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What's News

Business & Finance

Glencore made a takeover approach to grain trader Bunge, a move that would make the Swiss mining firm a major player in U.S. agriculture. **A1**

◆ **Fiat Chrysler** was sued by the U.S. Justice Department for allegedly using illegal software to cheat on emissions tests. **A1**

◆ **Uber said** it mistakenly underpaid New York City drivers for the past 2½ years, an error that could cost at least $45 million. **B1**

◆ **Fidelity's CEO** championed bitcoin in a speech, a rare vote of confidence by a financial executive. **B1**

◆ **China and Russia** are teaming up to build a large passenger plane to challenge Airbus and Boeing. **B2**

◆ **Target agreed** to pay $18.5 million to resolve a probe by state prosecutors into its 2013 hack. **B2**

◆ **The ransomware attack** carried "strong links" to hacking group Lazarus, a cybersecurity firm said. **B4**

◆ **Apple and Nokia** settled lawsuits over what Apple should pay for intellectual property in its iPhone. **B4**

◆ **Morgan Stanley** will join other Wall Street firms in curtailing its recruiting of veteran brokers **B6**

◆ **Saudi Arabia** is pushing OPEC to extend oil-output cuts for nine months to support the Aramco IPO. **B6**

◆ **China Life is buying** a 95% stake in 48 commercial properties in the U.S. **B9**

World-Wide

◆ **British police** identified a 22-year-old man as the suicide bomber who killed 22 people and injured dozens of others in the attack in Manchester. **A1**

◆ **U.K. political parties** are suspending election campaigning, as May's Conservatives saw their lead in the polls eroding. **A4**

◆ **Trump wrapped up** a three-day Mideast tour by declaring that Israeli and Palestinian leaders are ready to strike a peace deal. **A3**

◆ **Trump's overture** to Saudi Arabia's leaders has raised concern and anger in Iraq and Lebanon. **A3**

◆ **The Pentagon said** U.S. Special Operations forces backed by an AC-130 gunship killed at least seven al Qaeda fighters in Yemen. **A3**

◆ **Bahraini forces** clashed with Shiite Muslim protesters, killing one person and wounding hundreds. **A3**

◆ **Pakistan's government** is cracking down on social-media critics of the nation's powerful military. **A5**

◆ **Trump proposed** a $4.1 trillion budget that would slash safety-net programs and projects a big boost to economic growth. **A6**

◆ **Ex-CIA Director Brennan** said contacts between Trump's campaign associates and Russian officials last year raised concerns. **A6**

◆ **Two Indonesia men** were caned for same-sex relations, as intolerance of sexual minorities rises with the growth of conservative Islam. **A5**

CONTENTS

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9 779219 986139 21

DARREN STAPLES/REUTERS

A woman lays flowers in Manchester for the victims of Monday's attack, which killed 22 people, many of them young, as they poured out of an arena following a pop concert. The bombing highlighted the question of how to protect mass gatherings from terrorism.

Suicide Bomber Kills 22 In Britain

MANCHESTER, England—A 22-year-old man was identified by British police as the suicide bomber who killed 22 people and injured dozens of others in an attack Monday night on concertgoers in Manchester.

By Georgi Kantchev, Mike Bird and David Gauthier-Villars

Authorities gave the suspect's name as Salman Abedi and confirmed his age, but declined to provide other details about him. Investigators were racing to determine whether he had acted alone or was part of a broader terror network, Manchester's Chief Constable Ian Hopkins said.

Islamic State claimed responsibility for the attack, the deadliest in the U.K. since 2005. British police had no comment on the Islamist extremist group's assertion, and U.S. officials cautioned they hadn't verified any connection between Islamic State and the attack.

As fans of American singer Ariana Grande streamed out of the Manchester Arena on Monday, Abedi detonated an explosive device and unleashed carnage, police said, sending survivors fleeing as panicked parents searched for their children amid the chaos.

