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# Uber Chief Resigns Under Duress

Travis Kalanick exits following investor letter questioning his ability to make changes

By Greg Bensinger

Uber Technologies Inc.'s co-founder and chief executive, Travis Kalanick, has resigned after a group of investors pressured him to step down following a bruising six months of scandal and setbacks, marking a stunning turnabout for one of Silicon Valley's highest-flying startups.

Mr. Kalanick, 40 years old, handed in his resignation Tuesday, a spokesman said. Several investors pushed Mr. Kalanick to resign, people familiar with the matter said, to help turn around the company as it works to battle allegations that it has a workplace permissive of sexual harassment and sexism.

Uber has no replacement for Mr. Kalanick and is running without financial and operating chiefs and other key executives after several recent departures, including one of the CEO's top deputies who was pushed out last week by the board.

"I love Uber more than anything in the world and at this difficult moment in my personal life I have accepted the investors request to step aside so that Uber can go back to building rather than be distracted with another fight," Mr. Kalanick said in a statement Tuesday.

A group of investors on Tuesday banded together in a bid to oust him, according to people familiar with the matter. They sent a letter to Mr. Kalanick expressing their doubt about his ability to implement changes to the company as recommended by the law firm of former U.S. Attorney General Eric Holder following an investigation into workplace culture. The

Please see UBER page A8



## Business Model Is Biggest Problem

By Christopher Mims

ANALYSIS

Memo to Uber Technologies' next chief executive: The problems there may be bigger than you think.

Uber is currently trying to put out the fire that has culminated in the resignation of co-founder and CEO Travis Kalanick, a decision he made in the face of investor pressure following a damning report on the company's internal culture and missteps in its quest to be first with self-driving vehicles—among other problems.

But even when it steers through that thicket of crises, Uber will have to come to grips with a fundamental vulnerability that is increasingly apparent in its business model. Uber may be great at technology, but unlike in the businesses of Google, Facebook, Apple or Amazon, technology hasn't proven to be a significant barrier to new entrants in ride-sharing. Across the globe, Uber has dozens of competitors, and in many markets they have grabbed the lion's share of ride-sharing demand.

Even if Uber fixes all of its current problems, it seems increasingly unlikely that it can live up to the inflated expectations that come with the nearly $70 billion valuation that has made it the world's most valuable startup. There are barbarians at Uber's gate, and it's

Please see MIMS page A8

## U.K. Parliament Reopens With Less Pomp Than Usual

STEFAN WERMUTH/PA WIRE/ZUMA PRESS

**CEREMONY:** Queen Elizabeth II, left with Prince Charles, laid out Prime Minister Theresa May's agenda at the official reopening of Parliament. The need for hasty arrangements after this month's election, along with the queen's recent birthday celebration, led to a toned-down event. A3

## What's News

### Business & Finance

Uber CEO Kalanick resigned under pressure from investors following months of scandal and setbacks at the ride-hailing firm he co-founded. **A1**

◆ **Toshiba chose** a Tokyo-backed group as preferred bidder in a chip-unit sale that the company hopes can raise about $20 billion. **B1**

◆ **MSCI's decision** to include mainland Chinese shares in its global indexes could prompt changes in how companies are run. **B1**

◆ **Theranos said** it reached a tentative agreement to settle a suit by Walgreens that alleged the blood-test firm breached a contract. **B3**

◆ **Diageo agreed** to buy upscale tequila brand Casamigos for $700 million. **B3**

◆ **Wal-Mart told** tech vendors that they can't run their apps on Amazon's cloud-computing provider. **B4**

◆ **SoftBank is investing** $100 million in a cybersecurity firm run by ex-Israeli cyberintelligence members. **B4**

◆ **Altice's U.S. unit** is expected to start trading Thursday, in what is poised to be one of the biggest U.S.-listed IPOs of the year. **B5**

◆ **PwC is adding** independent directors to its board, an unusual move for a major U.S. accounting firm. **B5**

◆ **Tesla said** an executive on its self-driving technology team left the firm. **B4**

◆ **U.S. home sales** rose in May despite fast-rising prices and tight inventory. **A7**

### World-Wide

◆ **Saudi Arabia's king** named his 31-year-old son Mohammed bin Salman, the country's minister of defense, as his successor. **A1, A4**

◆ **Cybersecurity officials** said investigators had evidence that Russia targeted election systems in nearly two dozen U.S. states. **A1**

◆ **Belgian officials** said a man killed in a Brussels train station tried to use a homemade bomb and had sympathy for Islamic State. **A3**

◆ **Romanian lawmakers** ousted the prime minister after only six months in office following massive anticorruption protests. **A3**

◆ **Queen Elizabeth** unveiled the Conservative government's legislative agenda, confirming Britain's negotiating aim in Brexit talks. **A3**

◆ **Philippine militants** aligned with Islamic State attacked a village and fought security forces in the south of the country. **A5**

◆ **Democrats bemoaned** a loss in a Georgia race that had been seen as their best shot of gaining a House seat before the 2018 midterms. **A6**

◆ **The FBI said** the man who shot GOP lawmakers at a baseball practice didn't appear to have methodically planned his attack. **A7**

◆ **France's Macron** revamped his government, replacing the justice minister who led a centrist party. **A3**

◆ **ISIS bombed** a Mosul mosque where the group declared a caliphate. **WSJ.com**

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




# Saudi Monarch Upends Succession

DUBAI—Saudi Arabia's King Salman designated his son as his successor, paving the way for the young, aggressive prince to assume the throne at a time when the kingdom is facing tumultuous change at home and intensifying rivalries in the Middle East.

*By Nicolas Parasie, Margherita Stancati and Summer Said*

The new crown prince, Mohammed bin Salman, is the elderly monarch's 31-year-old son and minister of defense. His influence soared when his father became king in early 2015. He then set about leading an ambitious economic overhaul to reduce the kingdom's dependence on oil and to usher in a more muscular Saudi foreign policy in the region.

Prince Mohammed bin Salman succeeds Prince Mohammed bin Nayef, a nephew of the king, who was stripped of all his posts, including interior minister. His ouster effectively ends the political career of a royal who was one of Washington's most trusted partners in fighting terrorism and was widely praised for combating the threat from al Qaeda in the kingdom.

President Donald Trump in a phone call with Prince Mohammed bin Salman on Wednesday congratulated him and discussed the "priority" of ending support for terrorism and how to resolve the political crisis pitting Saudi Arabia against Qatar, according to a White House statement about the call.

The two also discussed how to reach "a lasting peace" between Israel and the Palestinians, the statement said. Jared Kushner, a top adviser and son-in-law to Mr. Trump, is in Israel to meet with Prime Minister Benjamin Netanyahu on the same subject. Mr. Kushner will also meet with Palestinian Authority President Mahmoud Abbas and his senior advisers in the West Bank city of Ramallah.

As next in line to the throne, Prince Mohammed bin Salman could become a rarity: a young Saudi king. The 81-year-old King Salman and his predecessors have taken power as septuagenarians or octogenarians, with little incli-

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SAUDI PRESS AGENCY/EUROPEAN PRESSPHOTO AGENCY

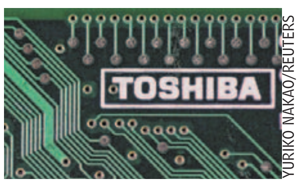
**The new heir, left, kisses the hand of the cousin he replaced.**



## INSIDE

PRIVATIZING AIR-TRAFFIC CONTROL

THE MIDDLE SEAT, A12




YURIKO NAKAO/REUTERS

CHIP UNIT SALE RAISES CHINA FEARS IN JAPAN

BUSINESS & FINANCE, B1

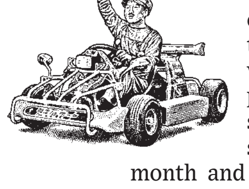
## Japan Wants Tourists, Except Those In Mario Costumes Driving Go-Karts

* * *

A tourist boom is catering to a Western conception of Japanese culture

By Alastair Gale And River Davis

TOKYO—On their recent honeymoon in Japan, Jason and Nicole Francis savored the temples of the ancient capital of Kyoto and unwound at a resort with a private hot spring. Later they dressed up as a lime-green dinosaur and an Italian plumber and sped through the streets of Tokyo in go-karts.



"I picked Yoshi because I always pick Yoshi in the game," said Mr. Francis, a 35-year-old emergency-services worker in New Jersey, explaining his decision to don the dinosaur costume.

The game is Mario Kart, a racing challenge from Japan's Nintendo Co., introduced a quarter-century ago and now played on videogame consoles globally. A new business here takes advantage of Mario Kart's popularity and loose regulations on go-karts to offer self-driving tours of Tokyo and other cities, with costumes of characters from the game provided. The company, MariCar, says it books thousands of trips a month and most of the customers are non-Japanese.

It's part of a tourism boom that is changing the face of the world's third-largest economy. Many businesses are selling a slice of what foreigners perceive as authentically Japanese. But while visitors are en-

Please see MARIO page A2

## Moscow Targeted 21 U.S. States In Election

By Byron Tau And Erica Orden

WASHINGTON—Russian government hackers targeted voting systems in nearly two dozen states, seeking vulnerabilities to exploit in future elections and aiming to undermine public faith in the integrity and legitimacy of U.S. democratic elections, current and former U.S. officials testified Wednesday.

The House and Senate intelligence committees held simultaneous hearings on alleged Russian meddling, offering the public new details about the extent, scope and federal response to threats to the integrity of U.S. election systems.

Three current officials with the Department of Homeland

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CAPITAL ACCOUNT | By Greg Ip

# The U.S. Needs Amazons, but Mostly Has GEs

When **Amazon.com** Inc. announced Friday it was buying Whole Foods, the stock market got a taste of something long missing: volatility.

The turmoil, however, was confined to retail. While the two companies' stocks rose sharply and their competitors' tanked, the rest of the market remained placid. Indeed, months of historically low market volatility has begun to look like dangerous complacency.

Yet there is another, potentially more troubling explanation: stagnation. Muted markets may be the inevitable product of steady, sluggish growth, low and predictable interest rates, declining business startups and failures, and decreased competition. In other words, the problem is, there aren't enough Amazons disrupting the stock market and the economy.

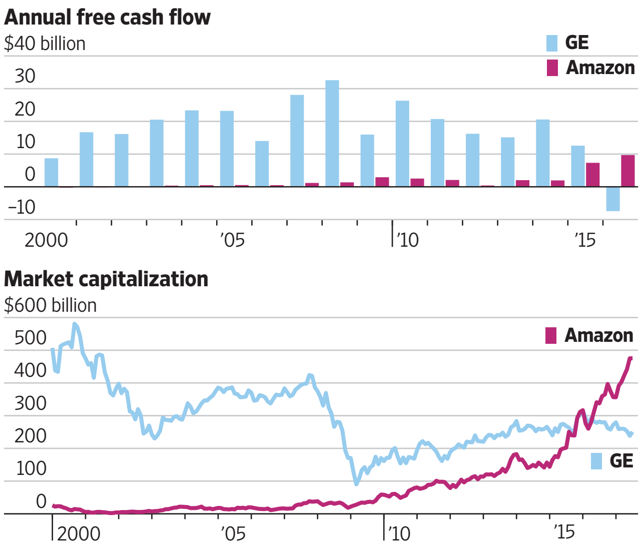
Since Jeff Bezos founded Amazon in 1994, he has put expansion and innovation ahead of profit. In its early years, free cash flow—cash from operations minus capital spending—hovered around zero. Mr. Bezos approaches new products like a venture capitalist. Many will flop (like the Fire smartphone), but some will be home runs (such as Amazon Web Services, its cloud computing arm).

Amazon launched Prime, which offers free delivery in exchange for an annual fee, in 2005. John Blackledge, an analyst at Cowen & Co., notes Amazon has repeatedly innovated in ways that make Prime even more valuable to subscribers: the Kindle e-book reader lending library, streaming video and music, discounted access to FreeTime, which offers children's books, games and media content, and Amazon Family, which offers discounts on baby products. Innovation is also exceptionally rapid. Mr. Blackledge says Prime Now, which offers same-day delivery, launched in New York in less than four months after conception without so much as a focus group.

Amazon is now profitable, yet cash retention remains secondary to retaining customers. Asked by an analyst in April whether Alexa, a voice-activated assistant, was boosting sales, the company's finance chief, Brian Olsavsky responded: "The monetization, as you might call it, is…not our primary issue right now. It's about building great products and delighting customers."

## The GE Way vs. the Amazon Way

General Electric has long generated copious 'free' cash flow (i.e., after capital spending) but Amazon's focus on investment has been better for shareholders.




Source: FactSet

THE WALL STREET JOURNAL.

If Amazon is one extreme in how companies invest, **General Electric** Co. is the other. It has long been fastidious about capital and cash deployment. On its last quarterly earnings call, the company meticulously laid out profit growth by product and business segment, the sources of margin improvement, cost savings anticipated from specific restructuring moves—even how five uncollected aviation accounts were affecting profit.

Chief Executive Jack Welch perfected this approach in the 1990s, and it continued under his successor, Jeffrey Immelt. Last week, Mr. Immelt said he would retire, after 16 years struggling to restore growth. In part, that reflected how financial engineering had inflated profits under Mr. Welch. Yet Mr. Immelt's investment decisions too often chased the conventional wisdom on Wall Street and in Washington. Thus, GE Capital bulked up on residential mortgages and commercial real estate in the run-up to the financial crisis. From 2010 to 2013, the company announced many acquisitions in oil and gas services, only to see the price of oil crash, taking orders with it.

Growth is hard for any company that dominates its markets as much as GE does. GE's size also attracts debilitating political scrutiny. Its proposed acquisition of Honeywell was derailed by European antitrust regulators just before Mr. Immelt took over. It took 18 months for Mr. Immelt's purchase of Alstom's power business to clear regulatory barriers. GE Capital after the financial crisis became the poster child of dangerous, unregulated finance. In response to new regulations and pressure from Wall Street, Mr. Immelt largely dismantled the business.

Investors still want GE to return cash to shareholders, and it has obliged, spending $79 billion on share buybacks and dividends between 2012 and 2016 compared with $50 billion of capital expenditures. Indeed, for two years, cash flow of U.S. corporations has exceeded capital spending. Much of the difference has gone into buying back stock.

Yet while good for shareholders in the short run, this is no recipe for growth in the long run. GE's cash flow is shrinking despite the company's focus on preserving it, while Amazon's is growing despite that company's readiness to spend it.

Amazon is clearly not a template for most companies. Defying conventional wisdom usually fails, which is why for every successful long shot like Amazon there are hundreds if not thousands of failed startups. Amazon has come near death more than once, and may again. Moreover, the larger it gets, the more it will bump against the constraints of size, such as antitrust concerns. As for GE, a history of reinvention suggests it is more likely to be around in 125 years than is Amazon. Given investors' tendency to go to extremes, now may be a bad time to buy Amazon shares, or sell GE's.

Yet the country as a whole badly needs some rules-defying risk-taking. For business, that means a bit more Amazon in the boardroom and a bit less GE.

# RUSSIA

*Continued from Page One*

Security and the Federal Bureau of Investigation documented the scope of the Russian intervention in testimony before the Senate panel, revealing for the first time the number of state election systems targeted by Russian actors. The officials said no evidence existed to suggest vote tallies were changed, and that much of the data targeted was voter-registration information.

"As of right now, we have evidence of election-related systems in 21 states that were targeted," said Jeanette Manfra, the acting deputy undersecretary for cybersecurity and communications at DHS. It was the first time a government official had publicly quantified the number of states targeted by the hacking.

*U.S. officials say they have evidence voter-registration data was sought.*

Ms. Manfra didn't make clear whether those penetration attempts were successful, nor did she name any of the 21 states in question—citing the privacy rights of entities that contacted the DHS for help on cybersecurity-related issues. Only a few states—including Arizona and Illinois—have publicly acknowledged that their systems were targeted.

Ms. Manfra testified along with Samuel Liles, another DHS official who runs the cyber division of the office of intelligence and analysis at the agency, as well as Bill Priestap, assistant director of the FBI's counterintelligence division.

"I think the primary goal was to sow discord and to try to delegitimize our free and fair election process," Mr. Priestap said of the Russian effort. Moscow's secondary purpose was to "denigrate" Democratic presidential candidate Hillary Clinton and boost President Donald Trump, he said.

In the House committee, former DHS Secretary Jeh Johnson said the Obama administration was reluctant to alert the public to the Russian hacking efforts last year because officials wanted to avoid the appearance of taking sides in the election.

Mr. Johnson also said the joint DHS and Office of the Director of National Intelligence statement in October that the U.S. intelligence community was "confident that the Russian Government directed the recent compromises of emails from US persons and institutions, including from US political organizations," was reduced to "below the fold" news by the emergence that day of the "Access Hollywood" tape featuring lewd remarks by then-candidate Trump.

The U.S. intelligence community has determined that Moscow ran a campaign designed to help Mr. Trump win the presidential election. The Russian campaign, according to U.S. officials, included cyberattacks on the email accounts of senior Democrats and a propaganda effort aimed at demonizing Mrs. Clinton.

The Russian government denies the allegation. The White House has said the Trump campaign didn't collude with any alleged Russian meddling.

Mr. Johnson said the Democratic National Committee, which had a trove of emails stolen and published on WikiLeaks, and several states rejected DHS's offer of assistance last summer.

"In retrospect, it would be easy for me to say that I should have bought a sleeping bag and camped out in front of the DNC," Mr. Johnson said.

Still, Mr. Johnson said, "I know of no evidence that through cyberintrusions, votes were altered or suppressed in some way."

*—Rebecca Ballhaus contributed to this article.*

## Amid Legal Issues, Ronaldo Keeps His Head

FRANCOIS NEL/GETTY IMAGES

**WORLD CUP REHEARSAL: Cristiano Ronaldo, center left, scored on a header in Portugal's 1-0 win over Russia in Moscow at the Confederations Cup. The soccer star this week was summoned to court in Spain over tax-fraud allegations. He has denied any wrongdoing.**

# MARIO

*Continued from Page One*

joying thrill rides in city streets, plucking off cherry-blossom branches for souvenirs and taking selfies in rented polyester kimonos, some locals are not amused.

"They really are a nuisance," said Akio Arinaka, a Tokyo-based taxi driver in his 60s, of the costume-clad MariCar riders. "When I see them driving close by it's scary, especially since they drive in large groups."

Over 24 million foreign tourists visited Japan last year, nearly double the level two years earlier. The government has set a goal of attracting 40 million visitors a year—almost one-third of the national population—by the time Tokyo hosts the Summer Olympics in 2020.

The influx raises an array of challenges for Japan, where English isn't widely spoken. The country's high-tech toilets, for instance, often mystify tourists who have trouble distinguishing between functions such as the bidet and seat warmer. Earlier this year, makers of the seats said they would standardize the icons to reduce mishaps.

Most visitors are from elsewhere in Asia, with Chinese making up one of the biggest contingents. Locals recoil at videos of Asian tourists shaking cherry trees to create a snow-flurry effect from falling blossoms. Ahead of the flowering season last year, when many Japanese gather for picnics under cherry trees, the Chinese Embassy in Japan published an advisory on its website asking tourists not to climb boughs or break off branches.

In Kyoto, the kimono industry has mushroomed as new businesses have cropped up offering cheap, bright-colored versions of the garment for daily rental. Keiko Enomoto, who runs a kimono store in Kyoto, is not impressed. She calls some of the newer rentals "awful" and "too gaudy."

Many visitors are drawn to the tech-infused side of Japanese popular culture, says Tim Oakes, Australia branch manager for InsideJapan Tours. One of its most popular group tours is the 11-day "HyperJapan J-Pop & Go!" trip, fully booked in several of the coming months. The tour includes visits to a restaurant with a futuristic cabaret show of semi-erotic dancing robots and a museum for animation producer Studio Ghibli.

Japan is synonymous with videogames for many younger visitors, including Natasha Adamo-Parker, a 29-year-old nurse and self-declared Mario Kart obsessive from Australia. She joined a recent MariCar ride and said the experience topped skydiving and bungee jumping. "What is so surreal is that within the strict culture of Japan you get to do this wild thing," Ms. Adamo-Parker said.

Groups of MariCar drivers have become a common sight in downtown Tokyo, zipping through the shopping district of Shibuya or across Rainbow Bridge in Tokyo Bay. Videos of MariCar riders spotted in Tokyo have been posted online by visiting celebrities Kim Kardashian and Hugh Jackman.

Rides are led by a guide and participants are asked not to race each other or throw banana peels or other items from the game onto the street.

A spate of minor accidents, including one in which a go-kart driver hit a police station, has led to calls for tighter regulation by taxi drivers and others who have questioned the go-karts' safety. Drivers aren't required to wear seat belts or helmets, and the karts are treated similarly to mopeds under Japanese traffic laws.

Customers must possess a valid local or international driving license. MariCar said in May it would cooperate with a police request to tighten safety procedures, including by banning the use of smartphones while driving. Kazuki Omura, manager of one of the Tokyo branches of MariCar, said customers are given a safety briefing and their driving skills are checked before they drive.

MariCar offers costumes of game characters including Yoshi the dinosaur. Many drivers pick the main character, a portly plumber named Mario who has become an iconic Japanese figure even though he is nominally Italian. At the closing ceremony for the Olympics in Brazil last year, Japanese Prime Minister Shinzo Abe appeared dressed as Mario.

JASON AND NICOLE FRANCIS

**Jason and Nicole Francis from New Jersey, in the front row, during a MariCar ride in Tokyo in May.**

## CORRECTIONS & AMPLIFICATIONS

**Pathmatics estimated** that spending on certain YouTube ads rose 50% to an estimated $739 million in the period from March 15 to June 13 compared with a year earlier. A Technology article Wednesday about YouTube advertising incorrectly said such spending fell by 50%.

**The Wall Street Journal**/Times Higher Education U.S. College Rankings for 2016, published on Sept. 28, 2016, have been revised in response to a correction made by the U.S. Department of Education of its loan-repayment rate data. These loan repayment data were a component of the WSJ/THE college rankings. The revised rankings remove loan-repayment data from the calculation, resulting in revised overall rankings and revisions in the Outcomes category of the rankings. In addition, the revised ranking includes corrections to the Resources category for 20 colleges. Those errors were caused by a WSJ/THE calculation error. The revised rankings are available online at on.wsj.com/college-rankings-2016.

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

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# WORLD NEWS

# Belgians Say Slain Bomber Acted Alone

Officials say failed attacker sympathized with Islamic State; travelers escape injury

By Valentina Pop And Julian E. Barnes

A soldier patrolled Wednesday outside the rail station where Moroccan terrorist suspect Oussama Zariouh was shot dead a day earlier.

EMMANUEL DUNAND/AGENCE FRANCE-PRESSE/GETTY IMAGES

BRUSSELS—Belgian authorities said that a 36-year-old Moroccan man shot dead by a soldier in a Brussels train station tried to use a homemade, nail-packed bomb and had sympathy for Islamic State.

Prosecutors on Wednesday said the suspect in the attack, which caused no casualties, had no previously known links to terrorism and had acted alone. They said chemicals and materials found at his apartment suggested he made the bomb.

The prosecutors said they had indications the suspect had sympathy for Islamic State, but provided no further details.

An official briefed on the investigation identified the suspect as Oussama Zariouh. Other officials, who identified him officially only as O.Z., said he had lived in the Brussels neighborhood of Molenbeek since 2013 and had been investigated for drug-related crimes.

Officials said that while the man wasn't considered high-risk by Belgian authorities, he had communicated with other self-radicalized individuals. Those contacts weren't with people considered dangerous terror suspects, one official said, although U.S. and Belgian intelligence agencies are investigating whether he communicated with other, higher-ranking suspects.

Eric Van Der Sypt, a spokesman for the prosecutors, declined to comment on any ties to a broader network.

The Brussels attack, by a suspect without previously known ties to extremist groups acting alone and targeting a public space near a tourist area, had echoes of other recent terror attacks in Europe.

Islamic State, U.S. and European officials said, has been emphasizing for the past year and a half that radical jihadists in Europe shouldn't come to the Middle East to fight, but should instead remain at home to carry out attacks.

Offering new details of the Tuesday night attack, officials said the man entered Brussels Central Station at 8:39 p.m. and approached a group of passengers before grabbing his suitcase, shouting and causing a small explosion.

No one was hurt in the initial blast, but the suitcase caught fire. The man then fled, leaving the suitcase, and ran downstairs, prosecutors said

The abandoned bag exploded in what prosecutors described as a second, more violent blast. The man returned to the hall where the explosion occurred, rushing a soldier and shouted "Allahu akbar," Arabic for God is great. The soldier fired several times, killing the suspect, prosecutors said. His body then lay there for hours as the Belgian military bomb squad examined the scene for undetonated explosives.

"It's clear he wanted to do more damage than he did. He tried to set off the luggage, which exploded a second time, so it could have been much worse," Mr. Van Der Sypt said.

The man lived in Molenbeek, the Brussels neighborhood where a number of terrorists connected to the Paris and Belgium attacks were based, authorities have said. Police raided the man's home on Tuesday night, officials said, and other searches were conducted in Molenbeek on Wednesday.

Police conducting the raid on Zariouh's apartment in a small, redbrick townhouse took away a laptop, a phone and a tablet computer and hard drive, witnesses and officials said. Officials briefed on the investigation said such electronic devices could provide more clues about his contacts before the attack.

U.S. officials said they have offered assistance, as is standard practice, in analyzing any electronic devices recovered in the investigation.

Several of the apartments in the building were raided, a bomb squad was on site and police took in for questioning at least one resident, who was later released.

Mustafa Er, a spokesman for Molenbeek town hall, said the suspect was self-employed and had come to Belgium in 2002 and lived in other towns before moving to Molenbeek. Neighbors said they didn't see much of Zariouh.

"He…had a petty criminal past in connection to drugs," said Annalisa Gadaleta, a local councilor in Molenbeek, who added that the community was now awaiting the result of the investigation and whether Zariouh had connections to other groups.

Ms. Gadaleta highlighted the difficulty of tracking people who self radicalize and aren't known to authorities. More than 100 radicalized suspects listed by national authorities live in Molenbeek, although Zariouh wasn't on that list, Ms. Gadaleta said.

*—Natalia Drozdiak contributed to this article.*

# Romania Leader Fired Over Graft

By Drew Hinshaw

Romania ousted its prime minister of only six months, dissolving a government that was knocked off balance by one of Europe's biggest anticorruption movements.

A majority of 241 lawmakers in the 428-seat Parliament on Wednesday voted no confidence in Prime Minister Sorin Grindeanu, who took office in January. The key votes came from his own Social Democratic Party, which has become so frustrated with his leadership that it expelled him from its member list last week.

Within days, Parliament is expected to form the fourth government in two years.

Corruption protests have become a recurrent threat to Romanian governments. Mr. Grindeanu's fall from power began in February with Romania's largest demonstrations since the fall of communism. More than 250,000 protesters marched through snow-packed streets against a ruling party ordinance that would have restricted prosecutors from investigating public officeholders for corruption.

That ordinance was crucial to the leader of Mr. Grindeanu's party, Liviu Dragnea, who is under indictment for abuse of office. Mr. Dragnea says he is innocent, and his party argues that increasingly exhaustive corruption investigations—partly funded by the European Union—have made governing Romania too difficult.

Still, days of protests pushed Mr. Grindeanu to withdraw the ordinance. That move freed prosecutors to keep pursuing corruption cases against the ruling party.

But it also sparked a rivalry with Mr. Dragnea, who first nominated the then-obscure Mr. Grindeanu as prime minister in December, telling reporters, "I wanted a man I could trust."

Since then, bribery, abuse of office, and favoritism cases have piled up against Romanian political leaders and Mr. Dragnea has grown critical of Mr. Grindeanu. The friction between the two has proven untenable, and all but three of Romania's 27 ministers resigned before the vote.

Romania—the fastest-growing economy in Central and Eastern Europe over the past five years—is in a protracted political deadlock over how seriously to tackle corruption.

Since November 2015, anticorruption protests have flared regularly in the capital. Each of the past three governments were ushered into—or out of—power by such a protest.

The ruling party, which lost power in 2015 and regained it last year, has tried to refocus public attention onto popular benefit programs. Starting next year, Mr. Dragnea's party hopes to raise public wages by 25%, a $2 billion expenditure that would reward his political base of aging rural voters.

But that program has been delayed as protesters—primarily in urban centers, home to some of Europe's fastest-growing wages—push for a crackdown on corruption. Many have been enticed home from Western Europe by rising wages, and a chance to reform an ex-communist dictatorship into something closer to the standard of governance they feel they experienced abroad.

"More and more people look at Europe, look at the U.S., and understand it's not like the '90s, when your entire dream was 'how do I get out of here,' " said Laura Stefan, a former director in the Romanian Ministry of Justice. "Now, Romania is a country worth fighting for."


Prime Minister Sorin Grindeanu in Parliament on Wednesday, before the vote of confidence that led to his removal.

VADIM GHIRDA/ASSOCIATED PRESS

# French Justice Minister Resigns

By William Horobin

PARIS—Emmanuel Macron revamped his government, sidelining centrist allies buffeted by an expenses probe that contrasts with the new French president's push for probity.

Mr. Macron made the most senior change on Wednesday, replacing justice minister François Bayrou, the founder and leader of the centrist party Mouvement Démocrate, known as MoDem. Defense minister Sylvie Goulard and European affairs minister Marielle de Sarnez—both members of MoDem—were also left out of the new government.

The ministers said they chose to leave after French prosecutors on June 9 launched a preliminary probe into allegations MoDem lawmakers at the European Parliament wrongfully used European funds to employ people working for the party as parliamentary assistants.

MoDem has denied any wrongdoing.

Mr. Bayrou's departure deprives Mr. Macron of a senior figure of French politics who rallied centrist voters to his successful election campaign.

Mr. Bayrou backed Mr. Macron in February, saluting the presidential candidate's promise to clean up politics after a series of expense scandals dogged rivals in the presidential race.

At the time, Mr. Bayrou's support boosted Mr. Macron's poll numbers, securing his position as front-runner in the presidential election.

After winning the presidential election in May, the backing of MoDem gave Mr. Macron an experienced party apparatus as he scrambled to recruit candidates for legislative elections.

But Mr. Macron's party La République En Marche, made up mainly of political neophytes, defied early expectations by winning an outright majority in the election.

# Queen Lays Out May's Two-Year Agenda

By Jenny Gross


Queen Elizabeth II and Prince Charles, in the distance, presided over the opening of the new Parliament.

CARL COURT/PRESS ASSOCIATION/ZUMA PRESS

LONDON—Queen Elizabeth II unveiled the Conservative government's legislative agenda in a speech that confirmed Britain's negotiating aim in Brexit talks and set out the government's intention to come up with a new counterterrorism strategy after a spate of recent attacks.

In a ceremony on Wednesday marking the official reopening of Parliament after the election this month, the queen read out a list of bills that Prime Minister Theresa May hopes to pass in the two years to come, ranging from plans to improve data protection in the wake of a recent cyberattack on the National Health Service to an outline of major bills related to Britain's exit from the European Union, set for March 2019.

Whether Mrs. May can pass the bills through Parliament is another story: Her poor electoral performance has diminished her authority in the legislature. Having fallen short of a majority, her Conservative Party will require support from Northern Ireland's Democratic Unionist Party to pass legislation. After days of discussion the two parties haven't reached an agreement, but talks are continuing.

Mrs. May said earlier that while the election result wasn't one she had hoped for, she would respond with "humility and resolve" to the message the electorate sent her government.

"We will work hard every day to gain the trust and confidence of the British people, making their priorities our priorities," Mrs. May said.

Jeremy Corbyn, leader of the main opposition Labour Party, speaking in Parliament, called the Conservatives' agenda thin and disappointing.

"This is a government without a majority, without a mandate, without a serious legislative program, led by a prime minister who has lost her political authority and is struggling to stitch together a deal to stay in office," Mr. Corbyn said. "We will use every opportunity to vote down government policies that failed to win public support and we will use every opportunity to win support for our program."

To continue as prime minister, Mrs. May will need a majority of Parliament's 650 lawmakers to approve the agenda laid out in the Queen's Speech. Parliament is expected to give Mrs. May only a narrow win in a vote on June 29, suggesting she will likely face difficulties ahead in running a minority government, which are rarities in the U.K. and have tended to be short-lived.

