANUEL WONG/DOW JONES (2)

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 enterprise-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 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: *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 morning to night. It might just start with your transportation—but it can branch beyond that.

MR. WINKLER: *Why do they want to control all that?*

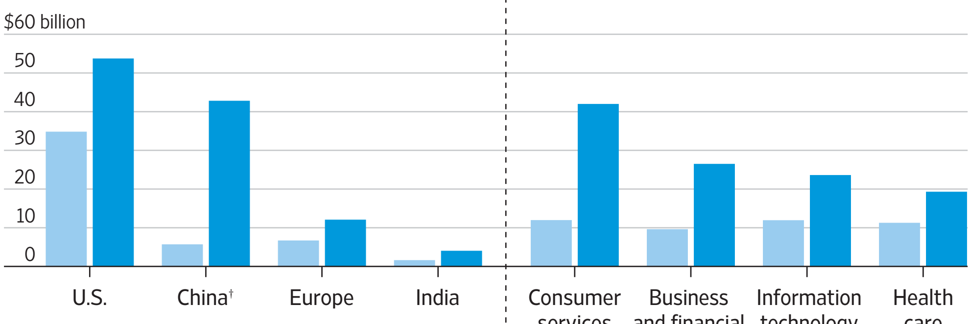
MS. CHAN: Because you get more of the users' time. You can send them to different services, different apps, you control distribution, you can do different kinds of advertising. You get more data around that consumer. So anything that's a daily-use, high-frequency app is very valuable. And I think China, with the super app design model, recognizes that biking is one of those companies.

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.

Venture-Capital Flows

Equity financings for venture-backed companies* ■ 2012 ■ 2016



*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.

The Ride-Sharing Boom

Anthony Tan and Doug Parker on where the industry—and driverless cars—is heading in Asia


Anthony Tan and Doug Parker

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 experience 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. 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?*

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 automakers. 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."

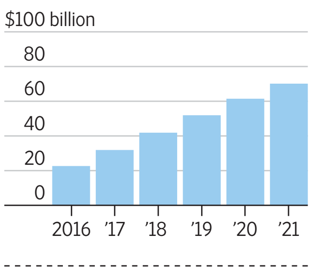
They realize that Southeast Asia is a fragmented market. The countries are similar in many ways but still so different in terms of language, religion, etc. The ability to embrace that fragmentation but also see the common patterns is what Didi respects about us.

Where To?

One forecast of where the global ride-sharing market is headed

REVENUE

Projected global growth

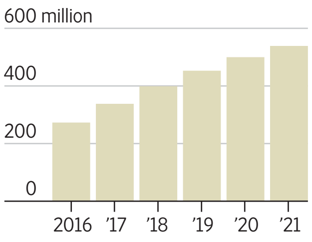


Top 5 countries, in billions

2016		2021	
U.S.	$8.0	China	$26.6
China	6.8	U.S.	25.9
U.K.	1.2	U.K.	2.9
Japan	0.5	Germany	1.1
France	0.4	Japan	1.1

NUMBER OF USERS

Projected global growth



Top 5 countries, in millions

2016		2021	
China	138.2	China	273.5
U.S.	35.6	U.S.	69.5
India	20.4	India	50.8
Russia	6.9	Brazil	14.6
Brazil	6.2	Indonesia	11.5

Source: Statista Digital Market Outlook; global figures include 50 countries on six continents

THE WALL STREET JOURNAL.

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 last 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 Investment 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 to 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 2012 and 2013 for selling $6.5 billion in bonds. Much of the money raised by Goldman was taken out of 1MDB by Mr. Low and IPIC executives and used to purchase mansions, pay gambling debt and fund a Hollywood movie company, the Justice Department lawsuits claim. Goldman has also said it has no knowledge of any fraud at 1MDB.

A January 2014 press release issued by Coastal Energy, Cepsa and SRG announcing the deal's completion referred to Strategic Resources as a firm controlled by Mr. Low's father, Larry Low. When executives and advisers met for dinner to mark the deal's close, Szen Low, Mr. Low's brother, joined the celebration, one person said.

Jho Low, whose whereabouts are unclear, has denied wrongdoing. 1MDB has consistently denied wrongdoing and said it would cooperate with the investigations. The Justice Department lawsuit cited Mr. Low as saying Cepsa bought out his stake because it "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.

LUKE MACGREGOR/BLOOMBERG NEWS

Cepsa funded the bulk of a deal for Coastal Energy, according to a Justice Department lawsuit.