Please see ATTACK page A4

Attack Renews Conundrum

Police have tightened security cordons, but terrorists are now targeting perimeters

By Robert Wall in London and Nick Kostov in Paris

Monday night's bomb attack in Manchester again raises a problem that has confounded global-security authorities, particularly amid recent attacks across Europe: How do you protect mass gatherings from terrorism?

For years, law enforcement agencies have responded to the heightened threat of attacks on high-profile or high-traffic targets with progressively tighter security cordons—adding metal detectors to entrances or bollards along access ways. At large sporting events and music venues, too, recent attacks have forced organizers to add strict and time-consuming screening.

That has altered tactics among terrorists, who have started to target the outer limits of that expanding perimeter. In Manchester, the bomber struck a vulnerable choke point through which people must traverse to enter or leave a venue.

"It is very difficult to protect these places that, by their very nature, have to be open and accessible to function," said Raffaello Pantucci, a counterterrorism expert at Britain's Royal United Services Institute. That has made them a new, go-to target for terrorists.

Details are still sketchy, but U.K. authorities said a suicide bomber set off his device in a

Please see SECURE page A4

U.S. Government Sues Fiat Chrysler

By Mike Spector And Aruna Viswanatha

The U.S. Justice Department sued Fiat Chrysler Automobiles NV and alleged it used illegal software to cheat on government emissions tests, escalating a battle over the company's diesel engines.

In a civil lawsuit filed Tuesday in a Detroit federal court, U.S. prosecutors said the Italian-American auto maker used defeat-device software that allowed nearly 104,000 2014-2016 model-year Jeep Grand Cherokee sport-utility vehicles and Ram pickup trucks with diesel engines to pass government emissions tests and then pollute far beyond legal limits on the road.

The suit accuses Fiat Chrysler of violating the federal Clean Air Act and seeks injunctive relief and civil penalties. The suit also named as a defendant VM Motori SpA, a company owned by Fiat Chrysler that designed the engines.

Fiat Chrysler said it was "disappointed" the Justice Department filed the lawsuit and "intends to defend itself vigorously, particularly against any claims that the company engaged in any deliberate scheme to install defeat devices to cheat U.S. emissions tests."

A U.S. district judge is scheduled to hold a hearing on Wednesday to consider wide-

Please see FIAT page A2

INSIDE

FIDELITY'S CEO STANDS UP FOR BITCOIN

BUSINESS & FINANCE, B1

HOW TO MAKE SMALL TALK MEANINGFUL

LIFE & ARTS, A9

Glencore Circles Major Grain Trader

By Dana Mattioli, Jacob Bunge and Scott Patterson

Glencore PLC has made a takeover approach to grain trader Bunge Ltd., a move that would make the Swiss mining giant a major player in the U.S. agriculture market.

It isn't clear where any discussions between the companies stand and there may not be any deal. If there is one, it would be substantial: Bunge had a market value early Tuesday of nearly $10 billion; including debt, its so-called enterprise value was about $15 billion.

After The Wall Street Journal reported on the approach midday Tuesday, Bunge shares surged as much as 17%. Glencore subsequently confirmed that it had made an "informal approach" to Bunge "regarding a possible consensual business combination."

Glencore is a mining and commodity-trading powerhouse with a market value of £42.3 billion ($55 billion). An acquisition of Bunge, one of the world's largest traders and processors of commodities like soybeans and corn, would give Glencore a major presence in the U.S., a long-held goal of Chief Executive Ivan Glasenberg.

A deal would also signal that Glencore has recovered from a turbulent period two

Please see BUNGE page A2

Manhattan Prosecutors' Office Combines Prestige With Squalor

* * *

Bad smells and a sprung sofa are among the trials of working in a '70s building

By Nicole Hong And Erica Orden

The next U.S. attorney in Manhattan will take over the most prestigious office of federal prosecutors in the country, famous for their aggressive pursuit of Wall Street titans, prominent politicians and overseas hackers.

That person will also inherit an office with a history of bedbugs, lead-contaminated water and other less-than-desirable working conditions.

Behind the law-enforcement agency known for sending hundreds of white-collar criminals to federal prison lies a decaying workspace in downtown Manhattan that even the acting U.S. attorney there, Joon Kim, calls "shabby chic, without the chic."