To stay in power, Mrs. May's government will have to rely on cooperation from other parties to pass legislation. Without official support from the DUP, this is unlikely to work in the long term, particularly at a moment of historic change for a country deeply divided over what its new relationship with the EU should look like.

Wednesday's ceremony had less pomp than usual. The need for hasty arrangements for opening Parliament after the snap election, along with the queen's lavish birthday celebration just days ago, led Buckingham Palace to tone down arrangements.

For the first time since March 1974—the last time a minority government took office in Britain—the queen traveled to Parliament in a car rather than in a royal carriage; she wore a day dress, rather than traditional formal robes, and her crown was beside her on a table rather than on her head. The procession around the queen, as she arrived from the palace, was also smaller.

The queen, whose address was written by Mrs. May's team, confirmed the government's plans to convert EU legislation into U.K. law to smooth the transition out of the bloc. The government also plans to implement legislation to establish new national policies on areas including immigration.

The government also said the U.K. would put in place a legislative framework to allow it to operate its own independent trade policy, a signal the government intends not to be subject to the common external tariffs of the EU's customs union.

The speech omitted several policies the party campaigned on, including a key pledge to cut annual migration to tens of thousands from the current level of about 250,000.

THE ROYAL SUCCESSION

# Shuffle Means a More Activist Saudi Arabia

MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

Brace for more turbulence. The dynastic struggle in Saudi Arabia is over, and power—for all practical purposes—is now in the hands of a young generation of princes determined to show the Middle East who's the boss.

Mohammed bin Salman, appointed on Wednesday as the kingdom's crown prince and designated successor to his 81-year-old father, King Salman, is the face of bold changes launched by once staid Saudi Arabia in the past two years.

At just 31 years of age, he is the architect of the bloody war in Yemen, the initiator of painful economic overhauls, the instigator of moves to aggressively counter Iran and, more recently, the catalyst of a Saudi-led regional campaign to isolate tiny Qatar.

His 57-year-old cousin, the now-removed crown prince and interior minister, Mohammed bin Nayef, was widely seen as the voice of caution and experience in the kingdom's halls of power—and a possible check on some of Mohammed bin Salman's rasher moves.

Now that he is gone (and replaced at the interior ministry by a 33-year-old nephew of Mohammed bin Nayef), Saudi Arabia's regional posture is likely to become even more adventurous.

"Mohammed bin Salman is much more willing to use Saudi hyper-nationalism as a way to solidify domestic social change," said Andrew Bowen, a specialist on the kingdom at the American Enterprise Institute, a Washington think tank. "It's a risk when you put a very headstrong, stubborn, impulsive, more nationalist leader in that position compared to Mohammed bin Nayef, who was slow, deliberate and pragmatic."

While Mohammed bin Nayef didn't publicly criticize his young rival, he supported a more traditional Saudi approach of acting behind the scenes and building regional consensus—including in relations with Qatar and Iran.

Mohammed bin Salman—who has developed close ties with the activist de facto ruler of the United Arab Emirates, Mohammed bin Zayed—has by contrast advocated showcasing the kingdom's military and financial might.

NAIF RAHMA/REUTERS

A Saudi-led airstrike left an auto repair shop in flames in the northwestern city of Saada, Yemen.

"Now you are going to see more decisiveness, be it in the war in Yemen or in the recent disturbance of relations with Qatar. The Saudi foreign policy is going to be more open and more dynamic," predicted Ahmad al-Ibrahim, a Saudi political commentator and businessman.

Mohammed bin Nayef, of course, exercised only limited authority outside his internal-security turf in recent months. This means that—despite the consolidation of power in Riyadh—the change in the kingdom's behavior may be less dramatic than many expect, cautioned Saudi analyst Mohammed Alyahya, a nonresident fellow at the Atlantic Council.

"In terms of foreign policy, economic policy and defense, I don't foresee a seismic shift because Mohammed bin Salman has already been in charge of these files for quite some time," Mr. Alyahya said.

Indeed, over the past several months, as Mohammed bin Salman widened his authority with the appointment of young princes to key levers of government (including a younger brother as ambassador to Washington), it increasingly seemed just a matter of time before Mohammed bin Nayef was forced out.

Yet few expected this time to be so short: As the consensus among Western diplomats in Riyadh went, Mohammed bin Salman needed to show some actual achievements before making the move.

With the war in Yemen bogged down, Qatar refusing to capitulate and the House of Saud forced to roll back unpopular austerity measures in April, the only such success has been Mohammed bin Salman's ability to develop an unexpectedly warm relationship with President Donald Trump, who repeatedly bashed the kingdom during last year's campaign.

The prince visited the White House in March, paving the way for last month's high-pomp Riyadh summit at which Mr. Trump seemed to endorse Saudi claims to lead the entire Muslim world. Shortly thereafter, Saudi Arabia and its allies moved against Qatar—securing, at least at first, Mr. Trump's backing.

On Tuesday, however—just hours before the Saudi leadership shake-up—the U.S. State Department issued an unusually strong rebuke of the Saudi and Emirati embargo on Qatar, which houses a major U.S. military base in the region. To many in the Middle East, this was a signal that Saudi leaders may have been overconfident in their dealings with Washington, too.

"I do not see so far that the Trump administration has given the Saudis a blank check," said Riad Kahwaji, CEO of the Institute for Near East and Gulf Military Analysis in Dubai. "It is too early to talk of this as an achievement because we are yet to see what the Trump administration will actually give to the Saudis in the near future."

# A 'Gatekeeper' Is Handed the Keys

## New crown prince has overseen economic overhauls and defense; 'the king trusts him'

By Summer Said
And Michael Amon

Saudi King Salman promoted his son, Mohammed bin Salman, to crown prince, upending the line of succession for Saudi Arabia and putting a 31-year-old a heartbeat away from the throne during a turbulent period of war and change in the Middle East. Here is what you need to know about Prince Mohammed bin Salman.

◆ Known as MbS, Mohammed bin Salman wasn't a widely known figure before his father became king in 2015 and appointed him deputy crown prince and defense minister. He is the eldest son of King Salman's third wife, Fahdah bin Falah bin Sultan. He obtained a bachelor's degree in law at King Saud University in Riyadh and worked for several government bodies before his first prominent national job in 2013, when he was named head of the Crown Prince's Court, with the rank of minister.

◆ In 2015, Mohammed bin Salman took over two of the country's most sensitive portfolios—the economy and defense—before being elevated to deputy crown prince. His promotion passed over scores of older family members, including several prominent half-brothers. Since then he has become the face of the kingdom's ambitious economic overhauls and its war to oust Iranian proxies from Yemen. He speaks to Western media outlets, discussing Saudi Arabia's challenges with a degree of openness unseen before in the kingdom.

SAUDI PRESS AGENCY/ASSOCIATED PRESS

Mohammed bin Salman, left, with Saudi King Salman in April

◆ People close to the Saudi royal court say King Salman sees Mohammed bin Salman as a national figure who represents the kingdom's restless younger generation. Mohammed bin Salman has long worked at his father's side, including as a special adviser when Salman was the governor of Riyadh. "The king trusts him with everything and he sees him as the only one that can truly transform this country. He is the definitely the gatekeeper for the king," a senior Saudi official said.

◆ Mohammed bin Salman has been the driving force behind an ambitious plan to diversify the economy of the world's largest oil exporter. The centerpiece of the program is the public listing of a small piece of Saudi Arabia's state-run oil company, known as Aramco. It could generate as much as $100 billion, which the prince would direct into a new sovereign-wealth fund aimed at encouraging the development of technology and industrial sectors. "By 2020, we'll be able to live without oil," Prince Mohammed said after the plan's announcement in 2016.

◆ As minister of defense, Mohammed bin Salman has overseen Saudi Arabia's Yemen campaign, which began in March 2015 with the aim of countering the Houthi rebels and restoring the deposed president, Abed Rabbo Mansour Hadi, to power. He is also the architect of the Saudi backing of rebels opposed to Syrian President Bashar al-Assad. Mohammed bin Salman was among the first foreign leaders to visit President Donald Trump, forging a warmer relationship with the U.S. after years of tension.

# State Oil Company IPO Plan Buoyed

By Summer Said
And Nikhil Lohade

Mohammed bin Salman's promotion to become crown prince of Saudi Arabia will drive forward his plan to list the kingdom's state oil company and strengthen his mandate to diversify its economy.

The leadership shuffle removes almost all doubt that the Saudi state-run oil company, known as **Saudi Aramco**, will list a portion of its shares publicly—a move driven by Prince Mohammed that has been opposed in parts of the country.

Some people had feared Prince Mohammed's initiatives would stall or end if Mohammed bin Nayef—the crown prince who was replaced Wednesday—became king.

"Those dissenting voices will likely be silenced for now," said Helima Croft, head of global commodity strategy for RBC Capital Markets, in a note to clients on Wednesday morning. "It will be full steam ahead with the planned partial listing of Saudi Aramco."

The Aramco initial public offering has been billed as the most valuable listing ever, potentially fetching as much as $100 billion when it takes place in 2018. Prince Mohammed has pledged to invest much of the proceeds in economic diversification, boosting the country's technological and industrial sectors and reducing its reliance on oil revenue.

Shares in Saudi Arabia's main stock market rose about 5.5% Wednesday after the news of Prince Mohammed's promotion.

In particular, investors were cheered when index compiler MSCI Inc. said it had added Saudi Arabia to its watch list for possible classification as an emerging market as early as 2018—a move prompted in part by Prince Mohammed's reform program.

The prince's ascent comes at a time of general economic strain caused by faltering oil prices, with crude falling into a bear market on Tuesday and down again on Wednesday morning.

The value of the Aramco IPO will largely depend on oil prices, which were below $46 a barrel for Brent crude on Wednesday—25% lower than the $60 the Saudis are privately targeting.

"With the IPO at the center stage, the kingdom needs higher [oil] prices," said Amrita Sen, chief oil analyst at Energy Aspects.

# SAUDI

*Continued from page A1*

nation for robust changes or time to implement them.

"The benefit now is that we have a young leader who has the authority to...plan not 10 years in advance but 40 years in advance and ensure there is institutional continuity going forward," said Mohammed Alyahya, a nonresident fellow at the Atlantic Council, a think tank in Washington.

But while Prince Mohammed bin Salman's ascension signals a generational shift—one that makes the monarchy more reflective of the country's burgeoning youth population—it also risks a backlash within the vast House of Saud.

For much of Saudi Arabia's existence as a nation, the extended families and clans that make up the kingdom's ruling royal family have ruled through consensus. In recent years, however, that has given way to more jockeying for power, influence and wealth as the number of royals has expanded.

Kristian Ulrichsen, a Middle East expert at Rice University's Baker Institute for Public Policy, said the crown prince's success depends on the support he receives from the wider Al Saud family, especially if some of the economic reforms he has sponsored prove controversial.

"Mohammed bin Salman's elevation to crown prince has been on the cards for a while, but still represents an enormous shake-up in Saudi succession dynamics," he said.

Wednesday's appointment wasn't the first time that King Salman had tinkered with the traditional lines of succession.

One of his first acts as monarch was to remove a half-brother as his heir and to appoint two younger princes in the line of succession—Prince Mohammed bin Nayef and Prince Mohammed bin Salman—a change that shocked many royals but was accepted because of the close ties he had cultivated with other members of his extended family over the years.

Still, by appointing his own son as his successor, the 81-year-old King Salman overturns decades of royal tradition. Since the reign of King Abdulaziz Ibn Saud, the founder of the modern Saudi state who came to power in 1932, the throne has passed from brother to brother among his sons.

The upending of the line of succession was endorsed by 31 out of 34 members of the Allegiance Council, a senior Saudi official at the royal court said. The council is composed of senior princes who advise the king on matters of succession.

In a display of royal unity, state television on Wednesday broadcast footage of Mohammed bin Nayef pledging allegiance to his successor. The video showed Prince Mohammed bin Salman kneeling down and kissing the hands of Mohammed bin Nayef, who told his cousin: "May God help you."

The royal shake-up coincides with a political crisis in the Persian Gulf that pits Saudi Arabia and its allies against Qatar. Saudi Arabia is also entangled in a continuing war in neighboring Yemen and is challenging rival Iran for regional sway.

Since following his father into power, Prince Mohammed bin Salman has been the public face of change in the kingdom.

He has introduced austerity measures—some of which were reversed later—to help reduce a budget deficit caused by the drop in oil prices. He has also backed the potential listing next year of state oil giant Saudi Aramco, in part to push the economy toward privatization and greater competitiveness needed to generate jobs for the young and attract foreign investment beyond the oil sector.

The economic pressures have precipitated broader social changes. Long an ultraconservative society where women still can't drive, Saudi Arabia is now embracing significant cultural reforms, staging public concerts and is set to open its first movie theaters, once opposed by the religious establishment.

Some senior officials say the succession move is a sign of other big changes to come.

"It is a highly calculated move to make Saudi Arabia as stable as possible," said another senior Saudi official. "You need this clarity when you have a big ambitious reform plan you want to achieve."

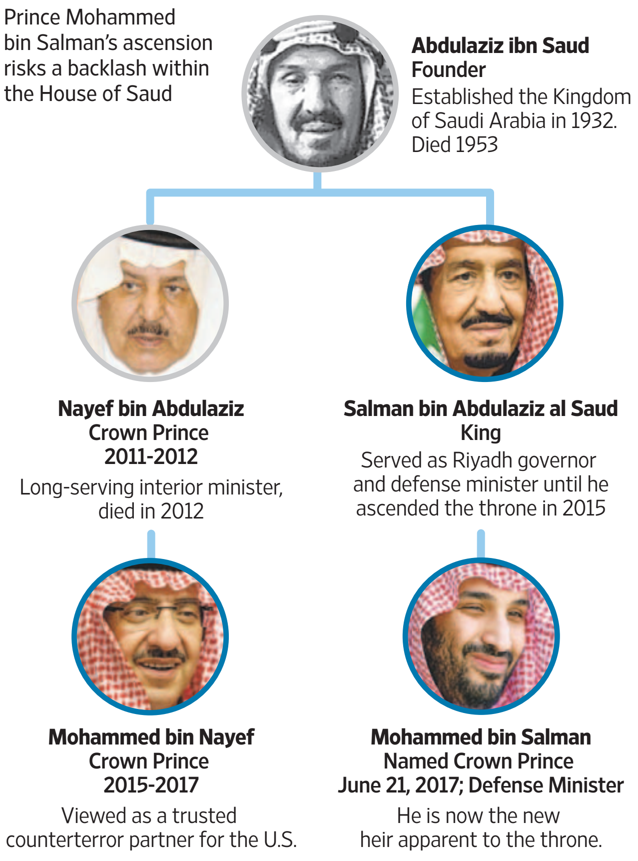
Some critics have portrayed the new crown prince as reckless. Saudi Arabia's intervention in Yemen has cost billions of dollars, killed thousands of civilians and so far failed to oust Houthi rebels from the country's capital. And for all the talk of an economic overhaul, the country's economy continues to depend overwhelmingly on oil revenues. Economic growth and job creation, especially among the young, remains lackluster.

As Prince Mohammed bin Salman amasses more power, his youth is both an asset and a potential liability, some Saudis say.

"I admire his energy," said a Saudi close to a powerful line of the family. "But at the same time it worries me and worries many Saudis that he is overconfident."

*—Maria Abi-Habib in Beirut and Rebecca Ballhaus in Washington contributed to this article.*

## Saudi Arabia's Generational Shift




Photos: Clockwise from top: Associated Press; Agence France-Presse/Getty Images; Reuters; Associated Press; Zuma Press
Sources: Royal Embassy of Saudi Arabia; staff reports

THE WALL STREET JOURNAL.

# Congo Crisis Sparks Flood Of Refugees

LEONARD PONGO/REDUX PICTURES FOR THE WALL STREET JOURNAL

**The Kyangwali refugee camp in western Uganda is sheltering some of the 1.5 million Congolese who have fled violence in their homeland.**

BY NICHOLAS BARIYO

KYANGWALI, Uganda—The day Bungwile Mabuya discovered her husband's mangled body near her house in the Democratic Republic of Congo's Kasai region, she grabbed her children and ran.

The mother of five, who found refuge in a sprawling lakeside refugee camp here, is one of roughly 1.5 million Congolese fleeing a brutal power struggle pitting President Joseph Kabila against traditional chiefs, who still administer large swaths of the vast central African nation.

Government forces and local militias have killed more than 3,300 people in Ms. Mabuya's home region since October, according to the Catholic Church, which has had its priests count the bodies since then. On Tuesday, the United Nations' high commissioner for human rights, Zeid Ra'ad Al Hussein, accused Mr. Kabila's government of arming a new militia he said has slaughtered hundreds of villagers—including pregnant women and toddlers—in Kasai. A government spokesman has denied the allegations.

The killings reflect the unraveling of a complex network of power trading and patronage, backed by amateur fighters unchecked by the official security apparatus, that has helped secure Mr. Kabila's rule for the past 16 years.

Ms. Mabuya said her husband, Constantine Masumbe, had stepped outside their hut one December night when she saw three men wearing army uniforms drag him away, accusing him of being a member of Kamuina Nsapu, an antigovernment militia the U.N. says is recruiting child soldiers and raping underage girls in the central Kasai region.

Ms. Mabuya, who found her husband's body the next morning, denied that her husband belonged to Kamuina Nsapu and said he was a victim of a government crackdown that has intensified since Mr. Kabila's official mandate expired in December. Mr. Kabila, who is barred from running again by the nation's constitution, has put off elections, citing a lack of funds and security issues.

"We could not even hold a burial ceremony. Everyone was running," Ms. Mabuya said.

Tensions in impoverished Kasai escalated last year, when Mr. Kabila refused to recognize Jean-Pierre Mpandi, a chief who founded Kamuina Nsapu and was friendly with Mr. Kabila's political opponents. In August, government forces fighting Kamuina Nsapu killed Mr. Mpandi. Aid agencies say more than a dozen other traditional chiefs across five provinces have since been killed.

Traditional chiefs are selected according to local custom and perform religious ceremonies, but receive government salaries. Under Congo's constitution they are required to be apolitical and resolve local disputes, forming a vital link between the capital Kinshasa and remote villages.

In late 2015, however, Mr. Kabila implemented a law that requires a presidential decree to formally recognize each chief—a step his critics say was an attempt to sideline opposition-friendly leaders. Mr. Kabila's spokesman denies these claims, saying the state had the right to oversee chiefs receiving government funds.

At the same time, the drop in prices for oil, copper and cobalt—which account for 90% of Congo's exports—cut into government spending on social services and other payments that usually flow to local chiefdoms. The commodities crash also diminished the chiefs' revenue from illicit mining and logging, as well as informal levies they collect from local traders.

"A deteriorating economy has fueled resentment toward Mr. Kabila's regime, especially among traditional chiefs," said Adeline van Houtte, Africa analyst at the Economist Intelligence Unit.

In Kasai, a longtime opposition stronghold, Kamuina Nsapu has ambushed government troops, which the U.N. says have responded with disproportionate force. On Tuesday, the U.N.'s Mr. Hussein said investigators now believe Mr. Kabila's government has been arming its own militia, Bana Mura, to fight Kamuina Nsapu.

"My team saw children as young as 2 whose limbs had been chopped off. Many babies had machete wounds and severe burns," he said. "At least two pregnant women were sliced open and their fetuses mutilated."

The U.N. has identified 42 mass graves and Mr. Hussein said there may be more. Lambert Mende, Congo's information minister, dismissed these claims as "fabrications aimed at discrediting government" and said the government was ready to work with the U.N. to investigate the allegations. The U.S. and the European Union have put sanctions on Congolese officials in connection with the Kasai violence.

The blurring of government and traditional powers has also been an issue in the March kidnapping and murder of two U.N. contractors investigating alleged atrocities in Kasai. While Congolese officials have blamed the killings on Kamuina Nsapu, the government says it is also investigating the former development minister, Clement Kanku. He has denied any role in the killings.

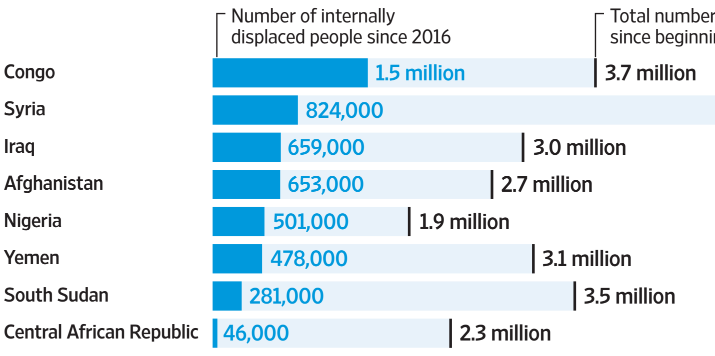
Mr. Hussein said on Tuesday that the two U.N. experts were likely murdered while looking for additional mass graves.

Some Congo watchers say they believe Mr. Kabila is using the clashes as an excuse to further delay elections, now due by the end of the year. The government denies the allegations.

"Although the government might see the security situation as an opportunity to remain in power, not dealing with the crisis, or even fueling it, is a risky game," Ms. Van Houtte said.

## On the Run

More people have been forced from their homes in the Democratic Republic of Congo over the past 18 months than in other conflict zones. Displacements in selected conflict-torn nations:




*Includes people who have fled to different countries

Source: Norwegian Refugee Council; United Nations

THE WALL STREET JOURNAL.

# Philippine Rebels Hit Second Town

BY BEN OTTO

MANILA, Philippines—Militants aligned with Islamic State attacked a village and fought with security forces in the southern Philippines, spreading a bloody conflict about 50 miles south of where government forces have been battling Islamist insurgents for more than a month.

Members of the Bangsamoro Islamic Freedom Fighters group attacked a village near the town of Pigcawayan in central Mindanao Island at dawn on Wednesday, occupying a school for hours and holding dozens of local civilians hostage while using them as human shields, the military said. Members of the group have been involved in the prolonged battle against government troops to the north.

The gunmen targeted a patrol base of government-sponsored militiamen and held 31 hostages, including 12 children, at a nearby school, military spokesman Brig. Gen. Restituto Padilla said. The militants left the area under the cover of darkness, leaving the hostages unharmed, Mr. Padilla said.

Area residents said four of the militants were killed in an exchange of gunfire with security forces, Mr. Padilla said.

"The school area is again safe. The patrol base is well secured," Mr. Padilla said. He added that the militants "were taking advantage of the situation that we have a very...lightly defended outpost and that they think our forces are elsewhere in the province. But that's not the case. Our forces are spread all over."

Government troops have been battling militants linked to Islamic State in Marawi, a Mindanao city of 200,000, leading President Rodrigo Duterte to place the entire region under martial law in May. More than 300 people have been killed and 180,000 displaced in the fighting, and the military estimates around 500 civilians remain trapped.

Militants have been seeking to establish a caliphate in the predominantly Muslim southern Philippines.

In recent days, authorities have said a small number of fighters in Marawi have escaped the city, fueling concern that the conflict could spread. Authorities also fear that with the end of the Muslim fasting month next week, reinforcements could join the fighting, including from foreign shores. The government has said militants in Marawi include citizens from Indonesia, Saudi Arabia, Malaysia and other countries.

The Bureau of Immigration on Wednesday moved to tighten borders, ordering more stringent screening of foreigners arriving at airports across the country and seaports in the south.

MARK NAVALES/EUROPEAN PRESSPHOTO AGENCY

**Troops in Pigcawayan, in the southern Philippines, where Islamist fighters have made a new push**

# European Union Seeks Role in Pyongyang Talks

*By Jeremy Page in Beijing and Laurence Norman in Brussels*

The European Union is in discussions with South Korea and China about taking a potential role as a broker for negotiations with North Korea on ending its nuclear program, according to EU officials involved in the effort.

The discussions reflect concern in Brussels, Seoul and Beijing that sanctions alone won't persuade Pyongyang to halt its nuclear program and that negotiations are needed to avoid military conflict.

The death this week of Otto Warmbier, the American college student imprisoned in North Korea for more than a year before returning home with a severe brain injury, has added to pressure in Washington for more strenuous action against Pyongyang.

President Donald Trump said Tuesday that China has been unable to crack down on North Korea, pointing to a new direction for U.S. policies. "While I greatly appreciate the efforts of President Xi & China to help with North Korea, it has not worked out," Mr. Trump said in a Twitter message.

A series of meetings in recent weeks in Brussels and Beijing have focused on ways that participants believe the EU could facilitate negotiations with North Korea, drawing on its members' diplomatic ties with Pyongyang and on its experience in helping to negotiate the 2015 nuclear deal with Iran, the officials said.

EU officials have discussed the matter with Chinese Premier Li Keqiang during his visit to Brussels this month, and with South Korea's special envoy, Cho Yoon-je, in May.

Any role for Brussels would need backing from Washington and EU member states, neither of which is assured. The Trump administration doesn't see Brussels as having the necessary leverage to help extract real concessions from Pyongyang on its nuclear program, a senior U.S. official said. There would be a concern, the official said, that the process would be used to water down Washington's call for a full dismantling of North Korea's nuclear program.

The Wall Street Journal reported this week that the U.S. has held secret talks with North Korea for more than a year, hoping to free U.S. prisoners and establish a diplomatic channel for efforts to constrain Pyongyang's nuclear and missile programs.

EU officials said they wouldn't do anything to undermine U.S. moves to tighten economic sanctions on Pyongyang.

## WORLD WATCH

GERMANY

### Rising Asia Exports Seen Countering U.S.

German exports to Asia are rising strongly this year, a trend that could mitigate the risks to Europe's largest economy should U.S. President Donald Trump make good on his protectionist promises.

Data showed Germany's exports to China rising around 12% in the first four months of the year compared with the year-earlier period. Exports to India rose by a similar rate, while shipments to Indonesia and Vietnam jumped more than 20% each, according to the Federal Statistical Office.

German exports to the U.S. rose 3.9% in the first four months of 2017. *—Nina Adam*

GLOBAL HEALTH

### Bats Likely Hold Key To Future Pandemics

Where will the next pandemic come from? Hint: likely from bats.

Fighting emerging infectious diseases costs billions of dollars. So researchers from New York City-based nonprofit EcoHealth Alliance set out several years ago to try to pinpoint where and how future pandemics might erupt. Analyzing a database of wildlife species and viruses known to infect mammals and people, they calculated how many unknown viruses may be out there, who carries them and where they are likely to be.

Using a database of 2,805 mammal-virus connections, the researchers found that bats harbor nearly twice as many viruses that either threaten humans today, or could threaten them in the future than the next mammal on the list—primates. Rodents came in third.

*—Betsy McKay*

UNITED KINGDOM

### BOE Officials Divided On Rate-Rise Need

Differences have emerged in the Bank of England's most senior ranks over the need for a rise in interest rates, as Chief Economist Andrew Haldane said he now favored an increase this year.

The pound rose on the news. Mr. Haldane's comments, in a speech in the northern English city of Bradford, came a day after BOE Gov. Mark Carney laid out the case against raising the central bank's key interest rate.

There has been relatively little dissent on the rate-setting Monetary Policy Committee during Mr. Carney's time at the helm. *—Paul Hannon*

EUROZONE

### Current-Account Surpluses Narrow

The eurozone's large current-account surpluses have started to shrink as oil prices recover, the European Central Bank said, wading into a debate over global trading relations that has raised tensions between Washington and Berlin.

The eurozone's current-account surplus—which roughly measures the gap between domestic saving and investment—rose to 3.3% of gross domestic product last year from 3.2% the previous year. *—Tom Fairless*

KIM LUDBROOK/EUROPEAN PRESSPHOTO AGENCY

**ANCIENT RITUAL: A Druid joins hundreds of people who gathered at Stonhenge to watch the sun rise at 4:52 a.m. Wednesday, the longest day of the year at the prehistoric monument.**

# U.S. NEWS

# Democrats Bemoan Loss in Georgia Race

By Reid J. Epstein And Janet Hook


CHRISTOPHER ALUKA BERRY/REUTERS

Democrat John Ossoff addressed supporters after his defeat in a House special election Tuesday.

WASHINGTON—Recriminations in the Democratic Party came swiftly following Jon Ossoff's expensive loss in Tuesday's special election in Georgia, a race that had been viewed as the party's best shot at gaining a House seat ahead of the 2018 midterm elections.

The populist wing of the party blamed Washington consultants and Mr. Ossoff for not backing the type of economic policies favored by U.S. Sen. Bernie Sanders of Vermont. Young House Democrats who have clamored for a change in party leadership bemoaned the effectiveness of GOP attacks that tied Mr. Ossoff to Rep. Nancy Pelosi of California, the House Democratic leader.

And in South Carolina, where Democrat Archie Parnell came far closer than expected to snatching a House seat in a heavily Republican district, local critics said they could have done better if party officials in Washington had listened to their pleas that the race was competitive and devoted more resources to driving up turnout in African-American neighborhoods.

Democrats need to win at least 24 seats from Republicans in next year's midterm elections to seize control of the House. They were hoping the Georgia contest would kick-start efforts to close that gap. Instead, the result leaves them struggling to find a winning message and split on the best way forward.

*'We have to offer big ideas to match the times we're living in…'*

"We have to offer big ideas to match the times we're living in and unless we offer an economic vision that people think is actually going to help their lives we won't be able to get the debate to be about policy," said Rep. Ro Khanna, a California Democrat aligned with Mr. Sanders, who backs ideas such as a single-payer health-care system and tax increases for the rich.

Rep. Tim Ryan, an Ohio Democrat who challenged Mrs. Pelosi in a party leadership election late last year, attributed Mr. Ossoff's loss to the "toxic" Democratic brand and Republican advertising tying Mr. Ossoff to Mrs. Pelosi.

"It's quite clear that these ads are still effective," Mr. Ryan said. "They're still moving the needle with voters…and at the end of the day, that matters, especially when these elections are so close."

Drew Hammill, a spokesman for Mrs. Pelosi, said that GOP attacks on her come with the political territory because she is a party leader, as the GOP did in the past with President Barack Obama and Hillary Clinton.

Mr. Ossoff's effort raised a record amount of money—his campaign and outside-group allies spent more than $30 million—in what became the most expensive House race in U.S. history.

But in a special election in neighboring South Carolina, Mr. Parnell came closer to victory on a shoestring budget of less than $1 million. Mr. Parnell, a 66-year-old former Goldman Sachs executive, heavily targeted the district's African-American voters with little help from national Democrats.

"As Democrats begin to chart a path back to a House majority, we must listen to state parties and the folks on the ground," said former South Carolina Democratic Party Chairman Jaime Harrison, who is now an associate chairman of the Democratic National Committee. "They have a better feel for the electorate."

Jane Kleeb, the chairwoman of the Nebraska Democratic Party and another ally of Mr. Sanders, said that the party needs to focus more on local voters' economic concerns if candidates are going to appeal to disaffected Republicans.

"When you nationalize a race too much you leave behind voters who may think [President Donald] Trump is arrogant but are not ready yet to turn their back on a party of their mamas and papas," Ms. Kleeb said.

Mr. Ossoff and his staff didn't respond to a request for comment Wednesday.

According to the Georgia Secretary of State's office, the final result was Republican Karen Handel 52%, Mr. Ossoff 48%.

Messrs. Ossoff and Parnell did much better than fellow Democrats performed last November but not well enough to carry heavily Republican districts.

Matt Bennett, vice president of Third Way, a centrist Democratic group, disputed the progressive critique of Mr. Ossoff, saying the party would have done even worse if the candidate had run as a liberal populist.

*—Natalie Andrews contributed to this article.*

# Health Overhaul Bill Is Hard Sell for Alaska Senator

By Kristina Peterson And Stephanie Armour


RON SACHS/CNP/ZUMA PRESS

**Sen. Lisa Murkowski (R., Alaska) in Washington on Tuesday.**

WASHINGTON—Senate Republicans' quest for the 50 votes needed to pass their health-care bill has put them in hot pursuit of one duck-hunting, occasionally defiant GOP senator: Lisa Murkowski of Alaska.

Senate Majority Leader Mitch McConnell (R., Ky.) confirmed Tuesday that the bill's text would be released Thursday and a vote held likely next week, triggering an intensified effort to secure the votes of senators like Ms. Murkowski. An assessment of the bill's impact by the nonpartisan Congressional Budget Office is expected by early next week.

Mr. McConnell's schedule gives him limited time to nail down support for a bill whose emerging shape has raised alarms among conservatives and centrists alike. The majority leader can lose no more than two of his 52 GOP senators, prompting an urgent outreach to senators like Ms. Murkowski who face complicated pressures at home.