Government Targets London Properties

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 Justice Department said in court documents filed June 7.

Mr. Low, a flamboyant Malaysian deal maker, is a central figure in an alleged plot to siphon billions of dollars from the fund, according to the Justice Department. The London properties are the latest in a string of homes, art and other assets scattered around the world to be targeted for seizure by the U.S. The Justice Department has previously identified van Gogh and Monet paintings, and luxury real estate in New York, Los Angeles and London, allegedly bought with money stolen from 1MDB.

The office, acquired for £42 million in 2014, 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.

A spokesman for Myla couldn't be reached for comment.

FINANCE WATCH

BERKSHIRE HATHAWAY

Auto Dealerships Take Heat in Texas

Berkshire Hathaway Inc.'s auto dealerships and recreational-vehicle manufacturer have violated Texas regulations and should lose their licenses, the enforcement division of the state's Department of Motor Vehicles concluded.

Texas law prohibits auto dealerships and vehicle manufacturers from sharing ownership. Warren Buffett's firm, Berkshire, owns both Texas-based Berkshire Hathaway Automotive, which operates car dealerships, and Forest River Inc., an RV manufacturer based in Indiana.

If a hearing isn't requested to contest a decision, the enforcement division's conclusion becomes final, according to enforcement recommendation documents.

Berkshire has requested hearings, according to a person familiar with the matter. Berkshire and the department could also reach a settlement to resolve the issue, the person said.

The Texas DMV declined to comment. Berkshire Hathaway Automotive and Forest River didn't immediately respond to requests for comment.

Berkshire Hathaway Automotive supported a change to Texas law earlier this year that would exempt companies that own both auto dealerships and manufacturers if the dealers don't sell the same type of vehicles that the company manufactures. But the bill didn't pass before the legislative session ended. *—Nicole Friedman*

BRENDAN MCDERMID/REUTERS

Warren Buffett's firm owns car dealerships and an RV maker.

PRIVATE WEALTH

Global Total Reached Record Level in 2016

Accelerating economic growth and stock gains drove global private wealth up 5.3% last year to $166.5 trillion, a record sum that comes as competition among global managers to handle that wealth pressures industry profitability.

According to a report by Boston Consulting Group, wealth grew at 4% in the U.S. and 9.1% in Canada, making North America the wealthiest region with $56 trillion. The tally excludes residences and luxury goods.

But managers of that wealth face a host of challenges. Once lightly regulated and highly profitable, wealth managers are grappling with investors sobered by the financial crisis who demand lower fees and commissions in a low-yield environment, BCG says. In addition, competition is intensifying as entrants such as financial-technology companies join the industry, BCG says. *—Daisy Maxey*

PIMCO

Executives Step Up As President Retires

Pacific Investment Management Co. disclosed the retirement of its president, Jay Jacobs, and the appointment of two veteran executives as co-chief operating officers.

The moves are among the biggest management changes Chief Executive Emmanuel Roman has made since joining the firm last fall.

Pimco promoted human-resources head Robin Shanahan and Chief Administrative Officer Peter Strelow to the co-chief operating officer roles, the firm said. Both executives will report to Mr. Roman.

Mr. Jacobs's retirement, after 19 years with Pimco, will be effective Sept. 30. *—Justin Baer*

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 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 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 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 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.

LLUIS GENE/AGENCE FRANCE-PRESSE/GETTY IMAGES

Spain's troubled Banco Popular was sold to Santander for the symbolic price of €1.

Who Gets €1 for Popular?

BY BEN DUMMETT

Banco Santander SA's plan to sell €7 billion ($7.84 billion) in stock to pay for its acquisition of **Banco Popular Español** SA highlights the real costs of rescuing its smaller, failing Spanish banking rival.

Winning the auction for Banco Popular was considerably cheaper. It required Santander to pay just €1 for the bank's equity.

Such a symbolic sum isn't unique for the acquisition of a distressed bank.

In 2012, **Banco Bilbao Vizcaya Argentaria** SA, which was invited but decided against bidding for Banco Popular, acquired troubled Spanish lender Unnim for €1 after the government nationalized it. When rogue trader Nick Leeson took down **Barings Bank** in 1995, Dutch Bank ING stepped in to buy its liabilities for £1.

So who gets that notional amount of €1 that Santander is paying?

Theory suggests it would be holders of Banco Popular's Tier 2 subordinated bonds.

In fact, it was the Spanish regulator that ended up with it, getting an electronic bank transfer of the money from Santander. As overseer of the auction, the regulator has first rights to any proceeds to help cover its costs. Not surprisingly, they quickly exceeded €1.