That may be understating the situation, which goes beyond the worn carpets and dated computers typical of a government building.

In the past decade, the workspace, which occupies an entire nine-story building, has suffered bedbug outbreaks and the occasional ant infestation. Brian Jacobs, who served as the office's deputy chief of appeals until 2015, once noticed a strange odor, only to later discover the source to be a dead rat decomposing in a radiator.

"Every job has its unique challenges," Mr. Jacobs said. "Coping with bad smells is not one you expect."

Bedbug

People in the office say they tend to avoid the water. In 2003, an inspection found the water fountains had unsafe levels of lead, according to the General Services Administration, which owns the building. The office subsequently covered the water fountains with garbage bags, and prosecutors began informal "water clubs," in which they would chip in money out-of-pocket to buy coolers of filtered water.

A spokeswoman for the GSA, the federal agency that manages government build-

Please see OFFICE page A7

HOW STAR ENGINEER SPARKED A TECH WAR

Google alleges ex-employee took driverless-car secrets to Uber

By Jack Nicas And Tim Higgins

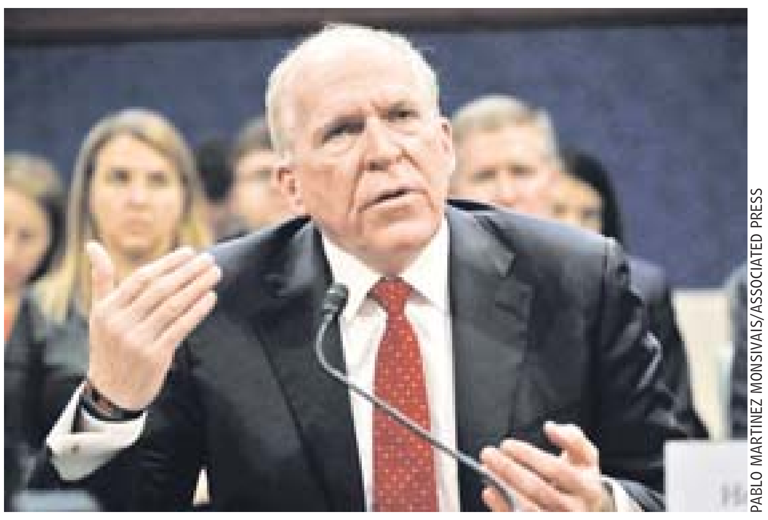
Anthony Levandowski, the former Google engineer at the center of a battle between the tech giant and Uber Technologies Inc., was never a typical employee. And for years, Google was fine with that.

Weeks after Google hired him in 2007 to work on a global photo database called Street View, Mr. Levandowski, then 27 years old, registered a startup to sell a sensor system to Google for the same project, according to public records and former employees of both companies.

For the next four years, Mr. Levandowski split his time between his day job at Google and the startup, 510 Systems LLC, an hour away in Berkeley, Calif., where he directed employees to develop technology related to his Google projects, including self-driving cars, according to former 510 Systems employees.

After Google discovered the side business, instead of reprimanding Mr. Levandowski for a potential conflict of interest, it

Please see UBER page A8

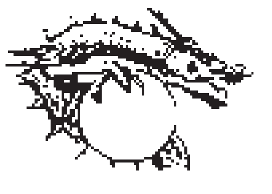


PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS

Russia and U.S. Election

INTERFERENCE: Ex-CIA Director John Brennan testified that U.S. intelligence agencies grew concerned after learning Trump campaign associates had been in contact with Russian officials, adding that Russia "brazenly" interfered in the U.S. election. **A6**

Big Brother Is Holding Foreign-Company Data



CHINA'S WORLD
By Andrew Browne

SHANGHAI—The all-seeing eyes of the Chinese state are focusing on businesses.

China is already rolling out an IT-enabled rating system to govern the behavior of individuals. Less attention is being paid to its other application: Big Brother is also harnessing big data to create the world's most extensive system of corporate surveillance and control.