It won't be easy to secure the support of Ms. Murkowski, who has been willing to break with party leaders in the past. As recently as February, she was one of two Senate Republicans to oppose confirmation of Education Secretary Betsy DeVos. And the Senate GOP health bill could pose specific problems for Alaskans, causing some of the state's other elected officials to hesitate.

Ms. Murkowski has raised concerns over the bill's expected cuts to Medicaid, as well as a provision effectively cutting off funding for Planned Parenthood Federation of America.

"What they provide for women is an important level of access to care, and I don't think we ought to be rolling back anything that effectively limits access," Ms. Murkowski said Tuesday. She declined to say whether that could cost Mr. McConnell her support, noting that senators haven't yet seen the bill's text.

"I can't tell you where my vote is going to be," she said.

Mr. McConnell declined on Tuesday to predict the bill's passage, saying that "we're going to make every effort to pass a bill" that overhauls the health-care system.

The majority leader has signaled that whatever the outcome, he wants to act on the bill quickly. Republican leaders have said they are eager to tackle the next big item on the GOP agenda, an overhaul of the tax system.

Democrats are stepping up their criticism of Republicans for writing the bill behind closed doors and leaving little time for the public to review it before the vote. "This is much more akin to a reality TV show reveal than the legislative process," said Sen. Chris Coons (D., Del.).

Mr. McConnell faces challenges on both ends of the GOP spectrum. But he is also contending with lawmakers, including Ms. Murkowski, worried about the bill's impact on specific conditions in their states. That raises the possibility that GOP leaders could tweak the bill to address those issues, such as beefing up tax credits or directing more Medicaid funding to states with expensive health care.

Alaska is unique in facing both high health-care costs and high premiums; because of its small population, its sickest residents have driven costs up sharply. Republican plans to provide people who don't get insurance on the job with tax credits or subsidies would be especially problematic in Alaska if those credits aren't structured to take into account areas with high health-care costs.

## Insurance Startup Raises Its ACA Bet

### Brother of Jared Kushner Is Company's Co-Founder

Insurance startup **Oscar Insurance** Corp. said it plans to expand its offerings in the Affordable Care Act marketplaces, as insurers faced a federal deadline Wednesday for initial filings to participate in the health law's exchanges next year.

Oscar, which has been under a spotlight partly because of its tie to President Donald Trump's administration, said it aims to begin selling ACA plans in Tennessee for the first time in 2018, and re-enter the exchange in New Jersey, where it sat out this year. The insurer also will expand the regions where it sells ACA plans in California and Texas, and will continue selling plans in its home market of New York. Last week, Oscar said that it will begin selling marketplace plans in Ohio next year, working with the Cleveland Clinic.

Josh Kushner, brother of Jared Kushner, Mr. Trump's son-in-law and senior adviser, is a co-founder of Oscar. According to his financial-disclosure forms, Jared Kushner has divested his interest in Thrive Capital, his brother's investment firm, which is a major Oscar shareholder.

Oscar is betting on the marketplaces at a time when their future is uncertain, as Senate Republicans aim to vote soon on a health overhaul bill. Other insurers now making exchange-plan filings for next year said they may still change their minds about participating in coming months.

Mario Schlosser, Oscar's chief executive, said the insurer believed that ultimately the marketplaces will stabilize, and the "apocalyptic scenario…just won't come to pass, not this year, and not in the future." Oscar is working closely with hospital systems, he said.

Oscar, which has been valued at $2.7 billion, decided last year to pull out of New Jersey's ACA exchange for 2017, as well as in Dallas. An Oscar spokesman said both markets appeared unstable at the time.

Separately, **Anthem** Inc. said it would pull out of the ACA marketplaces in Wisconsin and Indiana next year. The Indianapolis-based insurer, which had previously said it would leave the exchange in Ohio, cited a "volatile" insurance market in its latest pullback announcement, and it said that "planning and pricing for ACA-compliant health plans has become increasingly difficult due to a shrinking and deteriorating individual market, as well as continual changes and uncertainty in federal operations, rules and guidance," including the future of federal payments that help reduce health costs for low-income ACA enrollees.

*—Anna Wilde Mathews*

# Spicer Adopts a Lower-Key Approach

By Michael C. Bender


JONATHAN ERNST/REUTERS

**White House press secretary Sean Spicer is seen less in public.**

WASHINGTON—Once lauded by President Donald Trump for his ability to draw more daytime television viewers than many soap operas, press secretary Sean Spicer is spending less time in the White House briefing room as questions have been raised about his role.

Mr. Spicer has made just seven appearances before the media since returning from the president's first foreign trip more than three weeks ago. When he has taken the podium at the briefings, which are held most weekdays, he has adopted a less combative approach and shown an increasing willingness to leave reporters' questions unanswered.

Amid speculation about how long he will remain the main face of the briefings, Mr. Spicer has also been more likely to say he hasn't talked to Mr. Trump about major policy issues.

On Tuesday, Mr. Spicer's first on-camera briefing in more than a week, he was asked if the president believes Russia interfered with the 2016 election.

"I have not sat down and talked to him about that specific thing," Mr. Spicer said.

Multiple U.S. intelligence agencies say the Russians did interfere, but Mr. Trump has been reluctant to embrace their assessment. Russia has denied any meddling.

Mr. Spicer also said Tuesday he didn't know whether the president has seen the Senate health-care bill, which his fellow Republicans have said will be voted on next week. The same inquiry was made of Mr. Spicer on Monday during an off-camera media briefing. "That's a good question," he replied then.

Mr. Spicer's lower-key approach follows a tumultuous period for the communications team after the firing of James Comey as Federal Bureau of Investigation director, when Mr. Trump made several statements that contradicted those of his aides and fueled speculation about Mr. Spicer's job status.

Recently, internal discussions have centered on whether Mr. Spicer should transition to a more strategic, behind-the-scenes role if the president could find a replacement for him, either internally or externally, to handle the briefings, a senior White House official said.

Asked about his job status on Tuesday, Mr. Spicer smiled and said, "I'm right here."

"We're always looking for ways to do a better job of articulating the president's message and his agenda and we'll continue to have those discussions internally," he said.

For now, Mr. Spicer—a former communications director for the Republican National Committee—has avoided wading into hot-button issues.

Mr. Spicer said Tuesday he didn't know whether the president recorded conversations with Mr. Comey, a question reporters have asked him repeatedly since Mr. Trump suggested the possibility in a tweet last month.

*—Rebecca Ballhaus contributed to this article.*

# Pence Rules Out One Way to Pay Legal Bills

By Peter Nicholas And Rebecca Ballhaus

Vice President Mike Pence has chosen not to use an allied political committee to pay for the private attorney he retained last week to represent him in the special counsel probe of Trump associates' ties to Russia, two people close to Mr. Pence said on Wednesday.

Last week, a person familiar with the matter told The Wall Street Journal the vice president would most likely use funds raised through a leadership PAC created earlier this year to pay his legal bills.

At that point Mr. Pence hadn't been presented with the options for paying his legal bills, another person said. When he reviewed them, he decided he wouldn't use the leadership PAC, called the Great America Committee.

It isn't clear how Mr. Pence will pay his legal fees, which can be a daunting expense, especially for public officials of relatively limited means.

A financial disclosure Mr. Pence released last year appeared to show a negative net worth, not counting his state pension or his residence. He reported no significant savings accounts, mutual funds or 401(k) accounts from before he entered elected office. As Indiana's governor, he was paid $173,860 over the previous year, the disclosure showed.

The vice president's office declined to comment on whether Mr. Pence will pay for his attorney out of his own pocket. Mr. Pence won't use taxpayer funds to cover the fees incurred by his lawyer, Richard Cullen of McGuireWoods, a spokesman for his office said.

Mr. Cullen said last week that Mr. Pence's office had directed him to "make certain that whatever method [of payment] is used is compliant with all federal law and regulation."

It would be legal to pay for a personal attorney with funds raised by a leadership PAC. Yet such an action would potentially expose the vice president to criticism that he is tapping well-heeled donors to pay his legal team.

President Donald Trump, a multibillionaire, has at least four attorneys representing him in the probe into Russia's alleged interference in the 2016 presidential election and possible collusion.

U.S. NEWS

# Lawmaker's Shooter Did Little Planning

FBI says it found a list of six members of Congress on Virginia baseball field gunman

By Aruna Viswanatha

KEVIN LAMARQUE/REUTERS

**The FBI's Timothy Slater, right, along with two police chiefs, shares investigative findings about last week's shooting in Alexandria, Va.**

James T. Hodgkinson was a troubled man who railed against Republicans on social media and kept more than 200 rounds of ammunition in a storage locker, but he didn't appear to have methodically planned his attack at a congressional baseball practice, an FBI official said on Wednesday.

"I think he was struggling in a lot of aspects of his life," Timothy Slater, head of the criminal division at the Federal Bureau of Investigation's Washington field office, said at a press conference.

Officials at the event provided new details of Mr. Hodgkinson's final days before his June 14 rampage outside Washington which critically injured Rep. Steve Scalise (R., La.) and wounded three others.

Mr. Hodgkinson opened fire at a practice of Republicans preparing for a congressional charity game. Mr. Hodgkinson, armed with a rifle and handgun, was fatally shot by police.

Mr. Slater confirmed that investigators had found a list with the names of six members of Congress on the shooter but declined to say who was on the list. The FBI doesn't consider this a "hit list," Mr. Slater said, because Mr. Hodgkinson's internet search history didn't suggest he had formulated specific attack plans or targets.

Rather, Mr. Slater said, a review of Mr. Hodgkinson's web searches found "only...a cursory search of two of the members."

He added, "We don't know what the list was for.... There's no indication that that was a list to target, or there was any threats associated with those names on the list."

Mr. Slater said Mr. Hodgkinson hadn't searched online for information about the baseball game they were practicing for in Virginia.

Mr. Hodgkinson visited the office of Sen. Bernie Sanders (I., Vt.) in April, Mr. Slater said, and had visited other congressional buildings and taken photos, but he said those appeared to be the photos of a tourist.

"It appears that...he was running out of money, he was not employed at the time of the event," Mr. Slater said. "He was married for 30 years and that appears that marriage was not going so well.... It was just a pattern of life, where you could tell things were not going well."

At this point in the FBI's investigation, he added, the Bureau believes the attack was "more spontaneous" than planned.

Authorities said they were still investigating the shooting and have yet to arrive at a complete understanding of Mr. Hodgkinson's motivations, but acknowledged his anti-Republican posts on social media.

Mr. Slater also said Mr. Hodgkinson had contacted a family member on June 12, two days before the shooting, seeking to return home to Illinois. Mr. Slater declined to say what that family member had told Mr. Slater in response, citing the continuing investigation.

Separately, Mr. Scalise "continues to make good progress," according to a statement Wednesday from MedStar Washington Hospital Center, which upgraded his condition to "fair" from "serious." He is now "beginning an extended period of healing and rehabilitation," the hospital said.

Mr. Scalise was near death when he was brought to the hospital after being shot in the hip by the gunman, and has undergone multiple surgeries.

# Bill Would Spin Off Air-Traffic Control From FAA


CLIFF OWEN/ASSOCIATED PRESS

**Washington Dulles Airport in Virginia. The White House supports privatization of air-traffic control.**

By Susan Carey

A leading House lawmaker said Wednesday he would introduce a bill to take management of U.S. airspace away from the Federal Aviation Administration.

Rep. Bill Shuster (R., Pa.), who leads the House Transportation and Infrastructure Committee, said his bill would extend the FAA's general mandate for six years but move air-traffic control functions to a not-for-profit federal corporation over three years.

The bill, which Mr. Shuster said he hopes to bring to the House floor next month, improves on a version he introduced last year that never reached the floor. Mr. Shuster said this version has "increased support across the spectrum," including from President Donald Trump and more aviation industry stakeholders.

The Trump administration has made air-traffic privatization the centerpiece of its planned infrastructure buildout. Transportation Secretary Elaine Chao testified in support of the plan before Congress earlier this month.

Mr. Shuster said the Sept. 30 expiration of the FAA's current mandate puts pressure on legislators to act quickly.

But the plan still faces skepticism from some corners of the aviation industry and on Capitol Hill, where Democrats widely oppose it and Republicans are concerned about its impact in rural airports. The community of private pilots has also raised concerns that the fees they pay for using the airspace would rise.

Rep. Shuster said private pilots of small planes would be exempt from paying user fees. Small airports will still have access to federal funding for safety and equipment projects, and the ability to use contractors to staff their airport towers. The FAA will be the safety organization overseeing the new air-traffic service provider, he said.

The agency would be headed by a 13-member board including representatives from the Transportation Department, major airlines, regional carriers, private pilots, other aviation companies and unions representing existing FAA controllers and pilots.

"No one group can dominate," the new corporation Mr. Shuster said.

The FAA's efforts to modernize its air-traffic control systems would become the responsibility of the new entity. Mr. Shuster said many of the FAA's modernization efforts to date haven't yielded the promised changes.

## U.S. WATCH

TRUMP ADMINISTRATION

### Path for Foreign-Born Founders at Risk

The Trump administration plans to dismantle a regulation that would have helped more foreign-born entrepreneurs build startups in the U.S. without a traditional visa, according to people briefed on the administration's plans.

The International Entrepreneur Rule, enacted by the Obama administration in the final days of his presidency and set to go into effect next month, would have let foreign entrepreneurs apply to work in the U.S., provided their startup raised $250,000 from established U.S. investors.

The Department of Homeland Security plans to file an official notice to delay that rule by eight months with the intention of rescinding it, these people say. The delay will give the administration more time to complete the rescinding process, the people said.

The DHS's decision isn't final and still could change, the people cautioned. After filing an official delay, the DHS will open a comment period which could affect the outcome of the rule.

"We cannot speculate on the outcome of the DHS review of the rule. When the review is final, we will make the decision public," said Dave Lapan, a DHS spokesman.

The San Francisco Chronicle earlier reported on the possible delay and rescinding of the rule.

*—Douglas MacMillan and Laura Meckler*

ECONOMY

### Home Sales Rise Despite Tight Supply

Sales of previously owned U.S. homes increased in May, a sign of solid demand during the housing market's spring selling season in the face of fast-rising prices and tight inventory.

Existing-home sales rose 1.1% in May from the prior month to a seasonally adjusted annual rate of 5.62 million, the National Association of Realtors said Wednesday. Economists had expected a modest decline from April. Compared with a year earlier, sales were up 2.7% last month.

"The fact that sales of existing homes rose in May—despite incredibly limited selection, shrinking times on market and rapidly rising prices—is a testament to just how strong the demand to homeownership is right now for millions of Americans," said Svenja Gudell, Zillow's chief economist.

Sales have seesawed from month to month so far in 2017 and hit a 10-year high in March. At the same time, increasingly scarce inventory is driving up prices faster than household incomes are growing. "The way to solve this housing shortage, housing crisis that is developing, is to just build more homes," said Lawrence Yun, chief economist for the National Association of Realtors.

*—Ben Leubsdorf*

EDUCATION

### Yale Dean Out After Being Placed on Leave

June Chu, a Yale University dean who was put on leave last month after being tied to a string of racially insensitive reviews on Yelp, has formally left the school.

Head of Pierson College Stephen Davis wrote in a letter Tuesday that Ms. Chu left her position at the school "and wishes the best to the students." Ms. Chu didn't immediately respond to an email inquiry, or to a message left on a cellphone number listed under her name.

Ms. Chu, who taught psychology and Asian-American studies and was dean of the residential Pierson College, apologized in mid-May for two reviews that were deemed offensive and assured administrators and students those were the only such posts. But the Yale Daily News, the student newspaper, published more posts by her.

The posts, about area restaurants, movie theaters and gyms, have since been removed from the online review website. One review of an Asian restaurant said it would be perfect for "white trash," according to the student newspaper, while another implied that an ice cream treat would be good for a white person "who has no idea what mochi is."

*—Melissa Korn*

EMPLOYMENT

### Visa Allotment to Rise For Seasonal Workers

The Department of Homeland Security said Wednesday it would make more visas available for seasonal summer workers, responding to complaints from businesses and members of Congress about a significant shortfall. By law, the number of H-2B visas is capped at 66,000, divided between the summer and winter seasons. This year, the allotment was exhausted in March. The visas, which are for temporary, nonagricultural jobs, are used in tourism and other industries.

*—Laura Meckler*


JUSTIN LANE/EUROPEAN PRESSPHOTO AGENCY

**NEW YORKERS IN ZEN MODE:** People participate in 'Solstice in Times Square: Mind Over Madness Yoga,' an all-day event in New York's Times Square to mark the summer solstice on Wednesday.


TED JACKSON/ASSOCIATED PRESS

**City workers and volunteers shore up levee gaps in Lafitte, La.**

# Gulf Coast Braces for Tropical Storm Cindy

By Arian Campo-Flores

Residents along the U.S. Gulf Coast from Texas to Florida braced Wednesday for tropical storm Cindy, which is expected to unleash torrential rains that could trigger what the National Hurricane Center described as "life-threatening flash flooding."

On Wednesday morning, a 10-year-old boy died as a result of the storm in Fort Morgan, Ala., on the Gulf Coast, said Capt. Steve Arthur of the Baldwin County Sheriff's Office. He was on vacation from St. Louis with his family and was hit by a heavy object in a wave, Capt. Arthur said.

Cindy, with maximum sustained winds of 50 miles an hour, was churning over the Gulf of Mexico about 170 miles southwest of Morgan City, La., Wednesday afternoon.

Its center was forecast to strike the coast of southwest Louisiana or southeast Texas by Wednesday night, before moving inland and sweeping to the east.

Forecasters at the National Hurricane Center said the main threat Cindy poses is from rainfall. The storm is expected to dump 6 to 9 inches of rain from southeastern Louisiana to the Florida panhandle, with some spots getting soaked with as much as 12 inches.

Forecasters warned that potential flash flooding could be fatal.

Forecasters said a storm surge could produce inundation of 1 to 3 feet along the Gulf Coast. The system could also spawn tornadoes from southern Louisiana to the Florida panhandle, they said.

"This is going to be a serious event," said New Orleans Mayor Mitch Landrieu at a news conference Tuesday.

City officials warned residents to prepare for potential flooding and to stay home during heavy bouts of rain. Along with the U.S. Army Corps of Engineers, the city is monitoring water levels in canals and Lake Pontchartrain, which borders New Orleans, according to a news release.

On Wednesday, Louisiana Gov. John Bel Edwards declared a state of emergency.

# Driver's Seat at Uber Offers Big Challenge

By Joann S. Lublin And Vanessa Fuhrmans

The most tantalizing CEO job now open in the tech world also may be the toughest.

Travis Kalanick's abrupt resignation as chief executive of **Uber Technologies** Inc. has kicked off a search for a leader to run the world's most valuable startup. His successor, though, will have to contend with scandals on numerous fronts, a leadership team gutted by executive departures and ousters, and a workplace culture widely criticized for being permissive of sexual harassment and sexism.

"It's a once-in-a-generation opportunity," said Jeffrey Cohn, managing director of global CEO succession planning for **DHR International**, an executive-search firm.

Yet any future Uber CEO will have to contend with Mr. Kalanick, who is expected to remain an influential presence at the ride-hailing company. He will keep a seat on Uber's board of directors and he retains control of a majority of Uber's voting shares. "You don't want to be [his] puppet," Mr. Cohn said.

In launching a search for a new leader, Uber likely will suspend its pending hunt for a chief operating officer, according to people familiar with the matter.

A board member could step in to fill Mr. Kalanick's shoes temporarily—particularly Arianna Huffington, who has emerged as the main voice for Uber's board in recent months and has taken a prominent role in Uber's investigation into its workplace practices—said Bart Friedman, a corporate governance expert and senior counsel at law firm Cahill Gordon & Reindel LLP.

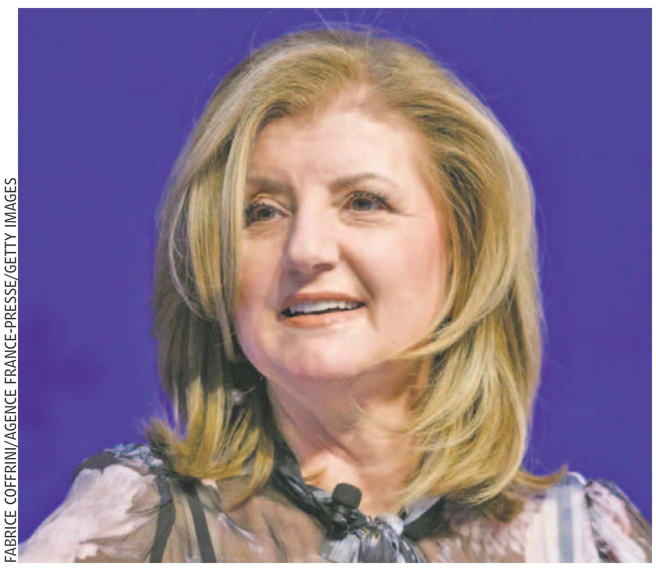
Given her limited operational experience, though, some executive recruiters say Ms. Huffington is unlikely to be a candidate for the chief executive role longer term, and is a long shot even as an interim leader. Mr. Friedman said Uber co-founder Garrett Camp, also its chairman, is a dark horse as he "may not demonstrate sufficient change for investors, who will really be calling the shots."

"The investors are going to be looking for not only someone who is transformative but a big public-relations success," he added. "It is going to have to be a head-snapper."

Ms. Huffington couldn't immediately be reached for comment.

Mr. Cohn said he expects Uber to choose an external candidate to replace Mr. Kalanick "if they are serious about getting the culture in shape."

The outside recruit also should know how to take them through an initial public offering, he said.



FABRICE COFFRINI/AGENCE FRANCE-PRESSE/GETTY IMAGES

Arianna Huffington has become the main voice for Uber's board.

# UBER

*Continued from Page One*

firm's list of nearly 50 recommendations was endorsed by the board.

The investors who drafted the letter include **Benchmark**, whose partner Bill Gurley is an Uber board member; **Menlo Ventures**; **Lowercase Capital**; **First Round Capital**; and **Fidelity Investments**, according to people familiar with the matter. Mr. Kalanick handed in his resignation just hours after the letter was sent and after speaking with one board member, who counseled him to step aside, according to a person familiar with the matter.

*Mr. Kalanick will likely remain a figure in the company he co-founded in 2009.*

Mr. Kalanick had been on indefinite leave from the company as of last week, a move he said was necessary to mourn the sudden death of his mother last month in a boating accident, and with an aim to re-emerge as a newly invigorated leader.

"This is a bold decision and a sign of his devotion and love for Uber," said members of Uber's board in a statement Tuesday. "By stepping away, he's taking the time to heal from his personal tragedy while giving the company room to fully embrace this new chapter in Uber's history."

Mr. Kalanick will likely remain a figure in the company that he co-founded in 2009 since he will keep his board seat and, along with co-founder Garrett Camp and early employee Ryan Graves, holds a majority of Uber's voting rights. Mr. Camp is chairman of the board.

When Uber announced Mr. Kalanick's leave last week, the company 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. Kalanick's departure exposes Uber's leadership shortcomings and raises the question of who can lead a company whose defiantly competitive startup culture and leadership style reflected the pugnacious chief executive.

Mr. Kalanick didn't respond to a request for comment.

The next CEO will face a nearly unprecedented set of challenges, including restoring rattled employees' faith in the company, as well as a business that lost at least $2.8 billion last year and another $708 million in this year's first quarter, due in large part to cash incentives necessary to keep drivers driving. Uber management is also tasked with a tremendous shift in culture from the one crafted under Mr. Kalanick that often operated in a legal gray area, including pushing ahead in cities where its service was barred, and rewarding high performers despite misbehavior.

Even before Uber's string of scandals began earlier this year, Mr. Kalanick had come to embody an extreme version of the archetypal brash startup CEO who succeeds by thumbing his nose at convention and pushing the boundaries of established business practices. Uber—with a valuation of nearly $70 billion that exceeds companies such as Ford Motor Co.—was the epitome of a new breed of startup using software to reshape long-entrenched industries from transportation to hospitality to health care.

But the mood changed at Uber after a former software engineer alleged chauvinism at the ride-hailing firm in February. A series of blows, including a lawsuit from Google parent Alphabet Inc. over allegedly stolen technology, only added to investors' doubts about Uber's leadership.

MONEY SHARMA/AGENCE FRANCE-PRESSE/GETTY IMAGES

**Uber's aggressiveness has often been viewed as linked to Travis Kalanick's personality. Some analysts say a fresh start is possible.**

# CEO Gone, Fights Remain

## Executive change not likely to help soon with Uber's regulatory battles world-wide

By Sam Schechner

The resignation of **Uber Technologies** Inc. Chief Executive Travis Kalanick may do little immediately to soften regulatory scrutiny or blunt opposition from taxi and drivers groups globally, underscoring the steep road the car-hailing company still faces in turning around the hard-driving image it has earned around the world under Mr. Kalanick.

Uber has for years faced opposition in the U.S. and abroad from taxi companies, regulators and—increasingly—its own disgruntled drivers, who argue that the company co-founded by Mr. Kalanick is a scofflaw that rolls into countries and tries to gain market share while flouting local regulations.

Uber counters that it is mainly the victim of lobbying by taxi monopolies that take advantage of riders and drivers, forcing Uber into the courtroom to push back.

That has left it embroiled in multiple legal battles, particularly in Europe, where Uber has been forced to shut down at least some services in France, Germany, Italy, Spain, the Netherlands, Sweden, and other countries—sometimes only after a court order.

Those legal fights, many initiated by Uber to challenge laws that restrict it, won't go away just because Mr. Kalanick is no longer CEO. An official for the European Union's executive arm said that Mr. Kalanick's resignation will have no impact, for instance, on a set of appeals it has made in Europe. The complaints "concern the application of EU law and not the management of companies concerned," the EU official said.

Nor are some of those Mr. Kalanick offended ready to forgive the company he founded until it changes its ways. British independent-workers union IWGB welcomed Mr. Kalanick's resignation, but said the company must start giving drivers more benefits. Driver groups in other countries echoed the sentiment.

"We saw how Travis treated his drivers," said Sayah Baaroun, head of a driver's union in France, referring to an incident where Mr. Kalanick was videotaped arguing with an Uber driver. "But for us, the larger battle continues." Mr. Kalanick later said he was "ashamed" of the behavior captured on the video.

Still, Uber's aggressiveness around the world has often been viewed as interlinked with Mr. Kalanick's own personality, and the change of leadership could offer a fresh start with some of the authorities with which Uber has tangled. Dave Ashton, co-founder of French car-booking app SnapCar, said Mr. Kalanick's departure is "an astute move by the board" that could "repair Uber's reputation and help the company mature."

Xiaofeng Wang, an analyst with research firm Forrester in Singapore, said Mr. Kalanick's resignation "helps a little bit," she said, since it shows they "actually want to take responsibility and change."

In Asia, Uber faces a clutch of fast-growing, homegrown startups that are capitalizing on factors such as local knowledge and better relationships with regulators in the battle for ride-hailing turf. Singapore-based startup **GrabTaxi Holdings** Pte. and Indonesia's **Go-Jek**, a motorcycle-hailing app, are both providing fierce competition in Southeast Asia, where Uber has said it would focus—along with India—after abandoning the China market.

In Hong Kong, where local taxis have a tight grip on the passenger-ferrying market, police arrested several Uber drivers in May for allegedly running afoul of the city's permitting and insurance rules. A spokesman said the company is hopeful Hong Kong's new chief executive will be more open to the service.

An Uber spokeswoman said Mr. Kalanick's departure won't affect the company's efforts to join with regulators and cities globally. She added that Uber is already making changes to how it works separately from Mr. Kalanick's resignation, including an announcement this week that it will start implementing changes drivers have asked for, such as allowing riders to tip drivers.

*—Natalia Drozdiak in Brussels and Dan Strumpf in Hong Kong contributed to this article.*



SETH WENIG/ASSOCIATED PRESS

**Scandals have dogged Uber.**

## Uber's Chaotic Year: A Timeline

◆ **Feb. 19** A former Uber engineer says that management ignored complaints of sexual harassment and sexism.

◆ **Feb. 23** Google parent **Alphabet** Inc. sues Uber for allegedly stealing trade secrets to jump-start its own autonomous vehicle program.

◆ **Feb. 28** A video shows CEO Travis Kalanick berating an Uber driver.

◆ **May 23** Uber says it mistakenly underpaid New York City drivers for the past 2½ years.

◆ **June 1** Uber says its head of finance, Gautam Gupta, is leaving as the ride-hailingcompany reports a $708 million quarterly loss.

◆ **June 13** Board member David Bonderman resigns after making a disparaging remark about women during a meeting to address problems with the company's workplace culture.

◆ **June 13** Mr. Kalanick says he would take an indefinite leave from the company.

◆ **June 20** Mr. Kalanick resigns following investor pressure.

# MIMS

*Continued from Page One*

sorely in need of a moat.

Mr. Kalanick, who initially announced a leave of absence last week, wrote then that the company must evolve into "Uber 2.0," acknowledging it needs a complete overhaul of its corporate culture. But it's not clear how Uber the caterpillar becomes Uber the butterfly.

"We think the company's back is to the wall, and there is no more room for continued screwups," early Uber investor Mitch Kapor said last week. Mr. Kapor, who in February cowrote an open letter to Uber about the company's "toxic" culture, suggested last week that Mr. Kalanick should come back only if he is "genuinely committed to Uber 2.0."

Assuming there is a magic pill to fix Uber's culture, the next step will be fixing the business.

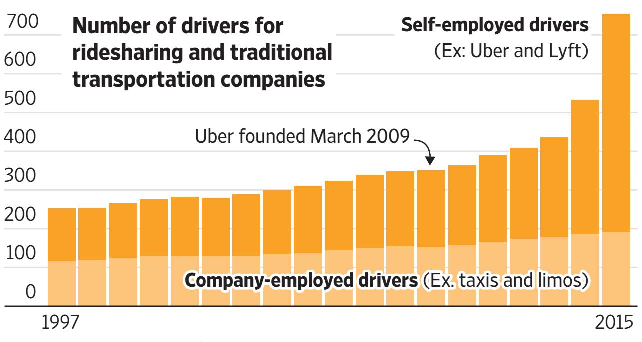
Uber's original approach was more sprint than marathon. Believing he could preemptively wipe out the competition by amassing more money and market share early on, Mr. Kalanick employed a hyperactive management style that prized speed over integrity. But the finish line never really appeared.

Uber still believes that it has superior technology and data science that gives it lower costs per ride than competitors, says a source close to the company. If Uber is right and it can maintain an advantage like this in the long term, it could endure a long war of attrition with its competitors. But since neither Uber nor its competitors are public companies, no one knows the actual unit cost of their rides.

In the U.S., Uber's biggest competitor, Lyft, has rapidly closed the distance with Uber by some of the most important measures, and has reached that point with far less investment. Lyft is now in the same number of markets as Uber, and in major cities can match Uber on both price and speed of service, says a company spokesperson. Lyft's share of rides in the U.S. grew from 10% to 25% between June 2015 and June 2017, according to TXN Solutions, which tracks credit-card transactions.

## Ridesharing Hits the Fast Lane

Car services with self-employed drivers are rapidly outpacing traditional employee-based local transportation providers.





Source: Brookings Analysis of Census Bureau and Moody's data

THE WALL STREET JOURNAL.

Uber's service is still better in the suburbs and commuter towns, but Lyft is starting to reach more of them, having added 150 markets in the past four months. Most important, both companies generate the bulk of their revenue in the biggest U.S. markets—not coincidentally, the markets in which Uber claims to have become profitable.

In China, another key battleground, Uber bowed out entirely. Uber continues to aggressively pursue international markets, but this growth is costing it dearly. Uber lost $708 million in the first quarter of 2017, despite logging $3.8 billion in revenue.

In some respects, Uber still has the wind at its back: Overall demand for rides is surging. Uber has said the number of rides it completed in the first quarter tripled from a year earlier. Even if Uber continues to be the most notorious company in Silicon Valley, momentum—and its $7.2 billion cash hoard—should guarantee its survival. The danger is the company fails to meet the inflated expectations of its lofty valuation.

Google, Apple, Facebook and Amazon weren't first movers in their industries, but they had superior technology and infrastructure. Apple's brand and proprietary software and services gave it the pricing power to generate huge profits. Google's search and ad technology outclassed its competitors. Facebook capitalized on the network effect that increased its utility as more people joined. Amazon got so good at building cloud services for itself that it started selling them to others—reaping huge profits.