The process started last week after the European Central Bank decided that Banco Popular risked failure under the excessive burden of €37 billion in foreclosures and other nonperforming assets. Once that happened, Europe's Single Resolution Board, the group charged with protecting taxpayers from bailing out failing banks, stepped in and mandated the Spanish regulator, or FROB, to oversee an overnight auction of Banco Popular.

As in most cases when a company faces a possible default, holders of the senior debt have the greatest chance of recouping their investment. Equity holders, meanwhile, are most likely to end up empty-handed. That scenario played out in the case of Banco Popular. The bank's senior debtholders didn't suffer any losses, while investors with lower ranked securities virtually were all wiped out.

Santander offered zero to holders of Banco Popular's common shares, which the day before the auction had a total value of €1.33 billion. It offered nothing to holders of the contingent convertible bonds, a hybrid debt security with equity characteristics. That, in theory at least, left holders of Banco Popular's more senior-ranked Tier 2 subordinated bonds to share the €1 after conversion of the securities into equity if the regulator didn't have first dibs.

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 (US$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.

DAVE HUNT/EUROPEAN PRESSPHOTO AGENCY

Australia has more solar panels on homes than anywhere else. Here, houses on the Gold Coast.

But Ms. Port and her partner 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. Virgin 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.

CAPITAL SQUARE 1031

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.

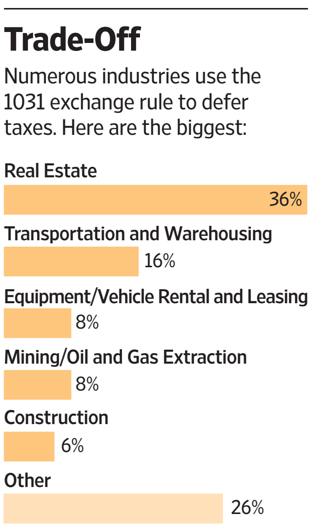
They also have sparked the creation of a cottage industry of firms that pool 1031 exchange investments for smaller investors. If the provision is eliminated, "it would cause a lot of transactions not to occur," said Jeffrey DeBoer, chief executive of the Real Estate Roundtable, an industry organization.

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 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 repealing like-kind exchanges would raise $40.6 billion in additional tax revenue over one decade.



Source: Ernst & Young LLP
THE WALL STREET JOURNAL.

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.

Mall Tenants Play Hardball in Talks Over Leasing Terms

By Esther Fung

Mall tenants are asking for more concessions from landlords facing pressure to fill their properties.

Retailers, food and beverage operators, and department-store chains looking to renew leases have been asking for more allowances from mall owners for renovations, lower rents or more flexible terms, said landlords, brokers and real-estate lawyers.

Tenants are taking advantage of a grim outlook for U.S. mall landlords. Store closure announcements have accelerated this year, with Credit Suisse Group AG expecting more than 8,600 in 2017, up from 2,056 in 2016. There has been a rise in the number of bankruptcy filings by retailers, and even healthy ones are looking to shrink store numbers and boost their online presence.

That, in turn, is weighing on retail property owners, especially those operating lower-tier malls or strip centers that might find it tougher to retain tenants or find new ones.

Express Inc., a Columbus, Ohio-based apparel retailer, said 50% of its leases are coming up for renewal in the next three years and it will focus on lowering occupancy costs to reflect traffic declines.

"We're going to continue to create more flexibility than we have today with our leases. And if we can't get the rents we need, we will close stores. And we will be very disciplined with our negotiations with the landlords," said Express Chief Operating Officer Matthew C. Moellering during a recent earnings call.

Restaurants in particular appear to be wielding more influence.

Eateries typically ask for more tenant allowances than, say, apparel retailers, to pay for the higher upfront investments for kitchens, air-conditioning, plumbing and ventilation equipment. Now, they are cranking up demands even further.

"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?"

SCOTT OLSON/GETTY IMAGES

P.F. Chang's finance chief says it is getting better rental rates.

MARKETS

Treasury Proposes Bank-Rule Shift

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 toward 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.

Marcus Stanley, policy director 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."

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.

Administration officials said their focus was on helping small and midsize lenders, as opposed to larger ones that might be considered "too big to fail" without a taxpayer bailout. But the report's 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 making mortgage loans. Officials would open certain regulatory exams, such as "stress tests" and "living wills," to a formal notice-and-comment process—a change that 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. 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 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 an increase in the $50 billion asset threshold at which big banks face stricter rules under Dodd-Frank, 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 takes a different approach in some areas, for instance by endorsing the principles behind the so-called Volcker rule 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.