Think of it as the ultimate tool of Chinese state capitalism.

The Mercator Institute for China Studies, a German think tank, calls it "IT-backed authoritarianism."

Foreign companies had better get used to the attention, the institute warns in a new report. They are very much part of the Social Credit System intended to produce conformity not just with laws and regulations covering such things as factory emissions and worker safety, but also the state's long-range industrial plans.

The backbone of the system will be up and running by 2020. As it becomes more sophisticated, it will generate corporate scorecards from masses of data extracted from cameras, sensors and e-commerce trading platforms. Low scorers might expect higher taxes, or more expensive loans; high scorers lucrative investment opportunities.

The world's liberal trading order has never faced a challenge quite like it, and foreign investors are just now trying to fathom its implications. "Data ownership helps autocratic systems," says Jörg Wuttke, the departing president of the European Chamber of Commerce in China.

The Trump administration is fixated on traditional threats to trade. Wilbur Ross, the commerce secretary, recently hailed a new U.S.-China trade agreement that opens the Chinese market to U.S. beef, liquefied natural gas and selected financial institutions as "a herculean accomplishment."

That may be true, though it misses the wider point: The real challenge to foreign businesses in China these days is occurring behind its borders.

Despite China's pledges to give markets a greater role, President Xi Jinping is leading a retrograde drift toward industrial command-and-control.

Invoking security concerns, authorities are squeezing foreign technology suppliers out of critical infrastructure projects, such as banking networks. A "Made in China 2025" industrial blueprint aims to replace foreign technologies with Chinese ones in areas from artificial intelligence to robotics and semiconductors. A firewall shuts out U.S. media giants.

OU DONGQU/XINHUA/ZUMA PRESS

A staff worker logged into a big-data platform in southwest China's Guizhou province on May 16.

If Deng Xiaoping's economic "open door" is indeed clanging shut, behind it lies an increasingly hostile environment for multinationals. They are now on notice to actively support Mr. Xi's grand statist project to turn China into a "manufacturing superpower."

The social-credit system of rewards and punishments is the enforcement mechanism.

To view it solely as a kind of Orwellian dystopia, though, would be a mistake. Frauds and fakes plague the Chinese marketplace; better data will boost consumer trust.

Likewise, stronger data collection will help enforce environmental regulation; monitors lurking in chimneys will spot excessive factory emitters, while smart meters will spy on surges in energy usage beyond permitted levels.

Dash cams aboard truck fleets will identify errant drivers. Digital feeds from e-commerce sites will expose glitches in customer service and payment irregularities.

Big data will capture infractions in real time, allowing instant downgrading of rolling credit scores. Yet this self-enforcing regulatory system is at the same time pernicious.

Eventually, predicts Mercator, Chinese and foreign companies watching their credit scores are more likely to fall in line behind state planning objectives, whether or not they make commercial sense. Already, car makers are under pressure to pour investments into clean-energy vehicles under a production-quota arrangement.

The Mercator report, which draws on publicly available Chinese documents, predicts that the social-credit system "could become a powerful, big-data-enabled tool kit for monitoring, rating and steering the behavior of participants into a politically desired direction."

Of course, the system could end up wrecking the economy. Excessive regulation risks upsetting the delicate balance between government control and commercial disruption that allows innovation to flourish.

Then there are IP concerns. Chinese authorities, openly committed to nurturing state-owned national champions, will wind up with troves of highly sensitive commercial data from foreign competitors. A data breach could be calamitous.

And how will the ratings be compiled? The suspicion of antiforeign bias will be hard to dispel. The National Development and Reform Commission, the main body overseeing the project, declined to comment.

It Is unclear what the West can offer as a defense. The best hope of dealing with state capitalism is the Trans-Pacific Partnership, which the Trump administration has abandoned. The giant free-trade deal is intended to set new regulatory benchmarks in areas like the digital economy and the role of state-owned enterprises—domains not properly covered by the World Trade Organization. (The remaining 11 countries in the pact are struggling to keep TPP alive.)