And Uber? Aside from the cash, it has a (tarnished) brand and an app that has been widely copied. Uber once could plausibly claim that the company with the most customers could support the most drivers, creating a virtuous circle where mass plus engineering might yield an unbeatable customer experience.

Now, the preponderance of its competitors, ably luring away customers and drivers, suggests that the ride-sharing market will come to resemble something far less sexy—and less profitable. Uber may just be a gigantic taxi company after all.

# LIFE & ARTS

TV & MUSIC

# Music Supervisors Get Their Own Emmy Award

For the first time, the people who choose the cool songs that play in TV shows will be competing for an award this September

BY JOHN JURGENSEN

**WHEN EMMY** nominations are announced next month, music supervisors will be competing for the first time ever, after being granted an award category of their own. But long before the Sept. 17 awards ceremony, supervisors are wondering how Emmy voters will evaluate excellence for a job that is more subtle and complicated than it sounds: selecting the soundtrack for scenes in TV shows.

One of the episodes that music supervisor Maggie Phillips submitted for Emmy contention is from "Fargo." It includes a montage scene in which two characters strut their way into a bridge tournament. The contestants' slow-motion entrance is accompanied by a tune with a propulsive beat, tight horn riffs and lyrics that are total gibberish. "Prisencolinensinainciusol" was recorded in 1972 by an Italian singer, Adriano Celentano, replicating the sound of American English.

The song is catchy, cool and obscure, but Ms. Phillips says it was chosen more for the way it underscores the relationship between the two characters, an ex-con and her parole officer, in a romance that soon involves murder. The tune's swagger symbolizes the confidence they give one another, but its nonsense lyrics telegraph that the bravado is hollow.

When music clicks in a scene on multiple levels, it is hard to imagine substituting any other song, Ms. Phillips says. "Tempo, instruments, vocals. It all sums up to something that transforms the picture you're seeing in front of you. That's when I feel like I created something, by putting two separate things together to make something new."

TV has been on a tear in the last decade, opening the door for unconventional creativity in everything from cinematography to soundtracks. At the same time, the in-depth online analysis of certain shows helped raise the profile of behind-the-scenes pros, such as music supervisors. As links between the worlds of TV and music, they have also emerged as influential allies of musicians looking for exposure. To help viewers connect with TV music, some supervisors verify the songs they use with websites and apps that identify them, such as Tunefind and Shazam.

An official embrace by the television industry was slower to come. After forming the Guild of Music Supervisors in 2010 (which includes members working in film, advertising, games and other mediums) ambassadors for the craft made inroads with the organization that runs the Emmys, the Academy of Television Arts and Sciences. Starting in 2015, music supervisors were allowed to join the Academy as members of the music branch, which oversees awards for music direction (typically performance shows) and composition.

Terrence Howard stars in 'Empire,' above. Below, Dan Stevens as David Haller in 'Legion.'


Left, Little Richard, whose music has been featured in the TV show, 'Better Call Saul,' starring Bob Odenkirk as Jimmy McGill, above. Below, the show's music supervisor, Thomas Golubić at the Guild of Supervisors' music awards.


CLOCKWISE FROM TOP RIGHT: AMC; ZUMA PRESS; FX; FOX; ASSOCIATED PRESS

Unlike composers, however, supervisors more often come from the DJ world than the conservatory. Initially, there was some reluctance "as to why they'd allow us into their group," says Thomas Golubić, a co-founder of the music supervisors guild. "A lot of composers really don't know what supervisors do. Or maybe they had bad experiences. That created a little bit of confusion."

This year, the Academy voted to add the music-supervision category (along with a new Emmy for reality-series casting). Music supervisors have submitted about 90 entries, the Academy says. Voting on nominees ends Monday. All Emmy nominees will be announced July 13, ahead of the September awards show.

Neither the Academy Awards nor the Golden Globes honor music supervisors.

Supervisors had to supplement their Emmy submissions with written answers to 10 questions, such as: "What was your creative contribution to advancing the story line in the episode submitted?" and "How did your work support character development?"

Jen Ross, music supervisor for the hip-hop drama "Empire," submitted a song-packed episode that bounces among Eminem, Thelonious Monk and an original tune that addressed gun violence. In one scene record-label bosses meet with mogul Lucious Lyon, played by Terrence Howard. A decadent song by French Montana and Drake ("No Shopping") transitions to a triumphant one from Frank Sinatra and Count Basie's orchestra ("The Best Is Yet to Come").

The contrast could seem abrupt "but is absolutely believable in the world of Lucious Lyon," Ms. Ross says. "Just like real human beings, the characters are shaped by the music that surrounds them."

"Atlanta" music supervisor Jen Malone found herself dealing with court-appointed lawyers to negotiate with the estate of a rapper who was shot to death in 2013. Only 10 seconds of "Let Me Find Out" by Montgomery, Ala., native Doe B can be heard in the first episode of the FX series as it plays on the car stereo of an underground rapper and his sidekick. Despite the hassle, the song was a more authentic choice for those characters than "something you would hear on the radio in L.A.," says Ms. Malone, who often tracks down emerging southern rappers and producers with direct messages on Instagram and Twitter. With "Atlanta" creator Donald Glover she co-submitted an episode for Emmy contention that peaks with the Funkadelic song "Hit It and Quit It."

For the AMC series "Better Call Saul," Mr. Golubić and his team consider hundreds of pre-existing songs for each musical moment. After winnowing them down to about 20, they play them against the scene and debate how the songs interact with the scene through their mood, lyrics and tempo.

Before selecting a handful of the songs to edit into the scene and present to the show's creators for a final decision, Mr. Golubić gets preapproval to license the songs from their rights holders; he learned not to suggest songs without knowing that he can deliver them.

"Sometimes the amount of research is epic, going to the far corners of the world [to track down licensing approvals] under the hopes that maybe we'll pitch the song" to "Better Call Saul" producers, says Mr. Golubić, who submitted an episode of the series that showcased acts from Little Richard to Norwegian producer Todd Terje.

FILM AND TELEVISION

# NOW STARRING WITH WILL FERRELL: THIS GUY?

BY ELLEN GAMERMAN

**JASON MANTZOUKAS,** the bearded character actor who often plays a friend or a dirtball for a few memorable scenes before disappearing from the screen, is finally sticking around.

In "The House," Mr. Mantzoukas steps into his largest film role yet as Frank, a heartbroken former gambling addict who opens an illicit casino in his house with his best friends, played by Will Ferrell and Amy Poehler. The comedy opens nationwide June 30.

"I know this is absurd because we're talking about a movie where we're organized crime bosses of the suburbs, but Frank has a really nice, very sweet emotional arc," says Mr. Mantzoukas, best known as the exuberantly uncouth Rafi on the FX series "The League." "I've never had a part this big, to have a performance that starts in one place and ends in a very different kind of place."

Jason Mantzoukas is one of many unconventional supporting actors finding new routes to center stage.

EVERETT COLLECTION

Mr. Mantzoukas is one of a string of unconventional supporting actors stepping into larger screen roles in recent years. Thanks to the explosion of entertainment options, actors who used to stay on the fringes are finding new routes to center stage. Audiences are getting used to seeing outside-the-box actors in comedies that defy TV sitcom and movie formulas. Quirkiness, not a square jaw, is often at a premium.

Several actors are writing their way into leading roles, creating characters informed by their own experiences. Aziz Ansari was an ensemble player in "Parks and Recreation" but broke out as the star of "Master of None," the Netflix comedy he co-created. Rob Delaney was largely known for his profane stand-up before co-writing his layered character for the Amazon series "Catastrophe." Kumail Nanjiani, the socially stunted computer programmer Dinesh in "Silicon Valley," becomes a romantic leading man in his new semi-autobiographical movie, "The Big Sick."

Actresses Amy Schumer ("Trainwreck") and Lena Dunham (HBO's "Girls") have similarly avoided the supporting-actress pigeonhole by writing their own material. The movement of ensemble actors into leading roles has created opportunities for racially and ethnically diverse actors as well.

Mr. Mantzoukas, a New England native of Greek descent whose voice carries a slight Cookie Monster rumble, is a veteran of improvisational comedy's Upright Citizens Brigade Theatre. He has played drug dealers (Amazon's "Transparent" and the 2016 movie "Dirty Grandpa"), a sleazy perfumer (fragrances include "Sideboob" on the NBC series "Parks and Recreation"), a gigolo (Comedy Central's "Kroll Show") and, currently, an unhinged detective ("Brooklyn Nine-Nine").

As a self-styled casino kingpin in "The House," Mr. Mantzoukas moves with a ludicrous suburban posse. They blow wads of cash around with leaf blowers and force-feed a man frozen yogurt straight from the spigot to collect on a gambling debt.

Mr. Mantzoukas drew on his own romantic breakups to play the other side of Frank, a wounded sad-sack who walks around in a big smelly poncho after his wife leaves him. "I think we've all been there—I've had that breakup where I was so devastated all I did was eat yogurt for two months and wear the same clothes every day," he says.

The 44-year-old Los Angeles transplant can thank a failed romance for one of his longstanding career assets: his untamed beard. He stopped shaving after a particularly bad split and suddenly started getting parts with his wilder look.

Mr. Mantzoukas, whose father worked in health care while his mother raised him and his younger sister in the coastal town of Nahant, Mass., got into acting as a student when he joined an improv group at Middlebury College in Middlebury, Vt. At the Upright Citizens Brigade, he met future collaborators like Ms. Poehler and in 2010 made the jump to "The League," a series with largely improvised dialogue that ran until 2015.

Thanks to some of his over-the-top roles, fans often assume Mr. Mantzoukas is just like his unsavory characters. "The frequency with which people say insane stuff to me in bathrooms is crazy," he says. "I have to tell people, 'I'm an actor.'"

## REVIEW & OUTLOOK

# The Next Step on North Korea

The death of Otto Warmbier, a 22-year-old student held in a North Korean prison for 17 months, saddened and angered Americans. We don't know what mistreatment led to his brain damage, but the fact that Pyongyang concealed his condition for more than a year is damning enough. The incident is a reminder of the regime's brutality and is one more reason for the Trump Administration to increase sanctions to prevent Kim Jong Un from developing a missile capable of hitting the mainland U.S. with a nuclear warhead.

**New sanctions against China's traders and financiers might work.**

U.S. and Chinese officials were due to meet in Washington Wednesday to discuss the problem. But Donald Trump on Tuesday suggested that he no longer holds out hope that Beijing will change Pyongyang's behavior. He tweeted, "While I greatly appreciate the efforts of President Xi & China to help with North Korea, it has not worked out. At least I know China tried!"

Mr. Trump built up expectations of Chinese help after his April summit with President Xi Jinping. That was a long shot given China's failure to rein in its ally in the past. But it made sense diplomatically, putting Mr. Xi on notice that tougher U.S. action would follow if he failed to deliver while avoiding the appearance of a threat.

As the Journal reported last week, the Administration asked Beijing to crack down on some 10 Chinese companies and individuals that trade with North Korea. If China did not do so, the U.S. said it is prepared to act unilaterally against them by the end of the summer. In light of Warmbier's death and the North's preparations for a sixth nuclear test, the U.S. can now move with dispatch to use tougher sanctions to deprive those on that list from access to the international financial system.

Skeptics are right that United Nations sanctions have done little to stop North Korea's weapons programs. But those sanctions are far-less stringent than those that forced Iran to the negotiating table. And a new report from the Washington research group C4ADS suggests that the North's trading network is highly vulnerable to the new sanctions.

The report dispels the misconception that North Korea obtains the materials and technology for its weapons programs through an invisible network that can't be stopped by sanctions. It finds that the same small number of Chinese individuals and companies that dominate legal trade with the North also supply it with "dual use" goods to build nukes and missiles. These individuals and their shell companies are also dependent on access to the international financial system.

As sanctions have tightened, this network has grown smaller and more consolidated. That's because there are only a few individuals who have the skills and connections within China and North Korea to continue trade under these circumstances. Pyongyang will find it hard to replace them.

The U.S. stumbled across this North Korean vulnerability in September 2005 when the U.S. Treasury named Macau's Banco Delta Asia a "primary concern" for North Korean money laundering. The bank was forced to freeze $25 million in North Korean assets, but the knock-on effects were huge. Trade that depended on the bank ground to a halt, and other banks cut their business with North Korea.

In a tragic miscalculation, the Bush Administration released the frozen funds two years later in return for North Korea returning to the six-party disarmament talks, which went nowhere. North Korea moved most of its trading network to China, and the Obama Administration let the North Korea problem grow as it focused on other priorities.

North Korea is now a few years away from fielding an intercontinental missile, and U.S. options are dwindling. A pre-emptive military strike is the last resort because the Kim regime could kill millions in South Korea with conventional and nuclear weapons. But now that Beijing has been given the chance to help and either refused or failed, the U.S. and its allies have to use every sanctions and other tool available to prevent the Kim regime from doing to millions what it did to Otto Warmbier.

# Free Speech for Sex Offenders

Unsympathetic plaintiffs serve a salutary purpose in the law, reminding politicians and the public that principles must govern even in unsavory circumstances. The U.S. Supreme Court rose to the occasion on Monday, ruling 8-0 that the First Amendment protects the right of even sex offenders to use social media.

**A hard case that makes good First Amendment law in the internet age.**

Lester Packingham was 21 years old when he was convicted of statutory rape for having sex with a 13-year-old. In 2010 he posted a remark about a traffic ticket on Facebook and ran afoul of a North Carolina law that made it illegal for a sex offender "to access a commercial social networking Web site where the sex offender knows that the site permits minor children to become members or to create or maintain personal Web pages."

Packingham challenged the law as an infringement on his First Amendment right to use social media. The Justices agreed. Even if well intentioned, "the Government 'may not suppress lawful speech as the means to suppress unlawful speech,' " Justice Anthony Kennedy wrote for the majority. Barring sex offenders from all social media would block them from a source of current events, potential employment and "speaking and listening in the modern public square" (*Packingham v. North Carolina*).

In a concurrence, joined by Chief Justice John Roberts and Justice Clarence Thomas, Justice Samuel Alito agreed that the law was overbroad but cautioned that the majority's opinion may go too far and discourage states from enacting more narrowly tailored laws protecting minors. Justice Alito mentioned teenage dating sites or sites "where minors communicate with each other about personal problems" as possible examples. But states must not "burden substantially more speech than is necessary to further the government's legitimate interests," he added.

Justice Kennedy's opinion also notes that the decision "should not be interpreted as barring a State from enacting more specific laws than the one at issue. Specific criminal acts are not protected speech even if speech is the means for their commission." The broad ban on using social media seems to have been North Carolina's fatal mistake.

The internet poses new challenges for the law, but the High Court's unanimous and robust defense of the First Amendment shows that traditional American rights still apply, as they should no matter the media platform.

# The Tax-and-Spend Capitulation

Bruce Rauner spent a chunk of his personal fortune running for Governor in 2014 to save Illinois from its tax-and-spend political class. More than two years later it looks like the former private-equity star has made better investments.

**A U.S. governor cries uncle on taxes and economic reform.**

On Tuesday evening the Governor with the worst job in America explained why he and his fellow Republicans have offered to raise taxes for the sake of ending a multiyear budget impasse with Democrats. He said he'll accept a four-year increase in the flat state income tax to 4.95% from the current 3.75%, expand the sales tax and implement a cable and satellite TV tax.

This is a political defeat by any definition since Mr. Rauner campaigned on lowering the income tax to 3%, not on restoring the rate close to what it was under the last Democratic Governor. The "temporary" 5% rate partially sunset in December 2014. Democrats who run the legislature refused to negotiate over a budget unless Mr. Rauner agreed to a tax increase, and now they're refusing to make notable spending or economic reforms in return.

Mr. Rauner is also proposing to freeze property taxes and says the deal will reduce the state's backlog of unpaid bills by at least $4 billion. The property-tax freeze could provide some election contrast with Democrats. But a freeze isn't a reduction from already sky-high property levies, and the current backlog of unpaid state bills is $15.1 billion.

The bigger problem is that his proposed deal includes almost none of the reforms Illinois desperately needs to compete with neighboring states and repair its fisc. It includes nothing on right-to-work and little workers' compensation reform. It doesn't give local governments the collective-bargaining reforms they need and it fails to solve the state's $130 billion or so in unfunded pension liabilities.

The Governor's capitulation may have been triggered by the latest downgrade by Moody's and Standard & Poor's in the state bond rating to near junk status, with a warning that another downgrade could come this summer. Mr. Rauner doesn't want to run for re-election next year as Governor Junk.

But the rating agencies have never met a tax increase they didn't like. They merely want to see more revenue coming in so they can judge if bondholders will get repaid. The real threat to long-term bondholders is an unrestrained tax-and-spend political culture that drives more people out of the state and pension liabilities ever upward.

The political tragedy is that Mr. Rauner didn't make this mess; he was elected to clean it up. Former Governors Rod Blagojevich and Pat Quinn, a crook and a schnook, borrowed some $17 billion through pension-obligation bonds. Since 2009 the state bond rating has been downgraded 21 times. The biggest culprit is state House Speaker Michael Madigan, who fronts for the government unions.

Mr. Madigan hasn't said if he'll accept Mr. Rauner's offer, and perhaps he's holding out for even more concessions. Mr. Rauner may come out the political loser, but the citizens of Illinois will suffer the most.

# Anatomy of a Witch Hunt

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

Americans won't be really good citizens until they read Timur Kuran and Cass Sunstein's 1999 law review article about "availability cascades."

Their launching point is the process by which we (i.e., human beings) decide to believe what others believe, and judge the truth of a proposition by how familiar it is.

Such "availability cascades" drive government policy in good ways and bad, but usually bad. An example the authors analyze in detail is 1989's fake "Alar" cancer scare that devastated U.S. apple growers.

Which brings us to today's question: How did it become widely believed in the first half of 2017 that a U.S. president committed treason with Russia?

Consider what has passed for proof in the media. Tens of thousands of Americans have done business with Russia since the collapse of the Soviet Union, not to mention before.

In 2009 President Obama made the first of his two trips to Russia with a gaggle of U.S. business leaders in tow.

Of these many thousands, four were associated with the Trump campaign, and now became evidence of Trump collusion with Russia.

Every president for 75 years has sought improved relations with Russia. That's what those endless summits were about. Mr. Trump, in his typically bombastic way, also promoted improved relations with Russia. Now this was evidence of collusion.

Russian diplomats live in the U.S. and rub shoulders with countless Americans. Such shoulder rubbing, if Trump associates were involved, now is proof of crime.

The Alar pesticide scare only took off when activists whom Messrs. Kuran and Sunstein label "availability entrepreneurs" peddled deceptive claims to a credulous "60 Minutes." We would probably not be having this Russia discussion today if not for the so-called Trump dossier alleging improbable, lurid connections between Mr. Trump and the Kremlin.

It had no provenance that anyone was bound to respect or rely upon. Its alleged author, a retired British agent named Christopher Steele, supposedly had Russian intelligence sources, but why would Russian intelligence blow the cover of their blackmail agent Mr. Trump, whom they presumably so carefully and expensively cultivated? They wouldn't.

Yet recall the litany of Rep. Adam Schiff, who declared in a House Intelligence Committee hearing: "Is it possible that all of these events and reports are completely unrelated and nothing more than an entirely unhappy coincidence?"

His litany actually consisted of innocuous, incidental and routine Trump associations interspersed with claims from the Trump dossier to make the innocuous, incidental and routine seem nefarious.

Maybe Mr. Schiff is a cynic, or maybe Harvard Law sent him back into the world with the same skull full of mush with which he arrived. But ever since, every faulty or incomplete recollection of a meeting with a Russian has been promoted in the media as proof of treason by Trump associates.

The president's obvious irritation with being called a traitor is proof that he is a traitor.

Whether the Russia incubus did more harm to Mr. Trump's vote or Hillary's vote during the election is impossible to know. But Mr. Trump won, so under the hindsight fallacy his victory is now proof that he conspired with Russia.

**The Trump-Russia scare is from the same playbook as the fake-cancer scare.**

The term "availability bias" originated in the work of Amos Tversky and Daniel Kahneman, whose Nobel Prize-winning research gave birth to the field of behavioral economics.

Mr. Kahneman went on to write 2011's indispensable "Thinking, Fast and Slow," and I'm here to tell you that journalists especially pride themselves on their fast thinking—the kind that mistakes randomness for pattern, confuses correlation with causation and gives excessive rein to emotional and cognitive biases.

Notice I don't say reporters and editors are so dumb they can't free themselves from such errors. I say that such errors are their *stock in trade*.

The original allegory of fast thinking, of course, is the old folklore tale, "the emperor's new clothes." In his 1922 book "Public Opinion," Walter Lippmann explained how journalists reduce complex, novel realities to off-the-shelf "stereotypes."

Or as a colleague once said of Stalin, "[He] tries to force life into a ready-made framework. The more life resists . . . the more forcefully he mangles and breaks it."

Come to think of it, that's not a bad way of describing how the D.C. anthill has reacted to the unexpected, exotic, high-risk, possibly providential experiment of the Trump presidency.

We mean every descriptor. His very unsuitability, the mood of the American public that elected him, the obscure impasse of American politics that brought him to power—all these signs deserve more respect than they're getting.

His Torquemadas don't and can't know whether America's democracy, in the improbable Mr. Trump, found a lever to move it forward, but there's something repugnant in their desire not to find out.

## LETTERS TO THE EDITOR

### *Qatar Responds to U.A.E., Saudi Charges*

In his June 14 op-ed "Qatar Cannot Have It Both Ways," United Arab Emirates (U.A.E.) Ambassador Yousef Al Otaiba demands that Qatar be "all in" in the fight against terrorism. I can assure him that we are. The better question might be, where do the U.A.E. and the other nations currently boycotting Qatar stand on this existential threat?

Ambassador Otaiba must certainly be aware that the United Nations and the U.S. Treasury Department list 10 times as many suspected terrorists and terrorist financiers from the boycotting countries as from Qatar. Surely his excellency also remembers that the U.A.E. was singled out in the 9/11 Commission's report for its role in laundering money to terrorists, and that Emiratis, not Qataris, were among the hijackers who flew planes into the Twin Towers.

Ambassador Otaiba calls upon Qatar "to return to the community of responsible nations," and criticizes television news channel Al Jazeera for inciting violence, though he fails to mention that the U.A.E. financed the military coup that overthrew Egypt's first democratically elected government, and that the U.A.E. allegedly bankrolled the coup plotters who attempted to overthrow the elected government in Turkey.

The ambassador writes that the U.A.E. did not act "in haste" against Qatar, yet the U.A.E. never brought any of its complaints to the responsible entities at the Gulf Cooperation Council (GCC) before launching aggressive diplomatic and economic measures against us. Instead, as leaked emails show, the ambassador and the U.A.E. government privately conspired against Qatar in the shadows.

It has become clear that the current campaign against Qatar is not about terrorism, Al Jazeera or any of the other issues highlighted by the boycotting nations. It is about Qatar's independence, which some apparently view as a threat. We would like our brothers in the GCC to know that we are a threat to no one. But they should also understand that Qatar is a sovereign nation, and that we will not be bullied.

H.E. SHEIKH MESHAL BIN HAMAD AL-THANI
*Ambassador of Qatar to the U.S.*
*Washington*

Instead of encouraging Saudi Arabia and the emirates to boycott Qatar, we should encourage tolerance and compromise. Look at Israel. As much as Israel is opposed to Iran and Hamas, it maintains a cordial relationship with Qatar. Maybe Qatar could become the bridge for peaceful coexistence of the two important factions in Islam, Sunnism and Shiism.

Instead of allowing ourselves to be drawn into sectarianism, we should endeavor to work efficiently with the two factions, especially if we want to bring peace in the Middle East and eradicate terrorism.

PROF. HESKEL M. HADDAD
*President*
*The World Organization of Jews From Arab countries*
*New York*

### *Theresa, Come What May, Didn't Blame Anyone Else*

Regarding British Prime Minister Theresa May's recent electoral wipeout ("Britain's Lesson for Conservatives," Review & Outlook, June 12): Perhaps, to borrow from Churchill, this is her finest hour. I haven't heard her suggest that her loss was due to voter misogyny. Nor foreign influence. Nor her postnasal drip. Nor any of the 10,000 excuses that last year's losing American presidential candidate gave for her campaign mismanagement.

I'm happy to report to the British people and the world that Theresa May is no Hillary Clinton.

GREG DEBSKI
*Howell, N.J.*

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OPINION

# Congress and Obama Depleted the U.S. Military

By Dick Cheney
And Liz Cheney

North Korea is making alarming progress in its ballistic-missile and nuclear-weapons programs. China and Russia are developing and fielding advanced weapons against which the U.S. may not be able to defend. Al Qaeda operates in more countries than ever. Islamic State is targeting the West and launching attacks throughout Europe and the Middle East. Iran is supporting terrorist organizations across the globe, modernizing its ballistic-missile and other capabilities and likely continuing to pursue nuclear weapons.

**The Trump budget would increase spending only 3%. With today's threats, that's not nearly enough.**

U.S. Defense Secretary Jim Mattis told the House Armed Services Committee last week that the U.S. is losing the military edge on which our security has long relied: “Today, every operating domain—including outer space, air, sea, undersea, land and cyberspace—is contested.”

Gen. Joseph Dunford, chairman of the Joint Chiefs of Staff, seconded that worry in written testimony for the same hearing: “Without sustained, sufficient and predictable funding,” he wrote, “I assess that within five years we will lose our ability to project power; the basis of how we defend the homeland, advance U.S. interests, and meet our alliance commitments.”

The situation President Trump inherited is dire. America today faces an array of threats more serious and complex than at any time in the past 75 years.

President Obama and his policies are largely to blame. The 2011 Budget Control Act, which mandated across-the-board cuts, known as sequestration, at a time when threats were growing, has also done serious damage. “No enemy in the field,” Mr. Mattis told lawmakers, “has done more to harm the combat readiness of our military than sequestration.”

What have eight years of Mr. Obama's policies, and six years of the Budget Control Act, wrought? The military superiority America relied on after the end of the Cold War has been seriously eroded, our capabilities diminished. In the past three months alone, military leaders have testified that:

• The Army is “outranged, outgunned, outdated,” with only three of 58 brigade combat teams ready to “fight tonight.”

• The Navy is the smallest and least ready it has been in modern times. Fewer than half the Navy's aircraft can fly because so many are grounded for maintenance or because they lack spare parts.

• The Air Force is the oldest and smallest it has ever been, and less than half of its combat forces are sufficiently ready to fight tonight.

• The Marine Corps is insufficiently manned, trained and equipped across the depth of the force.

AGENCE FRANCE-PRESSE/GETTY IMAGES

U.S. and Australian soldiers at a military exercise in the Philippines on May 8.

Rebuilding America's defenses will require a massive, concerted and long-term effort that must begin today. Mr. Trump rightly promised to do this during last year's presidential election. Unfortunately, the White House budget submitted to Congress earlier this month fails to provide the necessary resources.

The White House has requested only 3% more funding for defense than Mr. Obama's proposed 2018 budget, meaning the Pentagon would essentially tread water for at least a year—time the U.S. cannot spare in this threat environment. Instead of leading the effort to repeal the Budget Control Act, the White House budget envisions extending it by six years, to 2027. The president's budget also cuts funding in absolutely essential areas, including $300 million from missile defense and $1 billion from Navy shipbuilding.

In sum, the 2018 White House defense budget differs little from what Mr. Obama would have requested were he still president.

If Congress is serious about providing the resources necessary to defend America, lawmakers must do two things: pass a base defense budget for fiscal 2018 of at least $640 billion, instead of the $603 billion the White House requested; and repeal the Budget Control Act to eliminate the arbitrary spending caps and devastating sequestration.

The figure of $640 billion comes from the House and Senate Armed Services committees, which over the past year have conducted in-depth analyses and concluded this is the amount necessary in 2018 to begin rebuilding the military. This figure is a floor, not a ceiling.

For context, compare it with the projections from the Pentagon's fiscal 2012 budget. Because this was the last budget prepared prior to the Budget Control Act, it was also the last one based on assessing the threats America faces and what would be needed to meet them.

It projected a base defense budget of $661 billion for 2018. That assessment was made before Islamic State arose in the Middle East, before North Korea's recent progress on nuclear weapons and ballistic missiles, before Russia invaded Ukraine, before China's aggression in the South China Sea, and before Mr. Obama's indefensible nuclear agreement with Iran.

Rebuilding the military isn't a one-year project. To undo the damage of the Obama era and provide for America's security in a world of increasingly threatening adversaries, Congress must dedicate itself to providing significant resources for many years to come.

Providing for the defense of America is the most sacred constitutional obligation of the U.S. Congress. If it fails in this, no balanced budget, no health-care reform, no tax reform, no entitlement reform will matter. If lawmakers fail to provide the resources necessary for the defense of the nation, nothing else they do will matter.

*Mr. Cheney was vice president from 2001 to 2009. Ms. Cheney is Wyoming's U.S. representative.*

# A Better Model for European Defense

By Elisabeth Braw

Last fall Sweden practiced defending its Baltic Sea island of Gotland from invasion by a powerful enemy. But the Swedish Air Force didn't use its own crews and aircraft to play the red side, leaving that role to the Finnish Air Force. Sweden and Finland are integrating their armed forces, and the burden-sharing goes far beyond playing the enemy in exercises. It's a better model for efficient defense than an EU army.

Europe's militaries are notoriously wasteful and woefully underfunded. The European Union's member states spend an average of 1.3% of gross domestic product on defense, compared to 3.6% by the U.S. EU members also have a multitude of weaponry, but it suffers from enormous disarray: There are 177 weapons systems among members, while the U.S. only has 30. “We Europeans spend on defense,” observed George Robertson, the former NATO Secretary-General and U.K. Defense Secretary. “We just need to spend more wisely.”

Earlier this month, the European Commission announced a €5.5 billion ($6.13 billion) defense fund that will coordinate defense-research investments. The commission's president, Jean-Claude Juncker, has gone further, proposing that the EU integrate its armed forces. This week EU leaders will meet to discuss a more-modest version of that concept: joint military missions, use of EU battle groups and an EU pool of helicopters.

Their modesty is understandable: An alliance that operates 177 weapons systems would struggle to integrate even small sections of its armed forces. Add to that some members' skepticism of anything resembling an EU army.

But European countries can no longer ignore their inefficiencies. “We have big shortages of deployable troops and available planes,” Mr. Robertson said. “That won't be solved through new battle groups.”

Sweden and Finland-style integration would be a much more viable solution. Discussions between the two countries began a decade ago but sped up after Russia seized Crimea. The two air forces are in the process of integrating, and the navies have established a task group.

Each country can use the other's exercise ranges and landing fields, and troops may be commanded by officers from the other side. “This is making our armed forces more effective while using the same amount of resources,” said Niklas Granholm, a Swedish defense analyst. Bilateral integration saves money by maximizing capabilities.

While no modern country pairing has gone as far as Sweden and Finland, Belgium and the Netherlands operate a joint navy. “When operating the ships, it means you're 100% interoperable and standardized,” said Dick Zandee, a former head of policy and planning at the European Defense Agency who is now a senior fellow at Clingendael, the Netherlands Institute of International Relations. “In theory, you can even swap crews.”

**Instead of waiting for an EU army, member countries could form their own integrated armed forces.**

The Belgians and the Dutch have already bought minehunters and frigates together without insisting on national specifications, a consistent headache in multinational acquisitions. And the two countries depend on each other for training and maintenance. France and the U.K., meanwhile, are seven years into a bilateral agreement that includes a joint expeditionary force.

Other European countries could adopt the Swedish-Finnish model, but the challenge is national prestige: It takes a certain amount of humility for decision makers to give up some control in exchange for added capabilities. Success also requires a history of armed-forces collaboration, including joint exercises. And as retired Gen. Vincenzo Camporini, an Italian former chief of defense, points out, military integration requires a common foreign policy.

But for countries that have enjoyed many years of close relations and have similar equipment, armed-forces integration can be a highly practical solution. A combined Czech and Slovak air force would, for example, multiply the two neighbors' power. Lithuania could maximize its capabilities by integrating parts of its armed forces with Poland, while Poland would gain well-trained troops.

Countries could also team up with the existing pairs. Mr. Camporini suggests a limited geographical focus as another starting point. The Franco-German led operation in Mali could expand into an EU African command, he says. Starting small works in the military, too.