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 high bar amid partisan tensions on Capitol Hill.


CHIP SOMODEVILLA/GETTY IMAGES

U.S. Treasury Secretary Steven Mnuchin told a House panel, 'We tried to have the right balance.'

Potential Victory For Banks on Capital

The Treasury Department's proposals offer banks potentially significant relief when it comes to how much capital they must hold. Here are some areas where banks could gain.

Leverage Ratio—Current rules say the biggest banks must hold capital equal to at least 5% of their total leverage exposure, a broad measure of their total assets and exposures. Treasury is proposing banks be allowed to exclude some holdings from that measure, namely cash deposited at central banks, Treasury debt and some money held at clearinghouses for derivatives.

That change would boost leverage ratios. The higher they go, the more likely a bank is to be able to return more capital to shareholders.

Operational Risk—Bankers say that among the most onerous requirements they face is one that forces them to effectively hold capital against possible "operational" losses. These are losses that could come not from things such as loan defaults, but from the banks' own actions. Those could include fines or big legal settlements.

Treasury says that a "more transparent, rules-based approach should be used in the calculation of operational risk capital." Capital required for such risks would be more in line with recent actions and could be reduced if banks take measures to reduce that risk.

G-SIB Surcharge—The largest "global systemically important banks," known as G-SIBs, are required by U.S. regulators to hold an additional capital buffer on top of their other requirements.

The Treasury proposes that this standard be "recalibrated," in part to reflect the fact that these banks don't rely as much on short-term funding.

Again, that could free up capital that could be returned to shareholders.

Stocks Gain As Tech Rebounds

By Riva Gold and Akane Otani

A recovery in the shares of technology companies helped lift U.S. stock indexes Tuesday.

TUESDAY'S MARKETS

The tech-heavy Nasdaq Composite turned up again after Monday's selloff in technology stocks had dragged the index to its worst two-session point decline since September.

The Dow Jones Industrial Average added 92.80 points, or 0.4%, to 21328.47 Tuesday, for a fresh closing record. The S&P 500 gained 0.5% to 2440.35, also a record. The Nasdaq Composite rose 0.7%.

The Stoxx Europe 600 gained 0.6% to 388.75. On Monday, it had posted its lowest close since April.

Some investors said they weren't surprised to see U.S. stocks rebound quickly. Corporate earnings have been strong, especially for technology companies, which has helped the stock market keep climbing this year. That has in turn led many investors to view pullbacks as buying opportunities, rather than a reason to retreat.

Shares of companies that slid in the previous two sessions bounced back Tuesday. Apple rose 0.8% by late afternoon, Facebook gained 1.5%, Google parent Alphabet added 0.9% and Microsoft rose 1.3%.

The U.S. dollar and government bonds steadied as the Federal Reserve began a two-day policy meeting that is expected to end with an increase in interest rates.

The WSJ Dollar Index, which tracks the dollar against a basket of 16 currencies, was down 0.2%, while the yield on the 10-year U.S. Treasury note edged down to 2.206%, from 2.215% Monday. Yields fall as bond prices rise.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

Email: heard@wsj.com WSJ.com/Heard

China Girds For a Fed Rate Rise

China has spent the past two months bomb-proofing its financial system for the Federal Reserve.

As the U.S. central bank prepares for a likely rate increase on Wednesday, those fortifications look solid—but investors shouldn't rule out further money-market volatility. Higher short-term dollar rates have a way of kindling outflows from China.

The recent fixed-income selloff, largely engineered by the central bank, has actually helped policy makers kill two birds with one stone.

Regulators under intense pressure to show progress on "deleveraging" can point to lower bond-market leverage as evidence of success. And by squeezing hot air out of the bond market, the central bank has lowered the chances of another disorderly bond-market selloff. 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 approvals frees up liquidity that would otherwise head into stocks.

The yuan's unexpected surge against the dollar in late May, likewise facilitated by the central bank, also signals that betting against China's currency is risky.

Another round of 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*

AIB's New Listing Is Fresh Start

Allied Irish Banks offers investors a good chance to ride the Irish Republic's strong economic recovery, but it comes with just one snag: a still-large chunk of bad loans left over from the hard years.

AIB, as the lender is known, is returning to the stock markets after having been bailed out in the crisis with taxpayers' money. Its initial public offering was launched on Monday evening with a range of €3.90 to €4.90 ($4.37 to $5.49) a share and it will be listed in London and Dublin on June 23.