Joint acquisitions could also advance integration. Denmark, Italy, the Netherlands, Norway and the U.K. are buying the F-35 joint strike fighter. If these countries can break the bad habit of insisting on national variations, it would go a long way toward building a partly integrated air force. Collective decision making is tricky, but a partially integrated air force would give each country more value for its investment.

There's another reason the time is ripe for bottom-up European armed-forces integration. Two generations ago, few troops were fluent in another language. Today almost every officer speaks English. The integrated Swedish and Finnish units communicate in English, as does the Dutch-Belgian navy. “Integration is possible with English as the working language,” said Mr. Zandee. “Even French commanders are fine with English.”

*Ms. Braw is a nonresident senior fellow at the Atlantic Council.*

# The Experts Want Kids to Have a Fun-Free Summer

By Lenore Skenazy

It's summer! Time to dig in the sand, gulp from the hose, play at the park, and leap with joy.

Unless you're a kid—in which case, find yourself a comfy sofa in a dark, quiet room and settle in. This is the season your parents are bombarded with the kind of warnings previously associated with incoming torpedoes. The basic message: Don't have fun, it's too dangerous.

Yes, that would be the same kind of summer fun your parents endlessly reminisce about. “Remember when digging in the sand at the beach was a fun activity for young children,” says the website KidsTravelDoc. “Sorry. No more. Based on recent findings, only with lots of do's and don'ts is frolicking in the sand a healthy activity, says the U.S. Environmental Protective [sic] Agency.”

I was unable to find the EPA's granular list of caveats. But the blog's author, Karl Neumann of the American Academy of Pediatrics, lays out his own don'ts: “Studies show that children playing in the sand are more likely to become ill than children merely walking on it. And the risk of illness increases with digging in the sand, being ‘buried' in it, and digging in wet sand.”

Got it. Keep your kids on dry sand. No, wait: “Dry sand presents problems, too.” So, Mr. Neumann warns: “Discourage children from lying directly on the sand.”

While you're at it: “Walking barefooted is another ‘don't.' Have children wear lightweight, ventilated, hard-soled footwear that covers the toes. This helps prevent stubbed toes, lacerations, puncture wounds, and burns from hot sand. Ideally, footwear should be worn for wading in the water.”

Why take them to the beach at all? Keep them at home on a hard, nonporous surface, free of dirt and obstacles, checking frequently for venomous spiders, disease-bearing insects and sewage. Shod them in steel-toed work boots at all times, as well as oven mitts and chain mail.

But even that isn't enough. Simply keeping the kids at home doesn't ensure they're safe, especially if they make it into the backyard. Parents magazine warns that “bees are attracted to flowers, so don't put fragrances or floral-patterned clothing on kids.” Surely you've seen swarms of bees chasing children in floral prints, convinced they are flowering shrubs in work boots?

The American Academy of Pediatrics, meanwhile, suggests that if your moppets still insist on playing outside, the little daredevils at least “limit sun exposure during the peak intensity hours—between 10 a.m. and 4 p.m.” That shouldn't put a crimp in anyone's day, should it?

The academy is afraid that kids will get too much sun. It's also afraid they'll get too *little* sun and end up with rickets. A related fear is that kids won't get enough water because . . . well, everyone is obsessed with “hydration” these days.

It's always seemed to me that drinking when thirsty does the trick. No. Now there's a new product on the market called Gululu, which is a water bottle with a Wi-Fi connection. The Gululu app allows parents to monitor how much water their child is drinking. The cagey gadget even knows if the kids are secretly not drinking—pouring out water to stop their parents from texting them to drink more.

**Digging in wet sand is dangerous. ‘Dry sand presents problems, too.' And don't ask about water.**

To make the sipping less onerous—it really does get tiring if you're not thirsty—an animated character on the bottle's built-in screen grows happier and healthier the more the child drinks. Let's hear it for more screen time!

Gululu's other advantage is it keeps the little ones from drinking the wrong sort of water. Google “hose water” and you will be deluged with stories linking the stuff to just about every illness except gout. Some study, endlessly reported, found that hose water contained “PVC plastic additives, which can cause birth defects, liver toxicity, and cancer.” Naturally, in these stories there is no mention of how many cisterns of water a child would have to guzzle for any of these issues to ever develop.

Being a kid these days is no walk in the park. But that's just as well. Yet another Parents magazine masterpiece warns that to keep children safe at the playground, you should “walk away if you see cement, asphalt, dirt, or grass: These surfaces are linked to head injuries.”

So are walls, if you bang your head against them. My summer advice to parents is therefore short and sweet. Tell your kids they can't swim alone, get into a stranger's car, or let their parents buy them a high-tech water bottle.

And then stop reading other safety tips.

*Ms. Skenazy is founder of Free-Range Kids and a contributor to Reason.com.*

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# Notable & Quotable: A Lesson of the 1967 War

*The Hudson Institute's Michael Doran, testifying before the United Nations Security Council about the 50th anniversary of the Six Day War, June 20:*

May I again remind you of the example of [Egypt's] Gamal Abdel Nasser? A revisionist school of historiography claims that he never wanted war in 1967. His best military units were bogged down in Yemen, his economy was a shambles, and his relations with Jordan and Syria, his putative allies, were abysmal. Why would a leader in such a precarious position behave so recklessly?

The revisionists have much of the story right but they miss a crucial factor. Nasser was applying lessons that he learned a decade earlier, during the Suez Crisis. Then, as in 1967, he had precipitated a war that he could not possibly win militarily, but which he believed he could win politically, because, he gambled, the superpowers and the United Nations would intercede on his behalf. In 1956, that proved a very smart bet. In 1967, however, it utterly failed—with disastrous consequences for Egypt—to say nothing of the Palestinians. How much better would it have been for all parties if, back in 1956, the United Nations had insisted that, in return for an Israeli withdrawal from Egyptian territory, Nasser must grant Israel meaningful security guarantees?

The key lesson of 1967 war is that peace is best achieved not by United Nations intercession but by facilitating direct negotiations between the parties.

THE MIDDLE SEAT | By Scott McCartney

# The Case for Privatizing Air-Traffic Control

## The argument for splitting the FAA is based on how Canada, the U.K., and others have made flying better for travelers

**POLITICS ASIDE,** travelers really should want—demand—a privatized air-traffic control services provider. Many other countries have shown that it just plain works better than having a government bureaucracy directing airplanes.

Air-traffic control, known as ATC, depends on technology. Better tools can improve safety, shorten flights, get planes out of turbulence faster and reduce delays. And privatized ATC providers in Canada, the U.K., Australia and elsewhere have shown they can modernize and continuously upgrade faster than the Federal Aviation Administration.

On some key functions, the FAA is more than a decade behind.

The Transportation Department's inspector general, Calvin Scovel, told Congress in May that while the FAA is doing better with modernization, two decades of reform efforts have still fallen short.

FAA Administrator Michael Huerta, an Obama appointee, and other senior officials in the trenches on air-traffic control say the FAA just isn't structured to be a high-tech developer and operator. They argue splitting the agency would let it focus on safety regulation of airlines and air-traffic controllers instead of the potentially conflicting role of being the watchdog over its own controllers. The controllers' union also supports the idea after seeing the technology other countries are using and facing the threat of furlough in past budget showdowns.

Privatized ATC organizations say their big advantage, in addition to steady funding and borrowing, is that they can continuously take on small projects that make incremental improvements. When you're a government agency begging for appropriations, you pitch big, attention-getting programs. But big projects are exponentially more complex and prone to delay.

Take London's Heathrow Airport, one of the busiest in the world. Strong headwinds cause big delays: If planes are spaced 5 miles apart and it takes longer to fly the 5 miles, fewer land each hour and some end up circling in holding patterns. So NATS Holdings Ltd., the United Kingdom's privatized air services provider, developed a tool to let controllers easily optimize spacing by time, not distance. When the tool went into use in 2015 after two years of development, headwind delays were reduced by 50%.

Strong headwinds can lead to landing delays at congested airports like Los Angeles International. New technology in use at London's Heathrow Airport had dramatically reduced those delays. It will take years to reach the U.S.

Time-based separation could have a big impact at large U.S. airports. But it won't be operational for arrivals and approach until fiscal year 2022 at the earliest.

Canada privatized its ATC operations more than 20 years ago and has since leapfrogged the U.S. in technology and cut costs—13% over the past 11 years.

Flying in remote areas of Canada, pilots send text messages to controllers and get electronic responses. Requests for altitude changes are automatically checked for conflicts before they even pop up on controllers' screens. One mouse click can approve a request, update the plane's flight plan and alert other controllers. It's faster, more efficient and more accurate than U.S. procedures, and results in better flights for passengers.

The FAA has implemented digital communications at 55 major airports to deliver flight plans on the ground. That saves time, especially in stormy situations where lots of flights are getting new routes, and can reduce errors. But communicating with airborne planes by text won't come until 2019 at the earliest.

Privatization was first proposed in Congress in 1974, but then and every time since it has failed to gain support. Sometimes Republicans like the idea; sometimes Democrats. Rep. Bill Shuster, Republican chair of the House transportation and infrastructure committee, proposed legislation in 2016. It never got out of committee.

Legislation is being drafted again, with White House backing. Proponents say they are making progress addressing many of the criticisms of past proposals. But the headwinds will again be stiff.

Opponents warn of higher ticket prices. But passengers are already paying the full load for big bureaucracy through hefty taxes on their tickets. On a $400 domestic round-trip ticket with a connection, you pay $46.40 in FAA taxes and fees. In addition, airlines pay a fuel tax of 4.3 cents a gallon and a tax of 6.25% on cargo and mail.

Privatized ATC organizations charge user fees instead of taxes. (There likely would still be some ticket tax to cover safety regulation and airport improvements.) There are required international guidelines on charges so fees don't get out of hand and limit travel. In many cases, charges end up getting reduced as organizations get more efficient and traffic increases.

Rural representatives are worried that airport improvement funding from the FAA might dry up, and that fees for private aviation would make it harder to get medical flights and business-jet trips important to their communities. Small private-plane owners worry they'll be hit with user fees every time they practice landings in a Cessna 172.

Providers have concluded that making small planes pay small fees is a billing nightmare and would reduce safety. You don't want private pilots avoiding air-traffic controllers to save money. So service providers charge a one-time, required annual fee. In Canada, the annual fee for small propeller aircraft is aviation's best bargain: C$65, or about $49.

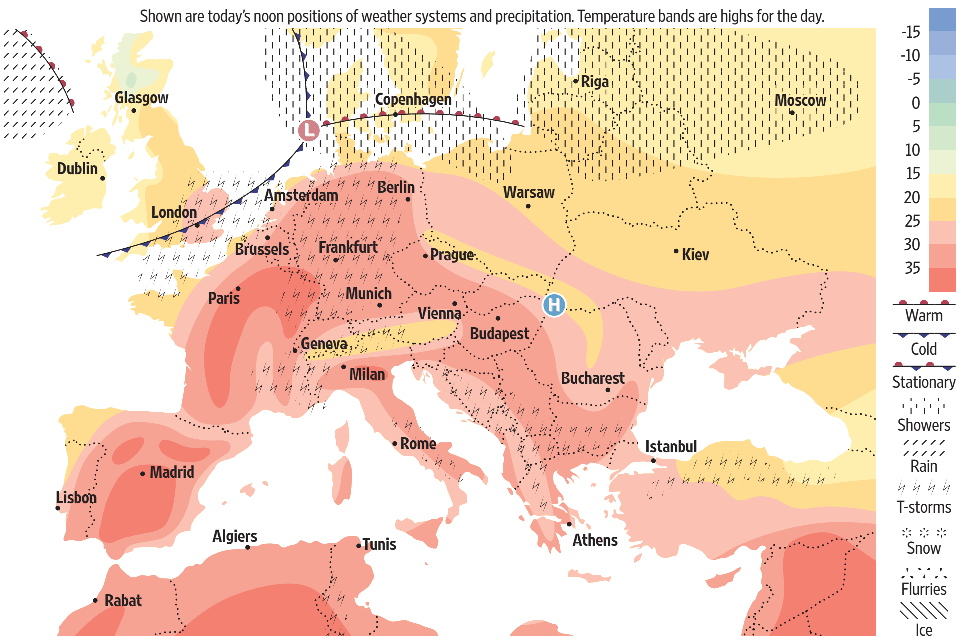
Others argue airlines would have too much control. That depends on how you set up the board of directors. In Canada, airlines get four seats on a 15-member board.

Some complain that sending government assets to a company would be a huge giveaway. Yet the current FAA infrastructure was paid for by travelers and shippers. If the new ATC organization had to buy the assets from the government, travelers and shippers would be paying for it again.

## Weather

AccuWeather.com

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

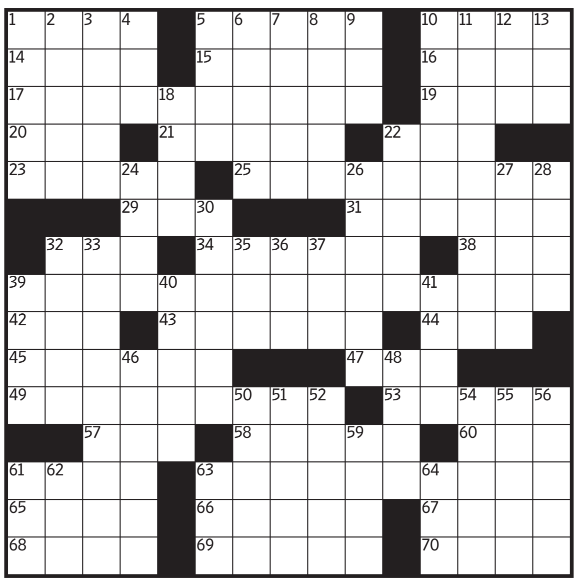



### Global Forecasts

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

| City | Today Hi | Today Lo | Today W | Tomorrow Hi | Tomorrow Lo | Tomorrow W |
|---|---|---|---|---|---|---|
| Amsterdam | 27 | 16 | t | 22 | 16 | pc |
| Anchorage | 16 | 10 | c | 15 | 9 | pc |
| Athens | 31 | 22 | s | 32 | 22 | s |
| Atlanta | 27 | 23 | t | 31 | 23 | c |
| Baghdad | 38 | 24 | s | 40 | 26 | s |
| Baltimore | 33 | 23 | pc | 29 | 22 | t |
| Bangkok | 34 | 26 | t | 34 | 26 | t |
| Beijing | 24 | 19 | t | 25 | 19 | sh |
| Berlin | 30 | 17 | t | 23 | 16 | pc |
| Bogota | 19 | 9 | r | 19 | 10 | r |
| Boise | 28 | 12 | s | 29 | 14 | s |
| Boston | 27 | 19 | pc | 29 | 21 | t |
| Brussels | 33 | 15 | t | 26 | 14 | pc |
| Buenos Aires | 22 | 16 | c | 21 | 13 | c |
| Cairo | 33 | 22 | s | 34 | 22 | s |
| Calgary | 15 | 7 | c | 16 | 7 | pc |
| Caracas | 32 | 26 | pc | 31 | 26 | s |
| Charlotte | 27 | 21 | c | 31 | 23 | c |
| Chicago | 32 | 19 | pc | 28 | 15 | t |
| Dallas | 33 | 24 | pc | 35 | 24 | pc |
| Denver | 32 | 13 | s | 25 | 11 | pc |
| Detroit | 31 | 22 | t | 28 | 16 | t |
| Dubai | 41 | 30 | s | 41 | 31 | s |
| Dublin | 19 | 13 | pc | 20 | 11 | c |
| Edinburgh | 20 | 13 | c | 18 | 10 | c |
| Frankfurt | 34 | 20 | t | 30 | 16 | pc |
| Geneva | 32 | 19 | pc | 32 | 18 | t |
| Hanoi | 35 | 28 | t | 34 | 28 | t |
| Havana | 33 | 24 | pc | 32 | 24 | pc |
| Hong Kong | 32 | 27 | t | 31 | 28 | t |
| Honolulu | 30 | 23 | pc | 29 | 23 | pc |
| Houston | 28 | 25 | r | 32 | 25 | t |
| Istanbul | 27 | 20 | s | 28 | 22 | s |
| Jakarta | 33 | 24 | sh | 31 | 24 | sh |
| Johannesburg | 20 | 3 | s | 18 | 2 | s |
| Kansas City | 32 | 20 | s | 28 | 15 | t |
| Las Vegas | 46 | 31 | s | 45 | 31 | s |
| Lima | 22 | 16 | pc | 22 | 16 | pc |
| London | 26 | 15 | pc | 25 | 16 | pc |
| Los Angeles | 29 | 18 | pc | 27 | 18 | pc |
| Madrid | 38 | 22 | pc | 38 | 20 | s |
| Manila | 34 | 26 | t | 34 | 26 | t |
| Melbourne | 15 | 7 | c | 15 | 8 | pc |
| Mexico City | 28 | 12 | pc | 28 | 13 | pc |
| Miami | 32 | 26 | pc | 33 | 26 | pc |
| Milan | 35 | 21 | pc | 36 | 21 | pc |
| Minneapolis | 23 | 14 | t | 22 | 13 | s |
| Monterrey | 41 | 22 | pc | 41 | 22 | s |
| Montreal | 25 | 17 | sh | 26 | 16 | r |
| Moscow | 17 | 9 | sh | 18 | 8 | pc |
| Mumbai | 32 | 28 | t | 32 | 27 | t |
| Nashville | 26 | 22 | r | 28 | 21 | t |
| New Delhi | 32 | 25 | pc | 33 | 25 | pc |
| New Orleans | 30 | 25 | r | 31 | 25 | t |
| New York City | 28 | 22 | pc | 30 | 22 | t |
| Omaha | 33 | 16 | pc | 26 | 13 | pc |
| Orlando | 32 | 22 | t | 32 | 23 | pc |
| Ottawa | 25 | 16 | pc | 24 | 15 | r |
| Paris | 36 | 16 | pc | 28 | 14 | s |
| Philadelphia | 32 | 24 | pc | 32 | 23 | t |
| Phoenix | 45 | 31 | s | 45 | 32 | pc |
| Pittsburgh | 29 | 20 | t | 25 | 17 | t |
| Port-au-Prince | 35 | 24 | pc | 35 | 23 | pc |
| Portland, Ore. | 27 | 13 | s | 30 | 16 | s |
| Rio de Janeiro | 24 | 20 | pc | 25 | 19 | pc |
| Riyadh | 42 | 27 | s | 41 | 25 | s |
| Rome | 29 | 18 | s | 29 | 19 | pc |
| Salt Lake City | 32 | 15 | s | 32 | 17 | s |
| San Diego | 24 | 19 | pc | 24 | 19 | pc |
| San Francisco | 28 | 16 | s | 25 | 14 | pc |
| San Juan | 30 | 25 | pc | 31 | 25 | sh |
| Santiago | 11 | 6 | r | 13 | 6 | c |
| Santo Domingo | 33 | 23 | pc | 32 | 23 | pc |
| Sao Paulo | 21 | 14 | pc | 22 | 13 | s |
| Seattle | 24 | 12 | s | 25 | 14 | s |
| Seoul | 28 | 20 | pc | 31 | 21 | pc |
| Shanghai | 26 | 24 | r | 28 | 24 | t |
| Singapore | 31 | 26 | t | 31 | 26 | t |
| Stockholm | 20 | 9 | pc | 21 | 12 | c |
| Sydney | 18 | 10 | pc | 18 | 9 | s |
| Taipei | 34 | 26 | pc | 34 | 26 | pc |
| Tehran | 37 | 22 | s | 36 | 21 | s |
| Tel Aviv | 28 | 20 | s | 28 | 21 | s |
| Tokyo | 27 | 20 | pc | 27 | 21 | pc |
| Toronto | 24 | 19 | t | 25 | 14 | r |
| Vancouver | 20 | 10 | s | 22 | 13 | s |
| Washington, D.C. | 33 | 24 | pc | 29 | 23 | t |
| Zurich | 33 | 18 | pc | 32 | 15 | t |

## The WSJ Daily Crossword | Edited by Mike Shenk



### FOUR BEARING | By Alan Arbesfeld

**Across**

1 Leaves time?
5 Big name in Internet telephony tech
10 Honshu city popular with steak fans
14 Lee who managed the Cubs and Phillies
15 Dealt with budgetary bloat
16 Maleficent
17 Totally fleece bluesman King?
19 Make out
20 Whichever
21 Key
22 "The Fountainhead" cover name
23 Eschew ignorance
25 Reason to cancel a Peruvian pack train?
29 Targets of browser blockers
31 Current event?
32 Apt. count
34 Tater Tots trademarker
38 Some NFL highlight reel features
39 "Yippee, that delicious Chinese brew!"?
42 Texter's "If you ask me..."
43 Myriad
44 Enterprise inits.
45 Geometry measure
47 On the side of
49 Why some people visit an aquarium?
53 Cockamamie
57 2013 film nominated for Best Picture
58 Article of faith
60 Important time
61 Expert
63 One telling you how to go?
65 Prime
66 Like venture capital investing
67 Lummox
68 Does in forests
69 Bolts
70 Mouths off

**Down**

1 Menacing
2 Free of friends
3 Nation on the Mediterranean
4 R&D locale
5 Alerts akin to BOLOs
6 "Sherry" singer
7 "Tricksy spirit" of drama
8 1983 title role for Barbra
9 Recipe direction
10 Many a marathon champion
11 Panhandlers?
12 Brite Liner brand
13 Bugler in the wild
18 Difficult situation
22 Literary middle name
24 Precipitate
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27 Lake Titicaca's locale
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30 Mollify
32 Killer of Paris
33 Backwoods brew
35 Pooh's pal
36 Interminable wait
37 Agcy. that won the 1969 Nobel Peace Prize
39 Suffer from the heat
40 "Bonanza" or "Rawhide"
41 Expert
46 "Get off my lawn!" shouter
48 Airing
50 Amazon field
51 Dealership document
52 Scoundrel
54 Musk product
55 Walk steadily
56 Sites of some sales
59 Breyers competitor
61 Cabbage roll?
62 Groundbreaking implement
63 Pound sound
64 Slick

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

**Previous Puzzle's Solution**

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TECHNOLOGY: WAL-MART WANTS VENDORS TO GET OFF AMAZON'S CLOUD B4





THE WALL STREET JOURNAL. Thursday, June 22, 2017 | B1

**Euro vs. Dollar** 1.1144 ▲ 0.07% **FTSE 100** 7447.79 ▼ 0.33% **Gold** 1243.40 ▲ 0.19% **WTI crude** 42.53 ▼ 2.25% **German Bund** yield 0.267% **10-Year Treasury** yield 2.156%

# Tokyo Leads Race for Toshiba Unit

By Takashi Mochizuki

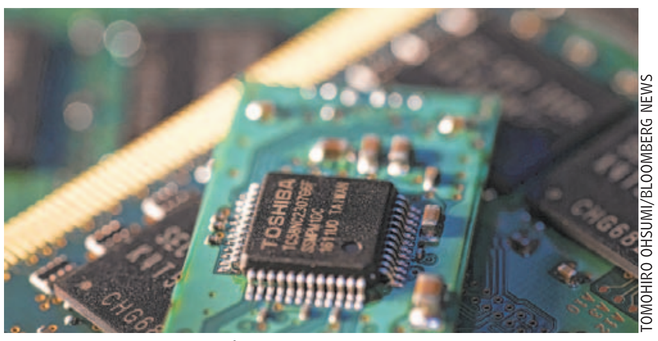
TOKYO—The Japanese government seized the lead role in buying **Toshiba** Corp.'s chip unit after expressing concerns about technology leaking to China, but a legal fight could hold up a deal.

Toshiba, seeking to hasten a sale that it hopes can raise about $20 billion, said Wednesday it had chosen as its preferred bidder a consortium that includes a state-backed investment fund and a state-owned bank. The company is trying to stay afloat after the bankruptcy of its U.S. nuclear subsidiary, Westinghouse Electric Co., left it with an estimated loss of nearly $9 billion for the year ended March 31.

The state-backed investment fund, **Innovation Network Corp. of Japan**, said it is pursuing the deal because "there is significant social value for this technology and business to remain in Japan." The Toshiba memory chips are used in **Apple** Inc.'s iPhones as well as computers that are the backbone of internet services.

Fast-growing demand and security concerns are turning the semiconductor business into a battlefield among governments of the leading economic powers. China has said it would funnel tens of billions of dollars into buying semiconductor technology overseas and developing it domestically. That has unsettled other producers, and the governments of the U.S. and Taiwan have blocked some Chinese bids.

Also in the consortium are the 100% government-owned



TOMOHIRO OHSUMI/BLOOMBERG NEWS

**Toshiba hopes to raise $20 billion from selling its chip business.**

Development Bank of Japan and U.S. private-equity firm Bain Capital. SK Hynix Inc., a South Korean chip maker, said it would join as a lender.

Japan's industry minister, Hiroshige Seko, hailed the announcement, saying the government-backed bid met the conditions he had set for preventing technology leakage and keeping jobs at home.

Toshiba said it wants to conclude an agreement with the group by next Wednesday, the day of the company's annual shareholder meeting.

Details of the bid weren't disclosed. One person briefed on the offer said it totaled slightly more than ¥2 trillion ($18 billion), and the Japanese government-backed investors would own more than half of the unit.

Closing the deal won't be easy. Toshiba's chip business partner, Western Digital Corp., which says it has the right to veto any transaction, has filed a request for binding arbitration and separately asked a state court in California to block any deal. In a statement Wednesday after Toshiba's announcement, Western Digital reiterated its claims and said it looks forward to a court hearing July 14.

Satoru Oyama, an analyst at research firm IHS Markit, predicted that the court fight would stymie Toshiba's goal of getting cash from the sale

*Please see CHIPS page B4*

HEARD ON THE STREET

By Nathaniel Taplin

## Oil Story Is Different This Time

It's official—oil is in a bear market following Tuesday's 2% fall, taking prices 21% below late-winter highs. The Organization of the Petroleum Exporting Countries' high hopes for crude have been shredded by the sharp claws of resurgent U.S. shale.

It has been a nasty few weeks for oil investors. The International Energy Agency last week cast doubt on OPEC's ability to do "whatever it takes" to drain massive global crude stocks, citing American shale production. Given the world's huge supply of crude, prices will likely struggle to head much above $60 a barrel regardless of what Saudi Arabia and its allies do.

The question then becomes: How low can they go? A collapse back toward 2016 lows below $30 a barrel remains unlikely, for two key reasons.

First, unlike before the big steps down in oil in 2014 and 2015, Chinese demand still looks firm. A little-noted fact about the 2014 crash is that besides a surge in supply, Chinese oil-consumption growth had also turned sharply negative in late 2013 as the economy slowed. U.S. demand growth had also weakened to nearly zero by mid-2014. It was weak oil-buying from the world's two largest consumers—not just surging supply from U.S. wildcatters—that caused the epic crash later that year.

This time around, Chinese consumption growth is hovering around the 3% mark—uninspiring but still better than 2016, when it was flirting with zero for much of the year. In the U.S., preliminary data indicate petroleum consumption may have bounced back in May after months of weakness. Lower prices may finally be tempting thrifty consumers back into their cars.

Meanwhile, U.S. supply growth, while still strong, is showing signs of peaking as lower prices start to bite: Year-over-year growth in the number of active U.S. oil rigs slowed for the first time in 20 weeks in early June.

The headwinds to oil remain strong and prices could still fall further in the weeks ahead.

But unless China's growth slowdown proves much uglier than expected—or U.S. consumers sit out the peak driving season in July and August—oil's slippery slope probably won't carry it back down to the soggy depths of January 2016.

J.B. FORBES/TNS/ZUMA PRESS

**Traders say the online auction isn't providing the promised reality check for prices in the cattle-futures market. An auction in Vienna, Mo.**

# Online Cattle Auction Needs a Jolt

### Exchange meant to bolster opaque futures market battles breakdowns, low participation

By Benjamin Parkin

An online auction meant to help set prices in the volatile cattle market is in trouble.

**Superior Livestock Auction** LLC launched the Fed Cattle Exchange last year to help guide the often opaque cattle market, where sparse trading can leave participants scrounging for timely price data. But breakdowns and dwindling participation have dogged the weekly online auction. The exchange has crashed multiple times this month; last week's auction was called off altogether.

As a result, traders say the auction isn't providing the promised reality check for pricing in the $19 billion cattle-futures market. Without real-time data on the price meatpackers are paying for the cattle they purchase from feedlots, traders say futures have become too speculative. Some believe a market that is meant to provide a hedge against what cattle might cost in the future has become dislocated from the real world, leaving feedlots unsure what their herds are worth.

"It's become increasingly difficult to use [futures] as a hedging tool because of the huge swings that we've seen," said Justin Tupper, a cattle rancher in St. Onge, S.D. "It looks a lot more like a gambling fund."

Take feeder cattle, animals that need to be fattened before slaughter. This month, feeder-cattle futures hit a 14-month high at the Chicago Mercantile Exchange before falling to the bottom of their allowed daily trading band, all in about an hour. A circuit breaker kicked in to prevent further losses. Analysts and traders said they saw little in the real world to justify the move.

"There are days where I look at the futures, knowing what I know about the fundamentals, and say, 'Are we on two different pages?'" said John Nalivka, president of advisory firm Sterling Marketing Inc. in Vale, Ore.

Public cattle prices became scarce over the past decade as the share of cattle sold on the open market fell sharply. That shift reflected consolidation among both ranchers and meat companies into a few large players that favor contracts over auctions as the most efficient way to sell the 30 million or more cattle slaughtered in the U.S. each year.

The CME stopped listing

*Please see CATTLE page B2*

# MSCI's Move Could Prod Chinese Firms

By Gregor Stuart Hunter

**MSCI** Inc.'s decision to include mainland Chinese shares in its global benchmarks for the first time could prompt changes to how companies are run, even if the initial amount of capital inflows won't be enough to cause a sizable shift in the country's markets, analysts and brokers said.

MSCI said it would admit 222 Chinese stocks—known as A-shares, or stocks denominated in yuan and listed in either Shanghai or Shenzhen—to benchmarks such as its Emerging Markets Index, which is tracked by funds with some $1.6 trillion of assets under management world-wide.

The approval—which came before the start of Chinese stock trading Wednesday and followed three years of rejections by MSCI—drew a muted reaction from mainland investors. The Shanghai Composite Index closed up 0.5%, while its Shenzhen counterpart gained 0.4%.

QILAI SHEN/BLOOMBERG NEWS

**Exchanges in Shanghai and Shenzhen, seen here, have a combined $7.5 trillion market cap.**

The tepid response was viewed in the market as a reflection of the relative caution apparent in MSCI's decision. After discussions with big fund managers such as **BlackRock** Inc., the world's largest money manager by assets, the index provider said it would admit roughly half of the largest number of companies it had considered including in past years.

*Please see MSCI page B2*

# Bigger Is Better In Bond World

By Jon Sindreu

Giant bond firms increasingly are taking on a price-setting role in global debt markets, elbowing aside big banks facing tighter postcrisis regulation and generating concerns about the toll paid by smaller investors.

What trading banks still do is directed at bigger funds, say bankers and fund managers. Smaller funds have less service and higher costs in trading, say many money managers who work for them.

While bigger bond investors have long had advantages, the differences have become more pronounced.

"There's no question that bank balance sheets are much more constrained than they used to be," said Scott Clemons, chief strategist at **Brown Brothers Harriman** & Co., which oversees $54 billion, and this "has shifted the relative importance of players in the market."

What's happening in bond markets would be similar to a retail sector in which wholesalers—a role played by banks in financial markets—were scaling back their business. Small retailers would struggle to stock up, but big-box stores with their mega warehouses and access to international producers would get by fine.

Before the financial crisis, Jay Sommariva, portfolio manager at Fort Pitt Capital Group, a Pittsburgh firm that manages $1.5 billion, would call a few banks to sell a bond and it would be snatched up within hours, he says. Now, he says, it takes at least a couple of days, and the cut that the bank takes is much greater.

For every billion dollars of bonds outstanding in U.S. markets, dealer banks held only $8 million in stock in 2016, one-third the amount in 2008, according to the Federal Reserve and the Securities Industry and Financial Markets Association. This change has made trading choppier, research published by the Fed last month suggested.

*Smaller funds have less service and higher trading costs, say money managers.*

It is also shifting the balance of power away from banks and small funds, investors say, and into the hands of the largest asset managers.

In recent years, whenever Mr. Sommariva wanted to sell a bond, banks would normally only buy it if they had someone lined up to sell it to, he said. Big funds say that this someone is them.

"They'll call us, Pimco, BlackRock, and ask 'Can you take that on?'" said Gregory Peters, a senior fund manager at PGIM Fixed Income, part of PGIM Inc., an asset manager that oversees $1 trillion. "It's really Darwinian when it comes to size."

This approach wasn't as common pre-2008, when banks could buy the bond on the spot and wait to sell it when a buyer was willing to meet their price.

Taking the bond off the banks' hands, however, is a service done only for a good price, Mr. Peters added, giving firms like his an edge.

Who is getting the short end of the deal? Banks are being hit because they have less flexibility in trading, and because asset managers now have more analysts, more data and electronic tools that allow them to trade directly with one another, analysts say.

"A client has a lot of trans-

*Please see BOND page B2*

# INDEX TO BUSINESSES

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



# INDEX TO PEOPLE



## BUSINESS & FINANCE

# GE Is Big Player at Air Show

### Acquisition spree gives U.S. firm aerospace expertise and a strong presence in Europe

By Daniel Michaels And Robert Wall

MARLENE AWAAD/BLOOMBERG NEWS

David Joyce, head of GE's aviation division, with a jet engine at the Paris Air Show on Monday

LE BOURGET, France—One of the biggest European players at this year's Paris Air Show isn't a European company at all. It is **General Electric** Co.

Over the past decade, the U.S. industrial icon has bought a number of aerospace companies and suppliers from Britain and Sweden to Italy and the Czech Republic. The deals have made GE parts ubiquitous on modern jetliners. It has grown into one of Europe's largest aerospace employers, with roughly 11,600 workers across the Continent, setting it apart from many of its peers.

European deals are familiar turf for John Flannery, who last week was named GE's new chief executive officer starting in August. He made his mark at the company leading GE's biggest industrial acquisition ever, the $17 billion purchase of France's Alstom SA power business.

GE is now trying to turn its collection of disparate European aerospace assets into a whole that is greater than the sum of its parts. It wants to knit the businesses into a pan-European group that can develop new equipment and tap European Union development funding.

"We pick the best companies at the time wherever they are globally," David Joyce, GE vice chairman and boss of the aviation business said. "As long as it makes sense we buy them."

Rivals are watching with interest. Eric Schulz, president for civil aerospace at Britain's **Rolls-Royce Holdings** PLC, said, "GE's size has always been and I believe will always be a threat for Rolls-Royce and for the others, including their own customers." The British aircraft-engine maker is GE's biggest rival in powering the largest jetliners.

But Mr. Schulz said size has drawbacks, making companies less flexible as they try to protect broader corporate interest and, as a result, fail to offer the most competitive product. Being leaner "I hope gives us more creativity and innovation," Mr. Schulz said. Rolls also is investing, including in the U.S., he said.

GE executives in Europe say that getting employees from a variety of companies and countries to learn the conglomerate's ways and to cooperate is can be difficult, but their engineering talent benefits the group.

GE's recent European spree is built on deep links. In 1941, GE built the U.S.'s first jet engine based on a British design. In 1974, it teamed up with a French rival, which was building engines for the supersonic Concorde, and today their CFM International joint venture is the world's biggest producer of jet engines. In 2007, GE bought U.K. airplane-electronics maker Smiths Aerospace, expanding its aviation business beyond engines and landing gear.

The company's massive plane-leasing business, GE Capital Aviation Services, known as Gecas, largely operates from Ireland and London. It has a fleet of about 1,700 planes with more than 200 customers. Gecas placed deals to buy 100 Airbus aircraft and another 20 from Boeing on the first day of the Paris Air Show this week.

When GE decided to expand into the civilian turboprop market, long dominated by U.S. rival Pratt & Whitney, a unit of **United Technologies** Corp., it bought Prague-based Walter Aircraft Engines in 2008.

In 2013, GE snapped up Avio Aero, an important supplier near Milan whose private-equity owner was looking to exit.

Last year, GE acquired 3-D printing companies in Germany and Sweden that are important suppliers to Avio, Walter and GE's engine division in the U.S. Mr. Joyce said that when GE wanted to boost its 3-D activities, it had to strike deals in Europe because that is where the expertise resided.

Last week, on the day GE named Mr. Flannery its new boss, it also said it had bought OC Robotics of Bristol, England, for an undisclosed sum. The company's snake-arm robots should make repairs in difficult-to-reach places on wings easier.

GE's European empire "is something that came together almost accidentally," said Riccardo Procacci, a GE veteran who moved to Avio from its Italian oil-and-gas business. "Stepping back now, we can see we are one of the biggest aviation companies in Europe."

# CATTLE

*Continued from the prior page*

new live cattle contracts last year as concerns over their volatility intensified. This month, the CME said it would relist contracts that better mirror real-world cattle trades and improve efficiency by redefining the quality of the beef in question and protocol for the cattle's physical delivery. The CME also increased by about 15% the collateral needed to place bets on its exchanges.

"We want to make sure we have an efficient tool," said Fred Seamon, CME Group Inc.'s director of commodity product development.

Mr. Seamon welcomed the Fed Cattle Exchange's efforts to generate more price data that might calm trading on the CME as well. He said the two companies aren't working together.

The new auctions lost some momentum last year during a nearly three-month outage to address technical issues. Sales on the Fed Cattle Exchange have dwindled to as little as a few hundred in recent weeks from a few thousand earlier this year. Analysts say the lower volume partly reflects a cattle-supply pinch that has led feedyards to strike deals with slaughterhouses in advance.

To compensate participants for the recent crashes, Superior Livestock waived fees of a dollar a head to sell cattle on the exchange for the remainder of June.

Sam Hughes, the Fed Cattle Exchange's Oklahoma City-based manager, said the company wants to attract more buyers and sellers. The company has reverted to an older website while building a more stable auction platform.

"It is concerning at times, whenever the volume is low," Mr. Hughes said. "People were kind of scratching their heads last week because this is the first time since September that people haven't had a readily available price," referring to the suspended auction.

Still, some traders say they are willing to stick with it in hopes that the auction would eventually provide more reliable ballast for futures prices.

"If it doesn't make it, then we're back to the same mess that we were in," said Dan Norcini, an independent trader in Coeur d'Alene, Idaho.

"That makes these cattle futures markets almost impossible to trade."

# MSCI

*Continued from the prior page*

MSCI estimates some $17 billion will flow into Chinese markets—both from passive funds that automatically track its indexes and active fund managers—when the country's stocks are included a year from now. That is a fraction of the Shanghai and Shenzhen markets' combined $7.5 trillion market capitalization.

MSCI indexes already include Chinese companies' shares listed in cities like Hong Kong and New York, but not those in mainland China.

Still, the decision was heralded by market participants who have long salivated over the prospect of gaining greater access to the world's second-largest economy. The move could change the way that global investors look at China, said Chin-Ping Chia, head of research for Asia-Pacific at MSCI.

"It's about the opening of a new phase of emerging-market investing," he said. "The opening of the Great Wall, so to speak."

Including mainland Chinese stocks in MSCI benchmarks will have "far-reaching implications" for global investors, said Rakesh Patel, head of equities for Asia-Pacific at HSBC. He said some $500 billion could flow into Chinese markets in time, as they become more accessible and companies such as MSCI and FTSE Russell give a full weighting to Chinese stocks in their indexes.

The country's stock-market regulator, the China Securities Regulatory Commission, said the decision reflected confidence from global investors in the Chinese economy and financial markets.

The regulator also pledged to further revamp its capital markets. "The Chinese capital market must welcome foreign investors more openly," it said.

In the year since MSCI's most recent rejection of Chinese stocks' inclusion in its indexes, the country has further opened up the Shenzhen market to global investors via a trading link with Hong Kong. It has also overhauled the rules governing share suspensions, making it more difficult for companies to halt trading in shares.

One concern for investors is whether having more shareholders from overseas will encourage greater transparency and better corporate governance at Chinese companies.

"Now that China's domestic stock market has become a member of the international family, it has become easier for us to have a dialogue with companies and regulators to express our views," said Victoria Mio, Hong Kong-based chief investment officer for China at asset manager Robeco.

*MSCI estimates some $17 billion will flow into Chinese markets next year.*

Following MSCI's decision, global investor attention will focus on improvements in the quality of management at Chinese companies, said Kevin Anderson, head of investments for Asia-Pacific at State Street Global Advisors.

"There will now be a lens shone on Chinese companies, with an eye on improving shareholder value, corporate governance and returns from those companies," he said.

Yet others were less upbeat. Chinese stock markets "still suffer from serious institutional shortcomings as well as heavy political influence," according to analysts at research firm Eurasia Group.

Since China's market crashes in 2015 and early 2016, the presence of state-backed investment funds in the market has risen in importance. Domestic traders say such funds often step in to buy or sell shares during periods of market volatility.

In addition, China's market regulator continues to exert strong control over the pace of initial public offerings. Despite recent revamps, the country's tight capital controls can still make it difficult for investors to move money across the border.

*—Chao Deng and Shen Hong contributed to this article.*

# BOND

*Continued from the prior page*

parency now and, in many ways, more than a dealer," said Chris Orr, co-head of European investment-grade credit trading at Swiss bank Credit Suisse Group AG.

But ultimately, if banks trade less, it is the small investor who suffers, analysts say. Smaller asset managers are reliant on banks; they don't have the capacity to stockpile bonds themselves.

*Ultimately, if banks trade less, it is the small investor who suffers, analysts say.*

To be sure, banks have long given better prices to bigger funds sending larger orders, because they bring in more fees—trading small blocks can be five times as pricey as doing it in bulk, managers said. Smaller funds are also trying to adapt and play to their strengths, they say, for example by holding less-traded bonds for longer.

Large asset managers, meanwhile, are adapting to their new role, and behaving more like banks used to.

Now, instead of just calling banks for quotes on bonds, big funds often amass large stockpiles of their own and then call banks to tell them at what price they are willing to sell, said David Lloyd, head of institutional public debt at M&G Investments, a £265 billion ($335 billion) asset manager.

It is hard to pin down the cost of trading because it varies depending on the risk and maturity of the asset, as well as daily moves. Large funds say that roughly 1% of the money they can make on a bond may be spent on buying or selling it to a bank, with some reporting only slight increases since the crisis.

Some smaller funds say that for them, this cost could go up to 15%, an increase of roughly a fifth after 2008.

Larger funds tend to outperform smaller ones, although there are many other possible reasons. Individual U.S. dollar corporate-debt funds larger than $1 billion returned a cumulative 61% between 2008 and 2016, while those managing less than that yielded only 48%, according to data by fund tracker Morningstar Inc.

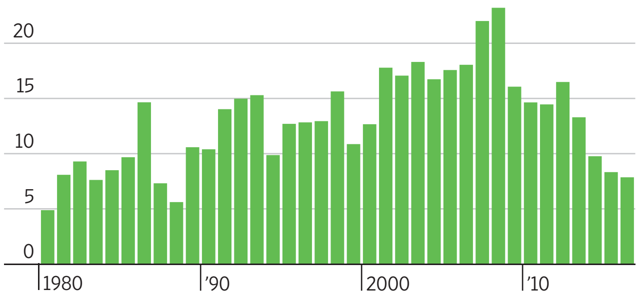
And small funds face myriad new problems. Swaths of post-crisis regulation are costlier to handle for smaller investors. Customers are migrating en masse to low-cost index funds, and large firms hold 88% of those assets, Morningstar says.

"The bigger you are the better off you are," said Bob Baur, chief global economist at Principal Global Investors, which manages more than $400 billion.

## New Day

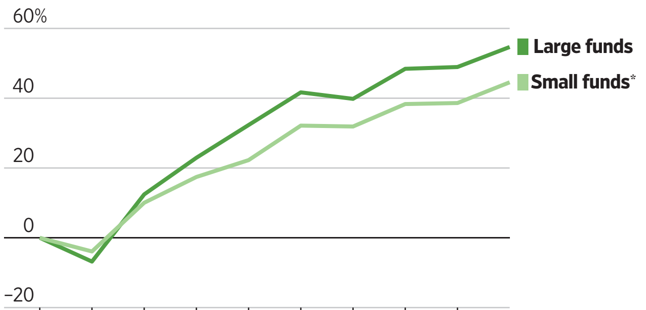
Banks stepping out of bond markets...

**Amount of debt securities U.S. banks stockpile for each $1 billion outstanding in the market**




...could hurt small investors more than the big funds.

**Cumulative returns since 2007 for U.S. dollar corporate-bond funds**




*Individuals funds holding less than $1 billion

Sources: Securities Industry and Financial Markets Association, Federal Reserve (stockpile); Morningstar Inc. (returns)

THE WALL STREET JOURNAL.

# Theranos, Walgreens to Settle Suit

Tentative agreement calls for blood-testing firm to pay retailer less than $30 million

By Christopher Weaver


MICHAEL CHOW/THE ARIZONA REPUBLIC

**A Theranos center in a Walgreens store in Arizona in 2015. The companies are ending their alliance, which had resulted in a costly feud.**

A seven-year relationship between **Theranos** Inc. and **Walgreens** that soured into a costly feud for the drugstore giant will soon come to a close.

Theranos has told its investors it has reached an agreement in principle to settle a lawsuit by **Walgreens Boots Alliance** Inc. that had alleged the embattled laboratory startup breached the companies' contract, people familiar with the matter said. Walgreens' stores once hosted about 40 Theranos blood-testing centers, providing a main conduit to consumers.

The pact would mean Walgreens' alliance with Theranos cost the drug retailer well over $100 million. In its suit, Walgreens had sought to recover the full $140 million it put into the partnership, including a $40 million convertible-debt note and a separate payment as part of an effort to expand the partnership.

The tentative agreement calls for Theranos to pay Walgreens less than $30 million, according to some of the people familiar with the matter. The pact hadn't been completed as of late Tuesday and terms could change, the people said.

Representatives for Walgreens and Theranos declined to comment.

In its November 2016 suit, Walgreens alleged Theranos misled it about the state of the lab firm's technology as they formed their partnership, and about the firm's growing legal and regulatory challenges throughout 2016. Theranos has called the allegations "unfounded."

Separately, Theranos told investors in a series of recent meetings that it had about $54 million in cash left as it sought to resolve claims, people familiar with the matter said. The Walgreens pact would further bite into that remaining supply of money. Theranos also carries insurance policies that could cover certain claims, court records show.

Theranos has been burning through its cash. In January, it had about $187 million, according to an investor document made public last month in a court filing. The firm has been spending about $10 million a month since, much of it on legal costs, as it cut staff to about 170 from around 900 late last year, according to people familiar with the matter and the court filing.

In a series of meetings with investors in recent days, Theranos said it planned to ask some existing shareholders to loan it an additional $50 million, people familiar with the discussions said. As of Monday, that planned deal hadn't been completed, one of the people said.

It isn't clear which investors may have been approached about the offer or whether any had agreed to do so. Theranos also plans to seek to raise $150 million to $200 million in a funding round next year, some of the people said.

Theranos has retracted nearly one million medical-test results since regulators found problems early last year with its lab practices that they said put patients in danger, a court filing shows. After lab regulators barred Theranos from running medical labs for two years last summer, the company said it developed new blood-testing devices to sell to third-party lab operators. It hasn't yet sought regulatory approval for these devices.

Walgreens had once viewed the partnership as a key pillar of its strategy to use its brick-and-mortar footprint to diversify into more areas of health-care services. Theranos had claimed it could do dozens of tests on a few drops of blood and Walgreens hoped to one day put its devices in its stores.

Walgreens kicked off its relationship with Theranos in 2010, including with an internal party at the drugstore corporation's Deerfield, Ill., headquarters, company documents show.

At the gathering, one Walgreens executive recited, to the tune of the John Lennon song "Imagine," lyrics urging listeners to imagine a world where blood tests could be done without pain, a person who was there recalled.

The relationship became strained as both parties blamed the other for delays, and Walgreens managers became frustrated that Theranos repeatedly limited their access to its labs, data or devices, people familiar with the matter have said. The two companies finally rolled out their Phoenix-area pilot in late 2013.

After The Wall Street Journal first raised questions about Theranos's technology and capabilities in October 2015, Walgreens said it would halt the nationwide expansion of the partnership.

But it kept the Theranos testing centers at its Phoenix stores open for months and patients continued to receive blood tests there. Some Theranos patients later alleged that both Theranos and Walgreens misled them about their tests' accuracy. The cases are pending in an Arizona federal court, where a judge last week threw out some of the claims and asked the plaintiffs to amend others. The companies are fighting the suits and have said they are without merit.

In June 2016, Walgreens abruptly ended its partnership with Theranos after executives grew frustrated they were learning of regulators' concerns from news reports, according to people familiar with the matter.

# Diageo to Pay $700 Million For Tequila

By Saabira Chaudhuri

LONDON—**Diageo PLC** agreed to buy upscale tequila brand Casamigos for $700 million, part of a larger push by the spirits giant to increase its exposure to the tequila market.

The world's largest spirits maker will pay the amount upfront to acquire Casamigos, cofounded by actor George Clooney, and said it would also pay a potential $300 million over 10 years linked to performance.

Tequila is among the fastest-growing spirits in the world right now, with volumes increasing 5.3% last year, compared with the 0.04% growth seen by the broader spirits industry, according to industry tracker IWSR.

Casamigos, which was founded in 2013, sold 120,000 cases last year, mainly in the U.S. The brand is expected to hit 170,000 cases this year. Its other co-founders are Rande Gerber, husband of supermodel Cindy Crawford, and real-estate tycoon Mike Meldman.

The Casamigos deal is Diageo's first since 2015. The company had been focused on jump-starting sales in the U.S., its biggest market, where performance has until recently been weak as consumers abandoned brands like Smirnoff and Captain Morgan for smaller rivals.

Diageo plans to expand Casamigos internationally, saying it sees strong potential across Western Europe in particular. The tequila comes in three variants that sell for between $45 and $55 a bottle.

"The category is relatively underdeveloped outside North America and we see a huge opportunity for our existing brands and Casamigos," said Diageo's North America head Deirdre Mahlan on a call with reporters.

*—Tapan Panchal contributed to this article*

# Wal-Mart Takes Fight to Amazon

By Jay Greene
And Laura Stevens

The battle between the King Kong and Godzilla of retail has moved into the cloud.

**Wal-Mart** Stores Inc. is telling some technology companies that if they want its business, they can't run their applications serving the retailer on **Amazon.com** Inc.'s leading cloud-computing provider, Amazon Web Services, several tech companies say.

Amazon's rise as the dominant player in renting on-demand, web-based computing power and storage has put some competitors, such as **Netflix** Inc. for streamed videos, in the unlikely position of relying on a corporate rival as they move to the cloud.

Wal-Mart, loath to give any business to Amazon, said it keeps most of its data on its own servers and uses services from emerging AWS competitors, such as **Microsoft** Corp.'s Azure.

Wal-Mart uses some tech vendors' cloud apps that run on AWS, said Wal-Mart spokesman Dan Toporek. He declined to say which apps or how many, but acknowledged instances when Wal-Mart pushed for AWS alternatives.

"It shouldn't be a big surprise that there are cases in which we'd prefer our most sensitive data isn't sitting on a competitor's platform," he said, adding that it's a "small number."


SEAN GALLUP/GETTY IMAGES

Wal-Mart is advising some of its vendors to steer clear of using Amazon's cloud-computing service.

An Amazon spokeswoman referred to Wal-Mart's moves as attempts to "bully" tech service suppliers. "Tactics like this are bad for business and customers," the spokeswoman said.

**Snowflake Computing** Inc., a data-warehousing service, was approached by a provider to Wal-Mart about handling its business from the retailer, Chief Executive Bob Muglia said. The catch: Snowflake had to run those services on Azure.

"They influence their vendors, which has influence on us," Mr. Muglia said of Wal-Mart.

The San Mateo, Calif., company had been developing an Azure offering, and "Wal-Mart has expedited our work," said Mr. Muglia, a former senior Microsoft executive. Snowflake won the business from the Wal-Mart provider.

Other large retailers also have requested, as Wal-Mart did, that service companies move away from AWS, according to technology vendors that work with retailers.

Retailers "are all very particular, and some are more particular than others," said Kevin Howard, CEO of Adroit Worldwide Media Inc., a retail-technology provider that works with sensitive data including automated inventory tracking and provides pricing-content management. "There are retailers that have specifically requested that we sit on Azure," he said, declining to name them.

Amazon said a number of retailers it competes with use AWS, such as **GameStop** Corp.

Wal-Mart and Amazon have sparred for years. Last week, Amazon sent shock waves through the grocery industry—one of Wal-Mart's biggest businesses—by announcing a $13.7 billion deal to buy Whole Foods Market Inc. That came after Wal-Mart in recent years slashed grocery prices in part to head off Amazon's online incursion into the business. More recently, Amazon lowered its Prime membership fee by nearly half for people who obtain government assistance, targeting a Wal-Mart stronghold.

Their cloud battle takes aim at the financial advantage AWS gives Amazon. The company's global retail business operates on thin margins, but they are offset by the enormous profits AWS generates. In the first quarter, AWS posted $890 million in operating income, accounting for 89% of overall operating income, even as AWS's $3.66 billion in net sales accounted for just 10% of the company's total.

The notion that AWS supports Amazon's retail business is incorrect, the spokeswoman said, citing the fact that its North American retail business logged an operating profit.

While Wal-Mart's efforts aren't likely to slow AWS's growth, it could boost rivals.

"People jump through hoops to do business with Wal-Mart all the time," said Robert Hetu, an analyst with the research firm Gartner Inc. "That should absolutely accelerate the competition from Azure."

# SoftBank Invests in Security Startup

By Timothy W. Martin
And Robert McMillan

Japan's **SoftBank** Corp. is investing $100 million in a Boston-based cybersecurity firm run by former Israel counterintelligence members, the latest high-profile cash injection into a bustling industry offering newfound defenses against global hackers.

The deal, announced early Wednesday, values **Cybereason** at about $1 billion, according to people familiar with the matter. The firm, founded in 2012, has raised a total of $189 million so far with investors. The latest investment isn't part of the roughly $100 billion SoftBank Vision Fund the Japanese firm launched in May with Saudi Arabia's sovereign-wealth fund.

*Cybersecurity firms have been attracting interest from deep-pocketed investors.*

A string of high-profile cyberattacks, including last month's WannaCry ransomware assault that was linked to North Korea and a series of breaches at internet giant **Yahoo** Inc., have exposed how hackers are quickly discovering new ways to unearth network vulnerabilities. A spate of startups including Cybereason are pitching a new generation of computer security products that use machine learning and computer algorithms to sniff out problems before they spread.

The WannaCry attack was spotted instantaneously by Cybereason's algorithms—requiring no human intervention—and no clients were affected, said Lior Div, Cybereason's chief executive, and a former decorated Israeli cyberintelligence officer, in an interview. The firm's clients, including SoftBank and Lockheed Martin Corp., use Cybereason often in tandem with legacy services offered by Symantec Corp. or McAfee LLC.

"Today we're the last line of defense, but I would argue we're the only line of defense—because the first line of defense is not working," said Mr. Div, 39 years old.

Cybereason is one of several new cybersecurity startups attracting interest from deep-pocketed investors. Tanium, the world's most valuable cybersecurity startup, valued at $3.75 billion, and CrowdStrike, which helped the Democratic National Committee respond last year to a network breach linked to Russia, both raised $100 million last month. Another cyber firm, Illumio, raised $125 million earlier this month.

SoftBank, which spans a Japanese telecom arm, U.S. mobile carrier Sprint Corp., and U.K. chip designer ARM Holdings Inc., is increasing its investment staff around the world, betting on technology that it says will be key when everyday items like shoes and microwaves are connected to the internet.

The company recently led a funding round for London-based startup Improbable, which designs virtual worlds for videogames and simulations that can be applied to the real world, as well as Alphabet Inc.'s robot units.

Global security spending is forecast to hit $81.7 billion in 2017, according to market researcher International Data Corp., with forecasts of growth to about $105 billion in 2020. Meanwhile, information-technology startup investments rose to $3.05 billion during the first three months of this year, up 13% from the same period in 2016, according to data from Dow Jones VentureSource.

Cybereason was founded by Mr. Div and two other ex-members of Israel's Unit 8200, the equivalent to the U.S. National Security Agency.

*—Mayumi Negishi contributed to this article.*

# Tesla Loses Executive of Self-Driving Unit

By Tim Higgins

**Tesla** Inc. has parted ways with another senior leader on its self-driving technology team, adding more turmoil to a program that is under pressure to meet the grand ambitions of Chief Executive Elon Musk.

The Silicon Valley electric-car maker on Tuesday said Chris Lattner, the vice president of Autopilot software, has left the company about six months after Tesla hired him away from **Apple** Inc.

"Chris just wasn't the right fit for Tesla, and we've decided to make a change," Tesla said Tuesday.

Mr. Lattner followed Tesla's statement with a posting on Twitter: "Turns out that Tesla isn't a good fit for me after all. I'm interested to hear about interesting roles for a seasoned engineering leader!"

Mr. Lattner didn't respond to a request for comment.

The program, under pressure from Mr. Musk to demonstrate a Tesla vehicle can drive itself by year-end, has grappled with an exodus of talent and questions about the safety of the technology. Tesla's Autopilot system, which can assist drivers with steering, braking and changing lanes, sparked a safety debate after a Tesla driver in Florida died in a crash a year ago while using the semiautonomous system.


JUSTIN SULLIVAN/GETTY IMAGES

Elon Musk vowed one of Tesla's cars will drive itself from Los Angeles to New York by year-end.

U.S. regulators closed their investigation of the crash in January by concluding Autopilot didn't contain a safety defect.

Mr. Lattner's hiring in January coincided with the departure of Autopilot director Sterling Anderson, a leader in developing the system. Tesla sued Mr. Anderson over his efforts to create a competing startup; the lawsuit was settled in April.

In March, David Nistér left his job as the vice president of Autopilot vision for chip maker Nvidia Corp.

On Tuesday, Tesla said it had elevated Jim Keller, vice president of Autopilot hardware, to also oversee Autopilot software. Mr. Keller joined Tesla in 2016 from chip maker Advanced Micro Devices Inc.

The company also said Andrej Karpathy, an expert in computer vision who worked recently as a research scientist at OpenAI—a nonprofit cofounded by Mr. Musk—would become director of AI and Autopilot vision.

The team has an ambitious agenda. Even as Mr. Musk last year dealt with safety regulators examining Autopilot, he was pushing ahead with promises to make the system more robust.

In October, he announced that vehicles coming off the assembly line were being equipped with the hardware need to make them fully self-driving once the software was ready—and promised to demonstrate that ability by driving from Los Angeles to New York by the end of 2017.

Amid the Autopilot drama, Tesla is on the eve of beginning production of the Model 3, its foray into less-expensive vehicles. The $35,000 car is supposed to help boost the company's production to 500,000 next year from about 84,000 last year.

The hard-charging Mr. Musk has seen several executives leave in recent years, including the chief financial officer.

None of the hurdles, however, seem to have damped enthusiasm for his vision among investors, who have sent the company's stock to record highs, pushing Tesla past **General Motors** Co. as the largest U.S. auto maker by market capitalization.

## BUSINESS WATCH

NIKE

### Amazon to Sell Some Products Directly

**Nike** Inc. has agreed to sell some of its products directly to **Amazon.com** Inc., a person familiar with the matter said, a concession by the sneaker giant that it can no longer afford to ignore the online retailing behemoth.

While Nike sells its shoes and sportswear through department stores and specialty retailers, it has refused to sell directly to Amazon, fearing it would undermine its brand. But with traffic to traditional stores on the decline and chains like Sports Authority disappearing, Nike has been ramping up efforts to sell directly to consumers, especially its own e-commerce efforts.

**Adidas** AG and **Under Armour** Inc. sell some of their products directly to Amazon, which has been working to add fashion brands and apparel to its inventory.

Nike and Amazon declined to comment.

*—Sara Germano and Laura Stevens*

ETSY

### Online Marketplace To Cut 140 Jobs

**Etsy** Inc. announced another round of layoffs, outlining plans to slash its head count by 22% for the year in an attempt to rein in spending.

The online marketplace will cut 140 positions, or 15% of its workforce, primarily in marketing, product management and administration, in addition to the 80 jobs Etsy said it would trim last month.

New CEO Josh Silverman said the layoffs were necessary to drive focus.

The latest announcement brings expected severance costs for the year to between $12.5 million and $16.8 million, the company said.

*—Imani Moise*

PSYONIX

NBC Sports wants to build a tournament around 'Rocket League.'

VOLVO

### Polestar to Focus On Electric Cars

Sweden's **Volvo Car** Corp. joined a growing list of manufacturers looking to take on Tesla Inc., announcing Wednesday that its Polestar performance brand will become a stand-alone business focusing purely on electrified high-performance cars.

The new electric cars will drop the Volvo badge and be branded as Polestar, but they will maintain ties with each other to enjoy technological and engineering synergies and economies of scale.

As part of the new setup, Thomas Ingenlath, senior vice president of design at Volvo, becomes CEO of Polestar.

*—Dominic Chopping*

NBC SPORTS

### Network Jumps on Esports Bandwagon

**Comcast** Corp.'s NBC Sports said it would televise an esports tournament later this summer, the latest broadcaster turning to competitive videogaming to boost viewership. The U.S.-based cable network hopes a tournament built around a popular game called "Rocket League" will attract hard-to-reach viewers—particularly younger males—who increasingly are ditching cable subscriptions for live-streaming services such as Netflix Inc.

*—Sarah E. Needleman*

# CHIPS

*Continued from page B1*

quickly. Toshiba rejects Western Digital's claims, saying it is permitted to make a deal on its own.

Other countries' antitrust authorities, notably China's, could also step in to delay the deal, on the theory that the involvement of rival chip maker SK Hynix could lessen competition.

Although Toshiba hasn't released audited financial results since last year, it estimates that as of March 31 it had negative shareholder equity of ¥540 billion ($4.9 billion). If it is still negative next March, Toshiba shares would be delisted from the Tokyo Stock Exchange.

The Japanese government-led group wasn't the highest bidder, according to people briefed on the bids. Taiwan-based iPhone assembler Foxconn Technology Group, formally known as Hon Hai Precision Industry Co., was ready to offer more, but Japanese government officials said its large China operations raised the risk that technology would leak.

Toshiba said the Japanese government-led plan is the "best proposal, not only in terms of valuation, but also in respect to certainty of closing, retention of employees, and maintenance of sensitive technology within Japan."

The Toshiba chip unit is enjoying a demand boom for NAND flash memory, in which it trails only Samsung Electronics Co. in market share, according to IHS Markit.

But Toshiba has fallen behind rivals in securing critical supplies for next year's production, people familiar with the matter said last week. If Japanese government-backed entities take control, one challenge would be finding the billions of dollars needed every year for investments to remain competitive.

China's government-backed **Tsinghua Unigroup**, which last year acquired state-owned chip maker XMC, is catching up technologically with a financial boost from Beijing. The group has made unsuccessful efforts to buy or tie up with chip makers including SK Hynix, Western Digital and Micron Technology Inc.

*Toshiba said the Japanese government-led plan is the 'best proposal.'*

Toshiba shares have risen more than 60% from their recent low in mid-April on expectations that the chip-unit sale will allow the company to regain its footing. The shares closed down 2.2% in Wednesday trading after the announcement.

*—Kosaku Narioka in Tokyo, Eva Dou in Beijing and Timothy W. Martin in Seoul contributed to this article.*

# China Vanke's Founder To Exit

By Dominique Fong

Property tycoon Wang Shi's decision to step down from the helm of **China Vanke** marks the end of an era for one of the crown jewels of China's private business world.

Mr. Wang said Wednesday that he wouldn't seek a board position this year. His decision came soon after he wrested back control of the company from an unwanted takeover attempt that ended up giving a state-owned firm a dominant position in the company.

"I have decided not to be nominated as a candidate," the 66-year-old Mr. Wang said on mobile-messaging app WeChat. "Today, I passed the baton to the leadership team led by Yu Liang," Vanke's president. "I believe this is the best timing," Mr. Wang wrote. "They are much younger, but fully mature."

Over the past three decades as Vanke chairman, Mr. Wang built a reputation as an independent businessman, adept at navigating a tricky relationship with the Communist Party.