That range is equivalent to a multiple of tangible book value for the end of 2017 of 0.82 to 1.03 times, and a price/earnings ratio of 10.6 to 13.3 times. On the first measure, even at the top of the range, AIB is cheaper than similar, retail-focused European banks such as **Lloyds Banking Group** in the U.K., or **ABN** and **ING** in the Netherlands.

But on the earnings multiple, it will be at a premium to both Lloyds and ABN, which trade at multiples of less than 10 times, according to Berenberg analysts.

There is good potential value here: The key question for investors is how to balance AIB's current capital surplus against the costs of cutting its bad assets. One of the bank's main promises is that it will have capital to spend on share buybacks as well as growing its normal dividends over the next three to five years.

Even on a conservative basis, the prognosis is good. AIB wants to cut its total bad assets as a share of customer loans to a level in line with the European average of 5%, from the current 22%. That means shedding almost €11 billion of assets. Conservatively, this could lead to extra loss provisions of about €1.1 billion over three to five years, which matches the value of excess capital AIB holds today.

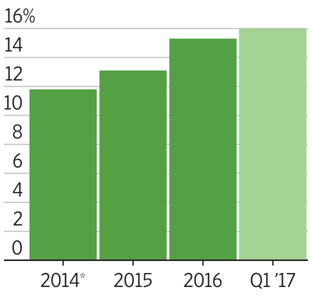
But over the next three years, it should retain about €1.8 billion in profits even if it steadily lifts its normal dividend to pay out 50% of earnings by the third year. All of those profits should be excess capital, especially if Irish customers continue to repay existing loans more rapidly than AIB can make new ones for now.

Ireland's economy is forecast to grow at twice the rate of the wider eurozone for the next three years. So long as AIB continues to be as good at working out its bad assets as it has been in the recent past, the bank should give investors a healthy return.

—*Paul J. Davies*

Capital Gains

Allied Irish Banks' common-equity Tier 1 ratio, fully applied



*Adjusted for preference shares
Source: the company
THE WALL STREET JOURNAL.

AGENCE FRANCE-PRESSE/GETTY IMAGES

An Allied Irish branch in Dublin

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.

A Bright Idea for GE's New Boss: Sell the Lighting Unit

Which **General Electric** division will incoming Chief Executive John Flannery sell first? Lighting is a strong contender, judging by the surprising popularity among investors in its peers.

This isn't a new idea: Rumors of a disposal have resurfaced periodically for years. Most recently, The Wall Street Journal reported in April that the conglomerate was interviewing investment banks to sell its consumer-lighting unit for around $500 million. The company confirmed it was "beginning conversations with prospective buyers" at an employee event last week.

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. In what a Goldman Sachs Group report last year called "one of the fastest technology shifts in human history," light-emitting diodes are taking over from incandescent, halogen and other lighting devices, helped by sharply declining prices and environmental regulations.

One problem with LED bulbs, from a manufacturer's perspective, is that they can last 10 times as long as halogen bulbs. With a much slower replacement market, sales are likely to start declining in 2020, calculates brokerage Citi. The other problem is the aggressive expansion of Chinese manufacturers, which explains why LED prices have fallen so sharply in recent years. The combined market share of the big four developed-market lighting companies—for decades Philips, GE, Osram and Panasonic split the market—fell from 21% in 2010 to 19% in 2015, according to Deutsche Bank.

Seemingly energized by independence, Osram has responded by going high tech. Its 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, including both conventional and LED bulbs, to a Chinese lighting company and two co-investors last year.

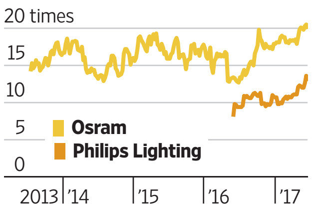
Philips chose the opposite path, spinning out its structurally challenged consumer business as Philips Lighting while selling the higher-growth automotive division, Lumileds. The latter got a punchy offer from China, but this was blocked by a U.S. national security panel, forcing it to fall back on a cut-price sale to private-equity firm Apollo.

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 the IPO as investors have bought into its high cash flows and generous dividends; floated at eight times earnings, it now trades at 13. GE needs to exploit investors' newfound appetite for profitable decline while it can.

—*Stephen Wilmot*

Illuminating

Forward price/earnings ratios since IPOs



Source: FactSet
THE WALL STREET JOURNAL.