Yet, Mr. Wang recognized the advantage of having the state on his side. He used his political ties to a subway operator backed by the government of the southern tech hub of Shenzhen as the key to rescuing Vanke from a hostile bid by financial conglomerate Baoneng Group. His departure from Vanke's board comes after he had put Vanke safely in the hands of handpicked ally **Shenzhen Metro Group**.

Even before that, Mr. Wang had dialed back his involvement in the company, pursuing a busy agenda of hobbies. An avid mountaineer, he has climbed Mount Everest twice. In recent years, he took classes at Harvard and Cambridge.

It is unclear whether Mr. Wang will continue to have a role at Vanke. "He basically totally retired, or quit, from China Vanke," said Raymond Cheng, an analyst at CIMB Research about Mr. Wang's Wednesday announcement.

*Mr. Wang was adept at navigating a tricky relationship with the Communist Party.*

A Vanke spokeswoman referred to a Hong Kong stock exchange filing that didn't include Mr. Wang on a list of board candidates. She declined to comment further. Mr. Wang didn't respond to calls to his cellphone or emails requesting comment.

Under Mr. Wang's leadership, Vanke rose to the top of China's property boom in the late 1990s selling high-end apartments and became one of the country's biggest home builders by sales in the process. Mr. Wang took almost no shares in his company, an unusual move among Chinese tycoons who tend to retain close ownership of their firms. City officials sought out Mr. Wang to do business on his terms, noted a 2014 Harvard Business Review article on Chinese management thinking.

Shenzhen Metro, a subway operator, is now Vanke's largest investor, with a 29% stake. Baoneng remains the second largest. Shenzhen Metro's role in Vanke is the strongest a government has ever had in the company. The developer can build real-estate projects on top of subway stations in Shenzhen.

*—Pei Li contributed to this article.*

VCG/GETTY IMAGES

Wang Shi has climbed Mount Everest twice.

# A Clash Over VIX Bragging Rights

By Ben Eisen

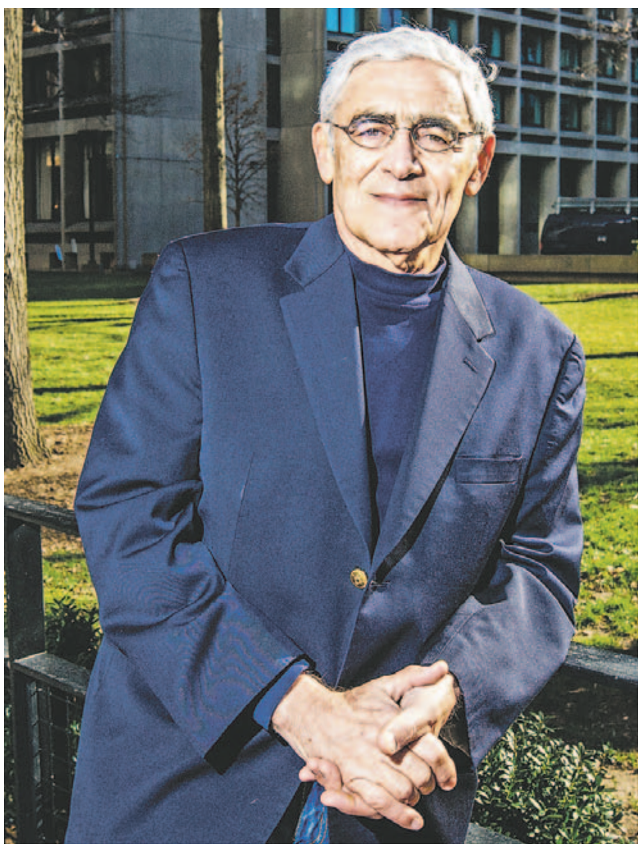
Two academics who did early work on a gauge of stock-market volatility fear they are being written out of its history.

Menachem Brenner, a finance professor at New York University, and Dan Galai of the **Hebrew University of Jerusalem** called their version "Sigma" and say they pitched it to various exchanges years before the **Chicago Board Options Exchange** rolled out its volatility index in 1993.

The CBOE's VIX is based on the work of Vanderbilt University's Robert Whaley, who is typically credited with developing the index, widely known as Wall Street's "fear gauge" for its options-based read on expected stock-price swings. It tends to soar as stocks fall and investors turn anxious.

In academic circles, the duo has for years quietly fumed that Mr. Whaley's work is based on theirs. The popularity of the gauge has grown as it declined to record lows this year, pushing some investors to fret over market complacency.

The resulting interest in the VIX's history has prompted Messrs. Brenner and Galai to openly dispute the common knowledge of how one of the most popular market measures came to be.



MICHAEL BUCHER/THE WALL STREET JOURNAL

New York University finance professor Menachem Brenner

"There were many occasions that I wanted to come out with it, even though it's a 20-year-old story," Mr. Brenner told The Wall Street Journal in his first public comments about the disagreement. "But every time I said, 'Let's be positive.'"

Mr. Whaley stands behind his work and the credit it has earned him as the VIX's developer. He said that while the idea of a volatility index long was discussed in general terms, including by Messrs. Brenner and Galai, he was the first to create a formula calculated in real time.

A spokeswoman for the exchange said, "CBOE engaged Professor Robert Whaley to develop the original methodology for the CBOE Volatility Index." The spokeswoman added, "The staff involved with the development of the original index are no longer at CBOE and we have no one who can comment on what transpired."

Messrs. Brenner and Galai say that at the center of their work was the idea to create what they called synthetic options prices that consistently showed implied volatility over the next 30 days. Because S&P 500 options had monthly expirations, they needed to find a way to create something that didn't exist: a series of options prices whose time until expiration never changed.

Once they had that, they say, they had the pieces in place for a consistently updating index. They pitched the idea of the index to the American Stock Exchange and the CBOE in the mid-1980s, but nothing came of it, according to the two academics and correspondence written at the time. In 1989, they jointly published research on the idea of the index, as well as on a derivatives market built around the index.

Mr. Galai said he first explained the details of the work he was doing to Mr. Whaley when the two were expert witnesses on a legal case in 1988 and 1989. "We had long days and nights working on the case," Mr. Galai said.

Mr. Whaley remembers working on that case and said a conversation about volatility indexes could have taken place although he didn't recall anything specific. He said in a written response to questions that he had such discussions with many people during that period, given that the general idea had been circulating in certain corners of academia.

Mr. Whaley had also been doing work on volatility before CBOE hired him to create the VIX. He said that he had been aware of some of the work done by Messrs. Brenner and Galai, and cited it in research published in 1993, but that they didn't have a formula or specific computations for index levels. He considers his creation of the formula to be the heart of his work, he said.

"The CBOE asked me to build an implied market volatility index and show them how it performed, and that's what I did," he said.

# Altice IPO Set to Be One of Biggest in 2017

By Nick Kostov And Corrie Driebusch

**Altice USA** hopes to woo investors back into telecom in its initial public offering.

The U.S. subsidiary of European telecommunications company **Altice** NV, formed through the merger of New York-based Cablevision Systems Corp. and Suddenlink Communications, is expected to start trading on the New York Stock Exchange on Thursday, according to people familiar with the offering.

It is poised to be one of the biggest U.S.-listed IPOs of the year.

Altice, private-equity firm **BC Partners** LLP and stakeholder **Canada Pension Plan Investment Board** aim to sell roughly 63.9 million shares in the offering, raising $1.85 billion if it prices at the midpoint of its target range of $27 to $31 a share, according to a regulatory filing. In a sign of solid demand for the IPO, Altice updated its filing Wednesday to reflect that it and selling stakeholders will be selling more shares than the 46.6 million it had previously targeted.

That would make it the biggest U.S.-listed telecom IPO since 2000, according to data provider Dealogic, when the tech boom ushered in a wave of cable and wireless operators.

At $29 a share, Altice USA would be valued at more than $21 billion.

Altice executives traversed the country during its pitch to investors, with executives making stops in New York, Boston and California, according to a person familiar with the roadshow.

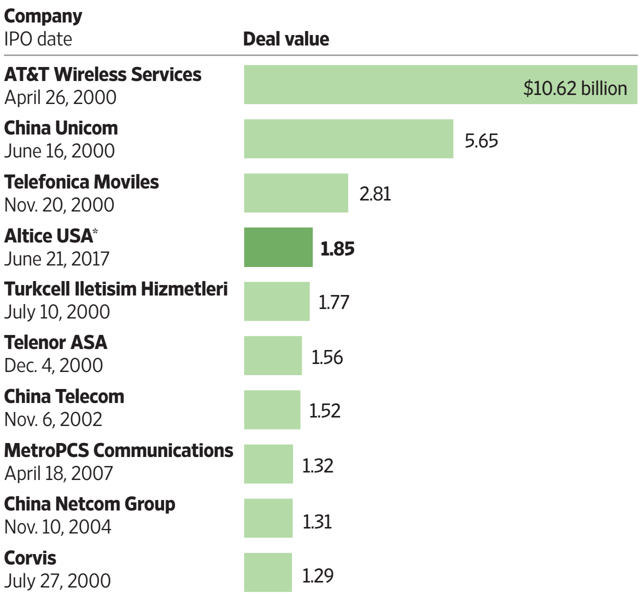
Investors who buy shares will be making a bet that the U.S.'s fourth-largest cable operator by revenue will be able to leverage the money raised in an offering and expand in an environment in which competition is stiff.

U.S. telecom stocks have slumped this year. Altice competitors AT&T Inc. and Verizon Communications Inc. are down 9.1% and 14%, respectively, in 2017 through Tuesday. European-listed shares of Altice NV are up roughly 20% over the same period.

Investors will also be betting on Patrick Drahi, the French billionaire who founded Altice. He will retain almost entire control over the company after the IPO, according to a regulatory filing. Altice is offering Class A shares, which have almost no voting rights.

## Making Waves

Altice USA's IPO is set to raise more money than any other U.S.-listed telecom since 2000.




*Based on pricing at the midpoint of its range
Sources: Dealogic; regulatory filings (Altice)

THE WALL STREET JOURNAL.

Altice's growth strategy in the U.S. has followed a playbook it rolled out in Europe and Israel, where Mr. Drahi tapped into investor demand for higher-yield corporate bonds to finance a shopping spree.

Mr. Drahi, who has cited U.S. cable magnate John Malone as an influence, then cut costs to improve profit.

Altice executives say the strategy helped boost the performance of its U.S. arm last year.

Altice USA posted a net loss of $721.3 million last year compared with a $1.1 billion loss a year earlier. Its adjusted earnings rose to $3.35 billion from $2.77 billion in the same period, according to a regulatory filing.

But Altice's approach has drawbacks. According to the filing, Altice USA's net debt stands at more than $20 billion.

At the group level, Altice NV's debt stood at more than €50 billion ($55.74 billion) on March 31, and the company spent about €3 billion on interest payments last year, according to filings.

Altice executives were pressed about some of these things during the company's pitch to investors, according to the person familiar with the roadshow.

Investors questioned executives about the company's plan to convert its systems into an ultrafast fiber-to-the-home network and the cost savings that it still expects to wring from merging Cablevision with Suddenlink, according to the person.

## FINANCE WATCH

INTESA SANPAOLO

### Bank Weighs a Deal For Parts of Rivals

**Intesa Sanpaolo** SpA said it is willing to buy at a symbolic price, on certain conditions, parts of two troubled Italian lenders, raising the prospect that Italy's second-largest bank could help save their businesses.

Intesa said its board has given the green light to acquire some assets and liabilities of **Banca Popolare di Vicenza** SpA and **Veneto Banca** SpA, two midsize Italian banks that asked in March to tap government money to stay afloat.

Intesa said any purchases would have to take place under terms that wouldn't dent the lender's capital buffer or affect its dividend-payout policy. The bank won't raise fresh capital to complete the transaction, it said.

A rescue of Veneto and Vicenza would be an important step in fixing the problems of Italian banks. The sector has been struggling with insufficient capital and low profitability for years.

Veneto and Vicenza have a combined estimated capital shortfall of €6.4 billion ($7.1 billion).

Earlier in June, the European Union cleared the way for a multibillion-dollar rescue of **Banca Monte dei Paschi di Siena** SpA, another major trouble spot in the system, by approving a restructuring plan for the lender.

*—Giovanni Legorano*

M&A

### Citigroup Makes A Hire From UBS

**Citigroup** Inc. has hired a senior investment banker from **UBS Group** AG to head up mergers and acquisitions for the U.S. bank's Europe, Middle East and Africa operations.

Alison Harding-Jones will focus on increasing Citi's market share in the EMEA countries and sectors, the bank said in a release. The 47-year-old investment banker was most recently head of Asia-Pacific M&A at Switzerland's UBS.

Currently based in Hong Kong, Ms. Harding-Jones will move to London to take up her new role in October. Ms. Harding-Jones has also been appointed vice chairman of EMEA corporate and investment banking, Citi said.

The bank has had a strong performance so far this year advising on deals in the EMEA region. The bank is ranked at the top of the M&A league table for EMEA, working on transactions worth a total of almost $191 billion, according to Dealogic.

Ms. Harding-Jones succeeds Wilhelm Schulz, who had been head of EMEA M&A. Mr. Schulz, who is based in London, moved up in January to be chairman of EMEA M&A and one of three co-heads of Citi's new global communications group, which resulted from the combination of its global media and telecom investment-banking divisions.

*—Ben Dummett*

# PwC Will Add Outside Directors

By Michael Rapoport

**PricewaterhouseCoopers** LLP is adding independent directors to its governing board, a first for the private partnership and an unusual move for any Big Four accounting firm in the U.S.

PwC has named two new members to its board of partners and principals from outside the firm: Carol Pottenger, a retired U.S. Navy vice admiral who was one of the first women selected for sea duty, and Carlos Gutierrez, a former **Kellogg** Co. chief executive who served as commerce secretary under President George W. Bush. The firm made the announcement Wednesday after The Wall Street Journal reported the move.


MATT CARDY/GETTY IMAGES

The auditing firm chose Carol Pottenger and Carlos Gutierrez.

The company and other big accounting firms are partnerships that generally have governing boards made up of their own personnel.

PwC said the move to enhance its governance isn't related to its snafu at the Academy Awards in February. At the event, the wrong film was announced as the best-picture winner because a PwC partner gave a presenter the wrong envelope.

The board move was in the works long before that, said Tim Ryan, the firm's U.S. chairman. He said Brian Cullinan, the partner behind the Oscar mistake, was and remains on PwC's board.

PwC decided to add outside board members to get more diverse perspectives on its business and avoid groupthink, Mr. Ryan said in an interview. The move also aligns PwC more with the requirements its audit clients face, he said. "It's absolutely the logical thing to do," Mr. Ryan said. "It's a big message that we are open to hearing different points of view."

The new board members will join the board July 1.

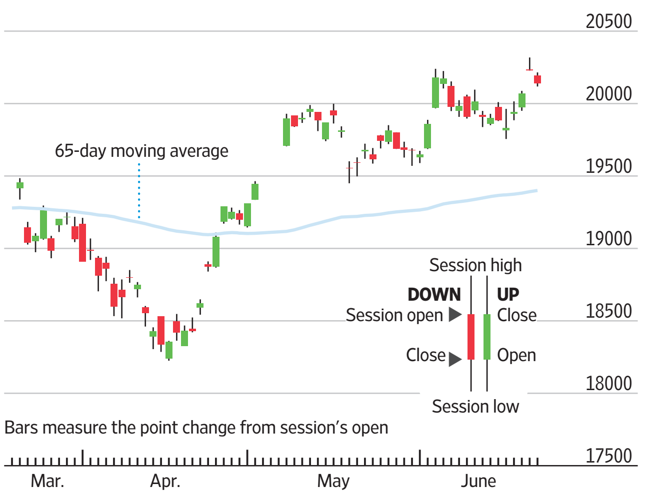
# MARKETS DIGEST

## Nikkei 225 Index

**20138.79** ▼91.62, or 0.45%

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

| | | |
|---|---|---|
| Year-to-date | | ▲5.36% |
| 52-wk high/low | 20230.41 | 14952.02 |
| All-time high | 38915.87 | 12/29/89 |




## STOXX 600 Index

**388.50** ▼0.71, or 0.18%

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

| | | |
|---|---|---|
| Year-to-date | | ▲7.49% |
| 52-wk high/low | 396.45 | 308.75 |
| All-time high | 414.06 | 4/15/15 |


## S&P 500 Index

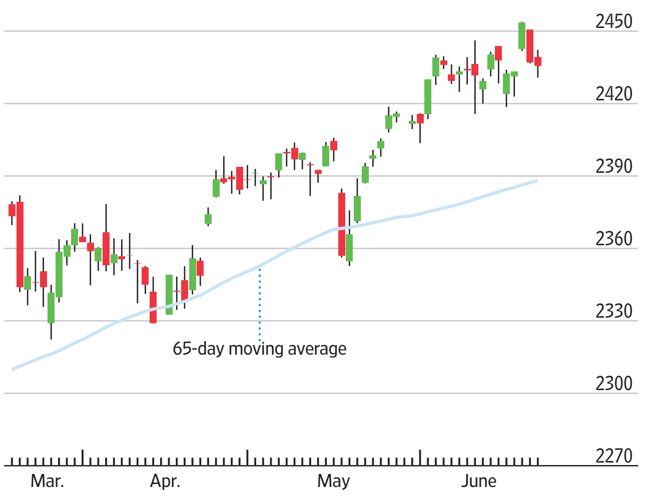
Data as of 4 p.m. New York time

**2435.61** ▼1.42, or 0.06%

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

| | Last | Year ago |
|---|---|---|
| Trailing P/E ratio | 24.09 | 23.85 |
| P/E estimate * | 18.75 | 17.87 |
| Dividend yield | 1.95 | 2.19 |
| All-time high: | 2453.46, 06/19/17 | |

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** | 2763.27 | –3.54 | –0.13 | 2193.75 | 2791.48 | 9.3 |
| | **MSCI EAFE** | 1885.16 | –2.60 | –0.14 | 1471.88 | 1956.39 | 9.8 |
| | **MSCI EM USD** | 1005.84 | –2.83 | –0.28 | 691.21 | 1044.05 | 26.6 |
| **Americas** | **DJ Americas** | 583.23 | –0.69 | –0.12 | 480.90 | 588.61 | 7.9 |
| Brazil | **Sao Paulo Bovespa** | 60753.97 | –12.19 | –0.02 | 48954.41 | 69487.58 | 0.9 |
| Canada | **S&P/TSX Comp** | 15137.60 | –12.00 | –0.08 | 13609.58 | 15943.09 | –1.0 |
| Mexico | **IPC All-Share** | 48989.77 | –43.28 | –0.09 | 43902.25 | 50154.33 | 7.3 |
| Chile | **Santiago IPSA** | 3606.90 | –36.62 | –1.01 | 3061.18 | 3786.05 | 11.9 |
| **U.S.** | **DJIA** | 21410.03 | –57.11 | –0.27 | 17063.08 | 21535.03 | 8.3 |
| | **Nasdaq Composite** | 6233.95 | 45.92 | 0.74 | 4574.25 | 6341.70 | 15.8 |
| | **S&P 500** | 2435.61 | –1.42 | –0.06 | 1991.68 | 2453.82 | 8.8 |
| | **CBOE Volatility** | 10.83 | –0.03 | –0.28 | 9.37 | 26.72 | –22.9 |
| **EMEA** | **Stoxx Europe 600** | 388.50 | –0.71 | –0.18 | 308.75 | 396.45 | 7.5 |
| | **Stoxx Europe 50** | 3191.51 | –8.68 | –0.27 | 2626.52 | 3279.71 | 6.0 |
| Austria | **ATX** | 3110.32 | 12.20 | 0.39 | 1981.93 | 3212.50 | 18.8 |
| Belgium | **Bel-20** | 3869.94 | –40.26 | –1.03 | 3127.94 | 4055.96 | 7.3 |
| France | **CAC 40** | 5274.26 | –19.39 | –0.37 | 3955.98 | 5442.10 | 8.5 |
| Germany | **DAX** | 12774.26 | –40.53 | –0.32 | 9214.10 | 12951.54 | 11.3 |
| Greece | **ATG** | 823.32 | –3.69 | –0.45 | 517.10 | 827.56 | 27.9 |
| Hungary | **BUX** | 35945.23 | –44.46 | –0.12 | 25126.36 | 36168.63 | 12.3 |
| Israel | **Tel Aviv** | 1439.32 | 3.13 | 0.22 | 1372.23 | 1490.23 | –2.1 |
| Italy | **FTSE MIB** | 21071.91 | 261.89 | 1.26 | 15017.42 | 21828.77 | 9.6 |
| Netherlands | **AEX** | 520.48 | –0.40 | –0.08 | 409.23 | 537.84 | 7.7 |
| Poland | **WIG** | 61162.22 | 320.28 | 0.53 | 42812.99 | 62666.49 | 18.2 |
| Russia | **RTS Index** | 973.33 | –7.70 | –0.78 | 885.22 | 1196.99 | –15.5 |
| Spain | **IBEX 35** | 10740.70 | –5.40 | –0.05 | 7579.80 | 11184.40 | 14.8 |
| Sweden | **SX All Share** | 592.69 | –2.06 | –0.35 | 443.66 | 598.42 | 10.9 |
| Switzerland | **Swiss Market** | 8985.61 | –37.94 | –0.42 | 7475.54 | 9136.95 | 9.3 |
| South Africa | **Johannesburg All Share** | 51402.69 | 242.12 | 0.47 | 48935.90 | 54716.53 | 1.5 |
| Turkey | **BIST 100** | 99390.12 | 120.85 | 0.12 | 70426.16 | 100000.7 9 | 27.2 |
| U.K. | **FTSE 100** | 7447.79 | –24.92 | –0.33 | 5788.74 | 7598.99 | 4.3 |
| **Asia-Pacific** | **DJ Asia-Pacific TSM** | 1625.79 | –5.82 | –0.36 | 1308.52 | 1643.59 | 14.3 |
| Australia | **S&P/ASX 200** | 5665.70 | –91.60 | –1.59 | 5103.30 | 5956.50 | –0.00 2 |
| China | **Shanghai Composite** | 3156.21 | 16.20 | 0.52 | 2854.29 | 3288.97 | 1.7 |
| Hong Kong | **Hang Seng** | 25694.58 | –148.46 | –0.57 | 20172.46 | 26063.06 | 16.8 |
| India | **S&P BSE Sensex** | 31283.64 | –13.89 | –0.04 | 25765.14 | 31311.57 | 17.5 |
| Japan | **Nikkei Stock Avg** | 20138.79 | –91.62 | –0.45 | 14952.02 | 20230.41 | 5.4 |
| Singapore | **Straits Times** | 3201.77 | –28.65 | –0.89 | 2729.85 | 3271.11 | 11.1 |
| South Korea | **Kospi** | 2357.53 | –11.70 | –0.49 | 1925.24 | 2381.69 | 16.3 |
| Taiwan | **Weighted** | 10349.72 | 25.26 | 0.24 | 8458.87 | 10349.72 | 11.8 |

Sources: SIX Financial Information; 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 | 1.680 | 32.8 | 35.0 | 34.8 | 91.5 | 1.698 | 1.623 | 1.681 |
| 4.750 | 10 | 2.402 | 25.0 | 26.9 | 25.6 | 46.2 | 2.428 | 2.492 | 2.171 |
| 3.000 | **Belgium** 2 | -0.564 | -191.6 | -190.7 | -180.4 | -127.8 | -0.559 | -0.530 | -0.512 |
| 0.800 | 10 | 0.593 | -155.9 | -157.2 | -148.5 | -142.1 | 0.588 | 0.752 | 0.289 |
| 0.000 | **France** 2 | -0.477 | -183.0 | -183.1 | -172.6 | -122.0 | -0.483 | -0.452 | -0.454 |
| 1.000 | 10 | 0.608 | -154.5 | -155.2 | -142.8 | -129.1 | 0.607 | 0.809 | 0.419 |
| 0.000 | **Germany** 2 | -0.655 | -200.7 | -201.1 | -196.4 | -134.0 | -0.663 | -0.690 | -0.574 |
| 0.250 | 10 | 0.267 | -188.5 | -189.9 | -186.7 | -165.8 | 0.261 | 0.369 | 0.052 |
| 0.300 | **Italy** 2 | -0.318 | -167.0 | -165.6 | -152.9 | -79.1 | -0.308 | -0.254 | -0.026 |
| 2.200 | 10 | 1.913 | -24.0 | -23.6 | -10.5 | -33.5 | 1.924 | 2.131 | 1.375 |
| 0.100 | **Japan** 2 | -0.098 | -145.1 | -145.9 | -143.2 | -101.0 | -0.111 | -0.157 | -0.244 |
| 0.100 | 10 | 0.061 | -209.2 | -210.3 | -219.5 | -184.9 | 0.056 | 0.042 | -0.140 |
| 4.000 | **Netherlands** 2 | -0.613 | -196.5 | -197.7 | -188.8 | -130.2 | -0.629 | -0.613 | -0.537 |
| 0.750 | 10 | 0.469 | -168.3 | -169.1 | -166.6 | -155.6 | 0.469 | 0.571 | 0.154 |
| 4.750 | **Portugal** 2 | 0.035 | -131.7 | -137.7 | -99.9 | -35.5 | -0.029 | 0.275 | 0.411 |
| 4.125 | 10 | 2.895 | 74.3 | 68.8 | 93.6 | 144.9 | 2.847 | 3.173 | 3.158 |
| 2.750 | **Spain** 2 | -0.297 | -165.0 | -165.5 | -157.5 | -76.9 | -0.307 | -0.300 | -0.004 |
| 1.500 | 10 | 1.366 | -78.6 | -77.5 | -67.8 | -19.6 | 1.385 | 1.559 | 1.513 |
| 4.250 | **Sweden** 2 | -0.702 | -205.4 | -206.7 | -197.2 | -135.3 | -0.719 | -0.698 | -0.588 |
| 1.000 | 10 | 0.460 | -169.2 | -170.7 | -172.6 | -112.8 | 0.453 | 0.511 | 0.582 |
| 1.750 | **U.K.** 2 | 0.214 | -113.8 | -121.6 | -115.7 | -25.9 | 0.132 | 0.117 | 0.507 |
| 4.250 | 10 | 1.035 | -111.7 | -116.1 | -114.2 | -41.9 | 0.998 | 1.095 | 1.290 |
| 1.250 | **U.S.** 2 | 1.352 | ... | ... | ... | ... | 1.348 | 1.274 | 0.766 |
| 2.375 | 10 | 2.152 | ... | ... | ... | ... | 2.159 | 2.236 | 1.710 |

## 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 6/20/2017

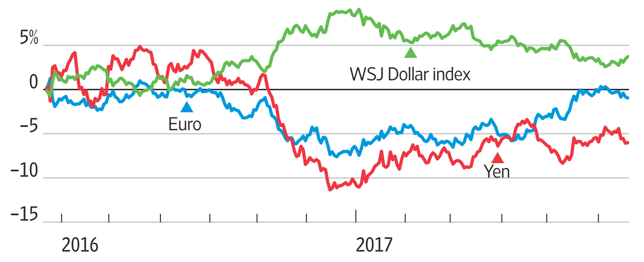
| Commodity | Exchange | Last price | One-Day Change Net | One-Day Change Percentage | Year high | Year low |
|---|---|---|---|---|---|---|
| **Corn** (cents/bu.) | CBOT | 377.00 | -1.00 | -0.26% | 399.25 | 368.25 |
| **Soybeans** (cents/bu.) | CBOT | 929.50 | -9.25 | -0.99 | 1,034.50 | 915.50 |
| **Wheat** (cents/bu.) | CBOT | 479.25 | -8.50 | -1.74 | 502.00 | 430.75 |
| **Live cattle** (cents/lb.) | CME | 115.575 | -0.325 | -0.28 | 127.650 | 99.400 |
| **Cocoa** ($/ton) | ICE-US | 1,843 | -75 | -3.91 | 2,281 | 1,767 |
| **Coffee** (cents/lb.) | ICE-US | 121.95 | -2.65 | -2.13 | 163.75 | 121.85 |
| **Sugar** (cents/lb.) | ICE-US | 13.28 | -0.54 | -3.91 | 20.50 | 13.23 |
| **Cotton** (cents/lb.) | ICE-US | 68.19 | -0.78 | -1.13 | 75.72 | 68.13 |
| **Robusta coffee** ($/ton) | ICE-EU | 2072.00 | -2.00 | -0.10 | 2,286.00 | 1,885.00 |
| **Copper** ($/lb.) | COMEX | 2.6095 | 0.0375 | 1.46% | 2.8495 | 2.4850 |
| **Gold** ($/troy oz.) | COMEX | 1247.20 | 3.70 | 0.30 | 1,300.30 | 1,155.00 |
| **Silver** ($/troy oz.) | COMEX | 16.470 | -0.006 | -0.04 | 18.780 | 16.125 |
| **Aluminum** ($/mt)* | LME | 1,899.50 | 23.50 | 1.25 | 1,972.00 | 1,688.50 |
| **Tin** ($/mt)* | LME | 19,675.00 | -25.00 | -0.13 | 21,225.00 | 18,760.00 |
| **Copper** ($/mt)* | LME | 5,699.00 | -11.00 | -0.19 | 6,156.00 | 5,491.00 |
| **Lead** ($/mt)* | LME | 2,140.00 | 3.00 | 0.14 | 2,445.00 | 2,022.00 |
| **Zinc** ($/mt)* | LME | 2,572.00 | 21.50 | 0.84 | 2,958.50 | 2,450.50 |
| **Nickel** ($/mt)* | LME | 9,045.00 | 45.00 | 0.50 | 11,095.00 | 8,780.00 |
| **Rubber** (Y.01/ton) | TCE | 186.30 | -4.00 | -2.10 | n.a. | n.a. |
| **Palm oil** (MYR/mt) | MDEX | 2441.00 | -25.00 | -1.01 | 2966.00 | 2390.00 |
| **Crude oil** ($/bbl.) | NYMEX | 42.63 | -0.88 | -2.02 | 58.30 | 42.06 |
| **NY Harbor ULSD** ($/gal.) | NYMEX | 1.3722 | -0.0300 | -2.14 | 1.7930 | 1.3609 |
| **RBOB gasoline** ($/gal.) | NYMEX | 1.4043 | -0.0145 | -1.02 | 1.8561 | 1.3902 |
| **Natural gas** ($/mmBtu) | NYMEX | 2.918 | -0.012 | -0.41 | 3.5750 | 2.8990 |
| **Brent crude** ($/bbl.) | ICE-EU | 45.12 | -1.13 | -2.44 | 60.18 | 44.60 |
| **Gas oil** ($/ton) | ICE-EU | 406.25 | -6.50 | -1.57 | 529.00 | 402.50 |

Sources: SIX Financial Information; WSJ Market Data Group

## Currencies

London close on June 21

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




| Country/currency | Wed in US$ | Wed per US$ | US$ vs, YTD chg (%) |
|---|---|---|---|
| **Americas** | | | |
| **Argentina** peso-a | 0.0613 | 16.3247 | **2.9** |
| **Brazil** real | 0.3002 | 3.3314 | **2.3** |
| **Canada** dollar | 0.7506 | 1.3323 | **–0.9** |
| **Chile** peso | 0.001504 | 664.70 | **–0.8** |
| **Colombia** peso | 0.0003279 | 3049.86 | **1.6** |
| **Ecuador** US dollar-f | 1 | 1 | **unch** |
| **Mexico** peso-a | 0.0551 | 18.1635 | **–12.4** |
| **Peru** sol | 0.3058 | 3.2702 | **–2.5** |
| **Uruguay** peso-e | 0.0353 | 28.300 | **–3.6** |
| **Venezuela** bolivar | 0.098850 | 10.12 | **1.2** |
| **Asia-Pacific** | | | |
| **Australia** dollar | 0.7546 | 1.3252 | **–4.6** |
| **China** yuan | 0.1464 | 6.8297 | **–1.7** |
| **Hong Kong** dollar | 0.1282 | 7.8009 | **0.6** |
| **India** rupee | 0.0155 | 64.5329 | **–5.0** |
| **Indonesia** rupiah | 0.0000751 | 13310 | **–1.6** |
| **Japan** yen | 0.008966 | 111.53 | **–4.7** |
| **Kazakhstan** tenge | 0.003062 | 326.59 | **–2.1** |
| **Macau** pataca | 0.1244 | 8.0361 | **1.5** |
| **Malaysia** ringgit-c | 0.2328 | 4.2962 | **–4.2** |
| **New Zealand** dollar | 0.7213 | 1.3864 | **–4.0** |
| **Pakistan** rupee | 0.0095 | 104.845 | **0.5** |
| **Philippines** peso | 0.0199 | 50.284 | **1.4** |
| **Singapore** dollar | 0.7188 | 1.3912 | **–3.9** |
| **South Korea** won | 0.0008740 | 1144.10 | **–5.3** |
| **Sri Lanka** rupee | 0.0065274 | 153.20 | **3.2** |
| **Taiwan** dollar | 0.03288 | 30.417 | **–6.3** |
| **Thailand** baht | 0.02940 | 34.010 | **–5.0** |
| **Europe** | | | |
| **Bulgaria** lev | 0.5697 | 1.7554 | **–5.5** |
| **Croatia** kuna | 0.1502 | 6.657 | **–7.2** |
| **Euro zone** euro | 1.1144 | 0.8974 | **–5.6** |
| **Czech Rep.** koruna-b | 0.0424 | 23.587 | **–8.2** |
| **Denmark** krone | 0.1498 | 6.6750 | **–5.6** |
| **Hungary** forint | 0.003601 | 277.69 | **–5.6** |
| **Iceland** krona | 0.009492 | 105.35 | **–6.7** |
| **Norway** krone | 0.1171 | 8.5379 | **–1.2** |
| **Poland** zloty | 0.2620 | 3.8167 | **–8.8** |
| **Russia** ruble-d | 0.01669 | 59.926 | **–2.2** |
| **Sweden** krona | 0.1141 | 8.7618 | **–3.8** |
| **Switzerland** franc | 1.0261 | 0.9746 | **–4.3** |
| **Turkey** lira | 0.2836 | 3.5266 | **0.1** |
| **Ukraine** hryvnia | 0.0384 | 26.0137 | **–3.9** |
| **U.K.** pound | 1.2661 | 0.7898 | **–2.5** |
| **Middle East/Africa** | | | |
| **Bahrain** dinar | 2.6508 | 0.3773 | **0.02** |
| **Egypt** pound-a | 0.0551 | 18.1435 | **0.1** |
| **Israel** shekel | 0.2824 | 3.5407 | **–8.0** |
| **Kuwait** dinar | 3.2940 | 0.3036 | **–0.7** |
| **Oman** sul rial | 2.5976 | 0.3850 | **0.003** |
| **Qatar** rial | 0.2721 | 3.675 | **1.0** |
| **Saudi Arabia** riyal | 0.2666 | 3.7504 | **–0.01** |
| **South Africa** rand | 0.0766 | 13.0471 | **–4.7** |

| | Close | Net Chg | % Chg | YTD % Chg |
|---|---|---|---|---|
| **WSJ Dollar Index** | 88.98 | 0.02 | 0.02 | **–4.26** |

Sources: Tullett Prebon, WSJ Market Data Group

## Cross rates

London close on Jun 21

| | USD | GBP | CHF | JPY | HKD | EUR | CDN | AUD |
|---|---|---|---|---|---|---|---|---|
| **Australia** | 1.3252 | 1.6776 | 1.3596 | 0.0119 | 0.1699 | 1.4765 | 0.9946 | ... |
| **Canada** | 1.3323 | 1.6868 | 1.3671 | 0.0119 | 0.1708 | 1.4847 | ... | 1.0055 |
| **Euro** | 0.8974 | 1.1361 | 0.9208 | 0.0080 | 0.1150 | ... | 0.6735 | 0.6772 |
| **Hong Kong** | 7.8009 | 9.8773 | 8.0032 | 0.0699 | ... | 8.6935 | 5.8554 | 5.8872 |
| **Japan** | 111.5340 | 141.2100 | 114.4400 | ... | 14.2980 | 124.2800 | 83.7200 | 84.1700 |
| **Switzerland** | 0.9746 | 1.2339 | ... | 0.0087 | 0.1250 | 1.0861 | 0.7315 | 0.7355 |
| **U.K.** | 0.7898 | ... | 0.8104 | 0.0071 | 0.1012 | 0.8802 | 0.5928 | 0.5960 |
| **U.S.** | ... | 1.2661 | 1.0261 | 0.0090 | 0.1282 | 1.1144 | 0.7506 | 0.7546 |

Source: Tullett Prebon

## Key Rates

| | Latest | 52 wks ago |
|---|---|---|
| **Libor** | | |
| One month | **1.21556%** | 0.45205% |
| Three month | **1.28944** | 0.64010 |
| Six month | **1.44500** | 0.92965 |
| One year | **1.73539** | 1.25100 |
| **Euro Libor** | | |
| One month | **-0.40500%** | -0.35857% |
| Three month | **-0.37286** | -0.28500 |
| Six month | **-0.29729** | -0.16671 |
| One year | **-0.18686** | -0.03643 |
| **Euribor** | | |
| One month | **-0.37300%** | -0.35800% |
| Three month | **-0.32900** | -0.26800 |
| Six month | **-0.27100** | -0.16100 |
| One year | **-0.16100** | -0.02900 |
| **Yen Libor** | | |
| One month | **-0.02000%** | -0.07614% |
| Three month | **0.00243** | -0.03086 |
| Six month | **0.02171** | -0.00829 |
| One year | **0.13329** | 0.08543 |
| | 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. | **4.25%** | 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 | **1.75** | 1.00 |
| Fed-funds target | **1.00-1.25** | 0.25-0.50 |
| Call money | **3.00** | 2.25 |
| **Overnight repurchase rates** | | |
| U.S. | **1.06%** | 0.59% |
| Euro zone | **n.a.** | n.a. |

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

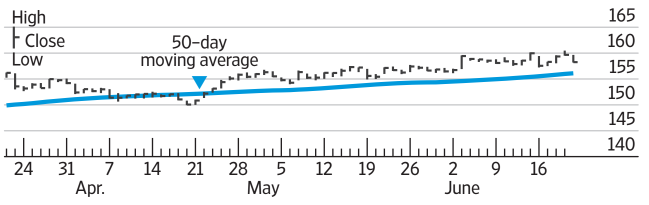
## Top Stock Listings

4 p.m. New York time

| Cur | Stock | Sym | Last | % Chg | YTD% Chg |
|---|---|---|---|---|---|
| **Asia Titans** | | | | | |
| HK$ | AIAGroup | 1299 | 56.60 | -0.88 | 29.37 |
| ¥ | AstellasPharma | 4503 | 1377.00 | -0.15 | -15.18 |
| AU$ | AustNZBk | ANZ | 27.50 | -1.79 | -9.60 |
| AU$ | BHP | BHP | 22.10 | -3.75 | -11.81 |
| HK$ | BankofChina | 3988 | 3.79 | -0.79 | 10.17 |
| HK$ | CKHutchison | 0001 | 98.50 | ... | 12.06 |
| HK$ | CNOOC | 0883 | 8.56 | -0.70 | -11.75 |
| AU$ | CSL | CSL | 139.50 | 0.68 | 38.93 |
| ¥ | Canon | 7751 | 3895.00 | -1.17 | 18.21 |
| ¥ | CentralJapanRwy | 9022 | 18475 | 0.65 | -3.93 |
| HK$ | ChinaConstructnBk | 0939 | 6.42 | -0.62 | 7.54 |
| HK$ | ChinaLifeInsurance | 2628 | 23.80 | -1.04 | 17.82 |
| HK$ | ChinaMobile | 0941 | 83.65 | -0.06 | 1.76 |
| HK$ | ChinaPetro&Chem | 0386 | 6.19 | -2.52 | 12.55 |
| AU$ | CmwlthBkAust | CBA | 80.80 | -1.75 | -1.95 |
| ¥ | EastJapanRailway | 9020 | 11175 | -0.04 | 10.64 |
| ¥ | Fanuc | 6954 | 21705 | -0.09 | 9.54 |
| ¥ | Hitachi | 6501 | 678.80 | 0.68 | 7.41 |
| TW$ | Hon Hai Precisn | 2317 | 113.00 | -1.31 | 34.20 |
| ¥ | HondaMotor | 7267 | 3067.00 | 0.03 | -10.19 |
| KRW | HyundaiMtr | 005380 | 160500 | -3.60 | 9.93 |
| HK$ | Ind&Comml | 1398 | 5.12 | -1.16 | 10.11 |
| ¥ | JapanTobacco | 2914 | 4045.00 | -1.49 | 5.23 |
| ¥ | KDDI | 9433 | 3064.00 | -0.87 | 3.53 |
| ¥ | Mitsubishi | 8058 | 2266.50 | -0.87 | -8.98 |
| ¥ | MitsubishiElectric | 6503 | 1603.50 | -1.08 | -1.60 |
| ¥ | MitsubishiUFJFin | 8306 | 719.80 | -1.34 | -0.06 |
| ¥ | Mitsui | 8031 | 1544.00 | -0.77 | -3.92 |
| ¥ | Mizuho Fin | 8411 | 198.00 | -0.15 | -5.62 |
| ¥ | NTTDoCoMo | 9437 | 2765.00 | 0.69 | 3.83 |
| AU$ | NatAustBnk | NAB | 29.06 | -2.94 | -5.25 |
| ¥ | NipponTeleg | 9432 | 5461.00 | 0.24 | 11.18 |
| ¥ | NissanMotor | 7201 | 1067.50 | -0.37 | -9.19 |
| ¥ | Panasonic | 6752 | 1519.00 | 0.53 | 27.70 |
| HK$ | PingAnInsofChina | 2318 | 52.00 | 0.19 | 34.02 |
| $ | RelianceIndsGDR | RIGD | 43.95 | 1.27 | 39.30 |
| KRW | SamsungElectronics | 005930 | 2374000 | -1.37 | 31.74 |
| ¥ | Seven&I Hldgs | 3382 | 4783.00 | 0.06 | 7.41 |
| ¥ | SoftBankGroup | 9984 | 9182.00 | -0.98 | 18.25 |
| ¥ | Sony | 6758 | 4228.00 | -1.17 | 29.10 |
| ¥ | Sumitomo Mitsui | 8316 | 4232.00 | -0.70 | -5.11 |
| HK$ | SunHngKaiPrp | 0016 | 116.60 | -1.27 | 18.98 |
| TW$ | TaiwanSemiMfg | 2330 | 215.50 | -0.46 | 18.73 |
| ¥ | TakedaPharm | 4502 | 5693.00 | 0.48 | 17.75 |
| HK$ | TencentHoldings | 0700 | 279.20 | -0.29 | 47.18 |
| ¥ | TokioMarineHldg | 8766 | 4791.00 | -1.30 | -0.10 |
| ¥ | ToyotaMtr | 7203 | 5840.00 | 0.53 | -15.09 |
| AU$ | Wesfarmers | WES | 40.22 | -0.72 | -4.56 |
| AU$ | WestpacBanking | WBC | 29.77 | -1.78 | -8.68 |
| AU$ | Woolworths | WOW | 25.10 | -0.20 | 4.15 |
| **Stoxx 50** | | | | | |
| CHF | ABB | ABBN | 24.61 | 0.49 | 14.57 |
| € | ASMLHolding | ASML | 116.80 | 0.56 | 9.52 |
| € | AXA | CS | 24.05 | -0.93 | 0.25 |
| € | AirLiquide | AI | 112.60 | -0.13 | 6.58 |
| € | Allianz | ALV | 175.05 | -0.45 | 11.50 |
| € | AB InBev | ABI | 102.30 | -0.49 | 1.74 |
| £ | AstraZeneca | AZN | 5400.00 | -0.30 | 21.69 |
| € | BASF | BAS | 85.89 | -0.76 | -2.74 |
| € | BNP Paribas | BNP | 62.14 | -0.66 | 2.63 |
| £ | BT Group | BT.A | 283.20 | -1.08 | -22.81 |
| € | BancoBilVizAr | BBVA | 7.34 | -0.04 | 15.57 |
| € | BancoSantander | SAN | 5.85 | -0.12 | 17.97 |
| £ | Barclays | BARC | 200.15 | -1.31 | -10.43 |
| € | Bayer | BAYN | 121.80 | ... | 22.87 |
| £ | BP | BP. | 456.70 | -0.77 | -10.38 |
| £ | BritishAmTob | BATS | 5553.00 | -0.18 | 20.16 |
| € | Daimler | DAI | 65.45 | -0.18 | -7.45 |
| € | DeutscheTelekom | DTE | 16.78 | -0.06 | 2.60 |
| £ | Diageo | DGE | 2374.50 | -0.65 | 12.54 |
| € | ENI | ENI | 13.70 | 0.51 | -11.44 |
| £ | GlaxoSmithKline | GSK | 1683.00 | -0.59 | 7.75 |
| £ | Glencore | GLEN | 281.45 | 1.75 | 1.48 |
| £ | HSBC Hldgs | HSBA | 687.40 | -0.13 | 4.64 |
| € | INGGroep | INGA | 15.06 | -0.20 | 12.68 |
| £ | ImperialBrands | IMB | 3547.00 | -0.67 | 0.13 |
| € | IntesaSanpaolo | ISP | 2.60 | 2.45 | 7.01 |
| € | LVMHMoetHennessy | MC | 231.90 | -0.22 | 27.84 |
| £ | LloydsBankingGroup | LLOY | 67.17 | 0.24 | 7.45 |
| € | LOreal | OR | 190.00 | -0.65 | 9.57 |
| £ | NationalGrid | NG. | 1008.00 | -0.98 | -2.90 |
| CHF | Nestle | NESN | 82.80 | -1.43 | 13.35 |
| CHF | Novartis | NOVN | 79.85 | 0.06 | 7.76 |
| DKK | NovoNordiskB | NOVO-B | 290.40 | -0.03 | 14.02 |
| £ | Prudential | PRU | 1799.00 | -0.88 | 10.54 |
| £ | ReckittBenckiser | RB. | 7878.00 | -1.48 | 14.41 |
| £ | RioTinto | RIO | 3020.00 | 0.67 | -4.38 |
| CHF | RocheHldgctf | ROG | 252.40 | -0.28 | 8.51 |
| £ | RoyDtchShell A | RDSA | 2064.50 | -1.24 | -7.94 |
| € | SAP | SAP | 95.20 | 0.37 | 14.96 |
| € | Sanofi | SAN | 86.56 | -0.30 | 12.56 |
| € | SchneiderElectric | SU | 68.98 | 0.16 | 4.34 |
| € | Siemens | SIE | 124.45 | -0.56 | 6.55 |
| € | Telefonica | TEF | 9.53 | -0.57 | 8.05 |
| € | Total | FP | 44.40 | -0.35 | -7.04 |
| CHF | UBSGroup | UBSG | 15.74 | 0.38 | -1.32 |
| € | Unilever | UNA | 50.10 | -0.06 | 28.08 |
| £ | Unilever | ULVR | 4306.00 | -0.27 | 30.78 |
| € | Vinci | DG | 79.50 | -0.51 | 22.87 |
| £ | VodafoneGroup | VOD | 222.80 | 0.20 | 11.48 |
| CHF | ZurichInsurance | ZURN | 289.20 | -1.13 | 3.14 |
| **DJIA** | | | | | |
| $ | AmericanExpress | AXP | 82.24 | -0.33 | 11.02 |
| $ | Apple | AAPL | 145.87 | 0.59 | 25.95 |
| $ | Boeing | BA | 199.21 | 0.44 | 27.96 |
| $ | Caterpillar | CAT | 103.47 | -3.34 | 11.57 |
| $ | Chevron | CVX | 104.48 | -1.88 | -11.23 |
| $ | CiscoSystems | CSCO | 31.84 | -0.03 | 5.36 |
| $ | Coca-Cola | KO | 45.22 | -0.86 | 9.07 |
| $ | Disney | DIS | 104.83 | 0.86 | 0.59 |
| $ | DuPont | DD | 81.00 | -2.55 | 10.35 |
| $ | ExxonMobil | XOM | 81.46 | -1.03 | -9.75 |
| $ | GeneralElec | GE | 27.78 | -1.24 | -12.09 |
| $ | GoldmanSachs | GS | 222.46 | -1.17 | -7.10 |
| $ | HomeDepot | HD | 156.59 | -0.68 | 16.79 |
| $ | Intel | INTC | 34.58 | -0.80 | -4.66 |
| $ | IBM | IBM | 153.79 | -0.75 | -7.35 |
| $ | JPMorganChase | JPM | 87.12 | -0.46 | 0.96 |
| $ | J&J | JNJ | 134.93 | 0.53 | 17.12 |
| $ | McDonalds | MCD | 153.82 | -0.16 | 26.37 |
| $ | Merck | MRK | 65.47 | 1.46 | 11.21 |
| $ | Microsoft | MSFT | 70.27 | 0.51 | 13.08 |
| $ | Nike | NKE | 52.61 | 2.04 | 3.50 |
| $ | Pfizer | PFE | 33.88 | 0.95 | 4.31 |
| $ | Procter&Gamble | PG | 89.43 | -0.22 | 6.36 |
| $ | 3M | MMM | 213.00 | -0.17 | 19.28 |
| $ | Travelers | TRV | 128.62 | -0.10 | 5.06 |
| $ | UnitedTech | UTX | 121.81 | 0.25 | 11.12 |
| $ | UnitedHealth | UNH | 184.98 | 0.93 | 15.58 |
| $ | Visa | V | 94.54 | 0.17 | 21.17 |
| $ | Verizon | VZ | 45.42 | -1.13 | -14.91 |
| $ | Wal-Mart | WMT | 76.25 | 0.94 | 10.32 |

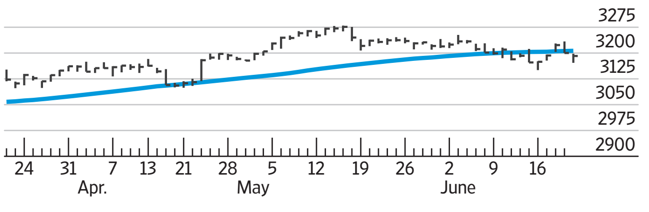
## Asia Titans 50

Last: **158.26** ▼ 1.41, or 0.88% YTD ▲ 12.3%



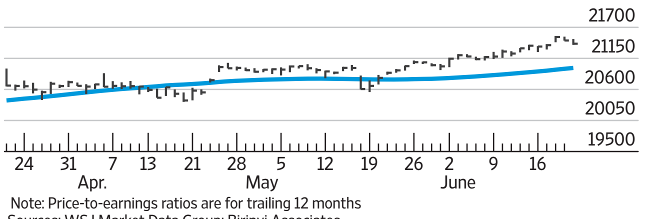

## Stoxx 50

Last: **3191.51** ▼ 8.68, or 0.27% YTD ▲ 6.0%




## Dow Jones Industrial Average

Last: **21410.03** ▼ 57.11, or 0.27% P/E: 21 YTD ▲ 8.3%




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

# MARKETS

## HNA Deals Pile Up Risks

By Julie Steinberg And Anjani Trivedi

Chinese conglomerate **HNA Group** Co. is copying the financing strategies of hedge funds and private-equity firms as it pursues its quest to become one of the world's largest companies.

HNA, a sprawling group that operates in everything from airlines to hotels, has been on an overseas acquisition spree. It is financing those deals with loans backed by company stakes it has purchased. The conglomerate has also entered into derivatives with U.S. and European banks that are helping fund its investments outside China.

Some of the arrangements are similar to those used by investment firms, which often acquire shares in companies with borrowed money. Such financial leverage, as it is known, allows buyers to stretch their capital by putting up relatively little money and borrowing the remainder from banks.

The strategy can be costly and has risks. If the stocks or other assets fall in value, banks can force buyers to cough up additional funds on short notice or sell the investments if the owners cannot meet margin calls.

Still, the financing tactics are useful for HNA, which is trying to aggressively increase its revenue globally and already has a heavy debt burden.

Bankers say it is relatively uncommon for corporations to use margin loans and derivatives like total return swaps to finance investments to the extent that HNA has done. Most companies that are actively acquiring other businesses are financially stronger and have simpler or cheaper ways to raise money.

HNA doesn't have a credit rating, which limits its ability to access low-cost financing. Foreign banks have charged it as much as 6% on loans that typically cost 1% or 2% for companies with investment-grade ratings, according to data provider Dealogic.

One benefit the strategies give HNA is that they don't involve transferring money out of mainland China, because banks provide funding offshore.

That effectively enables HNA to sidestep tightened capital controls implemented by the Chinese government in late 2016.

HNA says it isn't trying to avoid capital controls and that it has used cash from offshore entities for its purchases. It says it is instead trying to use the low-interest-rate environment to earn good returns.

"We try to be a smart investor," said Guang Yang, chief investment officer of HNA Capital, the group's finance arm. "We're not different from, let's say, some of the best private-equity funds." He added the firm wants to "effectively use leverage to the extent that's possible."

Banks have been eager to advise on HNA's investments and help structure its financing arrangements. Over the past year and a half, HNA Group has paid fees totaling $100 million to global and Chinese banks for acquisitions abroad, almost a fifth of all such fees paid by Chinese companies, according to Dealogic.

Top-tier financial institutions are "waiting to work with us in terms of structuring those transactions," said Mr. Yang.

In the past year, HNA used share-backed financing and derivatives arranged by banks such as **UBS Group** AG and J.P. Morgan Chase & Co. to rapidly build stakes in companies including hotel firm Hilton Worldwide Holdings Inc. and OM Asset Management PLC, the U.S. money-management arm of British insurer Old Mutual PLC, according to regulatory filings.

The moves haven't been without problems. Swissport International Ltd., a Zurich-based air-cargo handler acquired by HNA last year, found itself in breach of its debt covenants after its shares were pledged toward a loan taken out by an HNA subsidiary.

Credit rater S&P Global Ratings is reviewing Swissport's speculative-grade rating for a potential downgrade. It said the technical breach means Swissport cannot access a revolving credit line until the issue is resolved.

HNA put $800 million into Swissport shortly after the breach was discovered, some of which was to help support the company's finances.

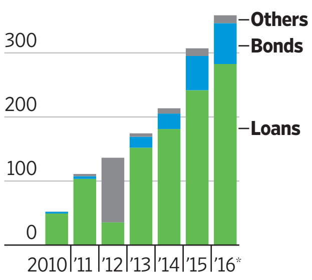
MARK KAUZLARICH/BLOOMBERG NEWS

**HNA has used share-backed financing to build stakes in companies including Hilton Worldwide.**

### Splurging on Deals

HNA's debt levels have steadily risen in recent years.

**Debt levels and breakdown**




Note: Figures do not include investments in shares purchased on the open market; 100 billion yuan = $14.7 billion

*Through June

Source: S&P Global Market Intelligence

THE WALL STREET JOURNAL.

## U.S. Blue Chips Extend Losses as Oil Falls Further

By Riva Gold and Akane Otani

The Dow Jones Industrial Average posted a second consecutive day of losses Wednesday as oil prices continued their slide, pulling energy shares lower.

**WEDNESDAY'S MARKETS**

The Dow industrials fell 57.11 points, or 0.3%, to 21410.03. The S&P 500 lost less than 0.1%, while the Nasdaq Composite added 0.7%, boosted by gains in the shares of health-care companies.

In Europe, the Stoxx Europe 600 slipped 0.2% to 388.50, but closed off its worst levels of the day.

The U.S.'s blue-chip index has wobbled after oil slumped to its lowest level since September on Tuesday, renewing concerns among analysts that there could be a more severe pullback in commodity prices.

Energy stocks, the worst-performing sector in the S&P 500 this year, have fallen more than any other group in the broad index so far this week.

Still, many investors and analysts say they remain cautiously optimistic on the outlook for the U.S. stock market. Strong earnings have supported stock indexes this year, and valuations, which are trading at higher-than-average levels, haven't risen to excessive levels, said Tom Siomades, head of the investment consulting group of Hartford Funds.

"We're not at the point where we think we need to cash out from the U.S. yet," Mr. Siomades said. "Global growth hasn't been great, but it's been OK, and that's helping us hang in there."

U.S. crude for August delivery fell 2.3% to $42.53 a barrel—its lowest settlement since August—after government data showed U.S. oil output continuing to rise last week. Energy shares in the S&P 500 fell 1.5%, deepening their declines for the year.

Health-care stocks in the S&P 500 rose 1.2% by late afternoon, with Regeneron Pharmaceuticals, the second-biggest gainer in the S&P 500 on Tuesday, posting among the biggest advances Wednesday. The sector, the worst-performing group in the S&P 500 in 2016, has rebounded this year as investors have lifted the shares of biotechnology companies.

*The Nasdaq was boosted by gains in the shares of health-care companies.*

Government bonds edged lower, with the yield on the benchmark 10-year U.S. Treasury note rising to 2.156%, from 2.153% on Tuesday. Yields rise as bond prices fall.

In earlier trading on Wednesday, stocks across the Asia-Pacific region mostly fell amid losses in energy companies and banks, with the Nikkei Stock Average dropping 0.5% and Hong Kong's Hang Seng Index falling 0.6%.

Mainland China markets inched higher, however, after MSCI Inc. late Tuesday said it would include China A-shares in its emerging-markets index, meaning funds that track it will automatically allocate money into China.

The Shanghai Composite Index added 0.5%.

# HEARD ON THE STREET

*Email: heard@wsj.com* FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

## China Market Has Long Way to Go

China has won a longed-for trophy with admission of its domestically listed stocks to MSCI's global benchmarks. Don't hold your breath that it will lead to a more open market.

MSCI said Tuesday it would add shares listed in Shanghai and Shenzhen, known as A-shares, to its major indexes, after rejecting inclusion in the previous three years. For now, the move is mostly symbolic because MSCI is only allowing 222 companies in initially: A-shares will only make up 0.7% of the MSCI Emerging Markets Index, with inclusion only happening in two phases beginning next year. Goldman Sachs estimates a total inflow of just $12 billion from international funds initially—a drop in China's roughly $7.5 trillion equity markets.

Now that MSCI has made its long-awaited admission, the worry is that China may have lost a big incentive to further reform its financial markets.

China is pretty good at showing sincerity regarding reform before big decisions like the MSCI inclusion. Take the addition of the yuan to the International Monetary Fund's elite basket of reserve currencies in late 2015: To persuade the IMF to give its currency this coveted status, China showed it was willing to let the yuan depreciate and move within a wider trading range the summer before.

But when capital outflows from China subsequently became a big issue for Beijing, it backtracked on efforts to liberalize its capital account. Capital controls have tightened further in recent months, while the Chinese currency seems unable to break through a floor of seven yuan to the dollar.

In the same way, China has introduced several stock-market reforms as it has pushed for MSCI inclusion, scrapping quotas on the number of stocks foreign investors can buy via trading links between the mainland and Hong Kong, and cracking down on companies arbitrarily suspending trading in their shares. It has also loosened the requirement that it needs to preapprove any financial products that are tracking A-shares.

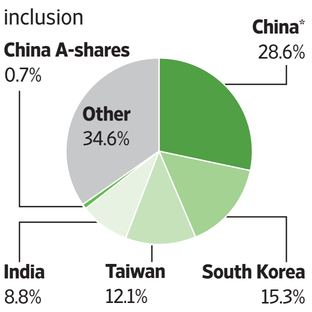
Some global investors on Wednesday said MSCI's inclusion for Chinese shares would enable them to press for more such changes at both the market and corporate level in China. Still, the inclusion only brings a relative handful of Chinese companies into the MSCI orbit, compared with more than 3,000 stocks listed in China. The roughly 1.5% of Chinese stock markets that foreigners currently own will barely rise.

It is vital, then, that any further increase in the weighting of A-shares in MSCI indexes is matched by further strides in market reforms in China. As they hail MSCI inclusion of Chinese shares, global investors should keep their eyes on the pace of further development.

—*Jacky Wong*

### Join the Club

Weightings in MSCI Emerging Markets Index after A-shares inclusion




*Firms listed in Hong Kong and overseas

Source: MSCI

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AGENCE FRANCE-PRESSE/GETTY IMAGES

**Investors watch the market in Beijing**

### OVERHEARD

"Strong and stable" didn't fare well as the constantly repeated political battle cry of U.K. Prime Minister **Theresa May**. Now Germany's Ifo economic think tank has appropriated it, and will be hoping it fares better.

There might be more reason to believe in its assessment that the German economy is "stark und stabil." Growth is now expected to reach 1.8% in 2017 and 2% in 2018, up from previous forecasts of 1.5% and 1.8%, respectively, the **Ifo Institute** said Tuesday. Meanwhile inflation looks contained at 1.7% this year and 1.6% next.

Still, there is one number in the Ifo forecasts that might raise concern: The institute says Germany's current-account surplus is set to remain very high, at over 8% of gross domestic product. While the country's other economic outcomes might be the subject of envy, this strong and stable indicator could yet be a source of friction with the rest of Europe and with Donald Trump.

## Tobacco Stocks Look Easy to Quit

Another big investor is giving up cigarettes. Regret has stalked similar decisions in the past, but the timing looks better this time.

U.K. insurer **Aviva** is in the process of selling the roughly $1.4 billion of tobacco stocks and bonds it holds. It joins a throng of money managers. Fifty-three investors, health systems, pension funds and insurers, representing $3.8 trillion in assets under management, last month signed a statement flagging the economic costs of smoking and supporting stronger regulation.

The longest-standing tobacco critic may be the **California Public Employees' Retirement System**, which sold out in 2000. A 2015 analysis for the Calpers investment committee suggested that it had forgone $3 billion in investment returns.

Now looks like a better time to sell out. In 2000, tobacco stocks, particularly in the U.S., were wheezing after a decade of litigation. But over the past decade and a half they have staged a spectacular recovery as investors have got used to ever tighter regulation and focused instead on the industry's big cash flows and emerging-markets exposure. **British American Tobacco**'s dividend yield is now 3.1%—lower than that of the FTSE 100, in a rare reversal. If there is a substantial gain for an investor picking up Aviva's tobacco shares, it is hard to see it at these prices.

Investment returns shouldn't play a part in an ethically motivated decision. But it helps if ethics and investment strategy point in the same direction. The decision may prove easier for Aviva than it was for early quitters.

—*Stephen Wilmot*

## Trump Plan Offers a Potential Bonanza for Trust Banks

Among the biggest winners from President Donald Trump's deregulatory agenda could be a handful of banks that don't often garner much attention.

Custody or trust banks, including **Bank of New York Mellon** and **State Street**, specialize in safekeeping the securities and other assets of institutional investors such as mutual funds and insurers. They stand to benefit more than other banks from potential changes to how regulators calculate lenders' total leverage.

Custody banks take some cash deposits from their investor clients, but their business models aren't focused on making loans. Instead, they tend to invest in safe, highly liquid assets like Treasury bonds or else just hold cash on deposit with the Federal Reserve.

These are among the assets that the Treasury Department now wants to exclude from calculating total leverage, according to the department's report on banking regulation last week. If the change goes through, it would be a windfall to the custody banks.

If these assets were excluded from leverage calculations, BNY Mellon, State Street, and smaller competitor Northern Trust could have between 33% and 38% of their total assets freed up, according to analysts at **Goldman Sachs Group**.

J.P. Morgan Chase, which also has a sizable custody business, would see around 21% of assets exempted. At other large banks the ratio ranges from 12% to 17%, according to Goldman's analysis.

Since around 2014, BNY Mellon and State Street have shrunk their balance sheets and issued billions of dollars of preferred shares to bring down their leverage ratios. If leverage calculations are loosened, it would allow them to call back the preferred shares, lever up again, or both. Earnings would rise as a result.

Analysts at Keefe, Bruyette & Woods estimate the regulatory shift could boost 2018 earnings per share by 19% at BNY Mellon and 26% at State Street. This assumes the banks make large, instantaneous adjustments to their balance sheets, which isn't realistic. But it still illustrates the potential power of changes to leverage calculations.

Since the Treasury report was released, shares of BNY Mellon and State Street have risen 2.4% and 2.8% through Tuesday, respectively, compared with a 0.8% rise in the KBW Nasdaq Bank Index. These moves seem minor compared with the potential earnings upside. As bank deregulation slowly moves forward, look for the trust banks to keep rising.

—*Aaron Back*

### Trust Surplus

Percent of total assets exempt from altered leverage ratio

| | |
|---|---|
| State Street | 38% |
| Northern Trust Corp. | 35% |
| Bank of New York Mellon | 33% |
| J.P. Morgan Chase | 21% |
| Citigroup | 17% |
| Wells Fargo | 17% |
| Morgan Stanley | 15% |
| Bank of America | 12% |

Note: Includes cash, U.S. Treasuries, and deposits with the Federal Reserve

Source: Goldman Sachs

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