As it is, foreign players in the world's fastest-growing technology and consumer markets will shortly find themselves looking over their shoulders at the whizzing numbers on their scorecards. When Big Brother is the regulator, their fortunes will be at the mercy of invisible eyes and mysterious algorithms.

FIAT

Continued from Page One

spread consumer lawsuits against Fiat Chrysler alleging emissions transgressions. They are consolidated in a San Francisco federal court as part of a so-called multidistrict litigation case. The Justice Department plans to request its lawsuit be transferred to the California court so it can join those proceedings as a plaintiff alongside owners of Fiat Chrysler vehicles.

The Justice Department proceeded with the suit even as the Trump administration has embarked on a significant rollback of former President Barack Obama's climate change agenda. That included reopening a review of stringent future U.S. car-emissions standards after auto makers decried the U.S. Environmental Protection Agency's decision to close it about a week before President Donald Trump's inauguration.

Fiat Chrysler Chief Executive Sergio Marchionne in January questioned the EPA's timing in accusing the auto maker of diesel-emissions violations so close to the end of Mr. Obama's second term.

The EPA in January accused Fiat Chrysler of using and failing to disclose software that allowed illegal excess emissions but stopped short of calling the technology a defeat device designed to dupe regulators. Still, the alleged transgressions carried potential collective fines of roughly $4.6 billion, regulators said.

The Justice Department suit alleges Fiat Chrysler's undisclosed software allowed vehicles to meet emissions standards in the laboratory and during standard EPA testing while emitting nitrogen oxides above allowable limits during certain normal on-road driving. When seeking certification of the vehicles, Fiat Chrysler failed to disclose a least eight auxiliary emission-control devices that individually or in combination with one another had the "principal effect of bypassing, defeating or rendering inoperative" pollution-control systems, the suit said.

The EPA and California Air Resources Board remain in discussions with Fiat Chrysler to make the vehicles compliant with federal and state pollution laws. The EPA said the "nature and timing of any resolution of this issue are uncertain."

Mr. Marchionne in January dismissed comparisons to Volkswagen AG's admitted emissions cheating and said the company did "nothing, in our view, that is illegal." He accused regulators of "grandstanding" and trying to "lynch companies" over differences in how emissions software is calibrated.

CHRIS RATCLIFFE/BLOOMBERG NEWS

Fiat Chrysler's Sergio Marchionne

Nevertheless, investigators across the globe are scrutinizing auto makers' emissions in the wake of Volkswagen's admission to conspiring for nearly a decade to mislead regulators with defeat devices on diesel-engine vehicles, a scandal that led the German company to plead guilty to criminal charges and agree to billions of dollars in penalties.

German prosecutors separately on Tuesday searched Daimler AG offices as part of a preliminary investigation into alleged fraud and criminal advertising related to possible manipulation of exhaust-gas treatment in cars with diesel engines. Daimler said it was cooperating with authorities.

The Justice Department sued Fiat Chrysler despite the auto maker's recent efforts to update its software and settle allegations with environmental regulators.

Fiat Chrysler on Friday said it had asked environmental regulators to certify 2017 model-year Jeep Grand Cherokees and Ram pickup trucks with diesel engines that featured updated software. The request came after months of discussions with the EPA and California Air Resources Board, and included extensive testing of the vehicles, the auto maker said. The vehicles, while continuing to roll off production lines, have been held in storage awaiting regulatory approval to be sold.

Fiat Chrysler said it intended to install similar modified emissions software in the 2014-2016 models currently under government suspicion once receiving permission from regulators. The auto maker predicted the moves would lead to a "prompt resolution to ongoing discussions" with the Justice Department and other agencies.

Fiat Chrysler "believes these updated software calibrations fully address EPA's and [California regulators'] concerns and can be installed in the [vehicles'] engine control module through a simple software reflash," the company's lawyers wrote last week in a filing in the San Francisco federal court.

BUNGE

Continued from Page One

years ago when the company faced questions about its solvency.

With $42.9 billion in sales last year, Bunge is among the biggest and oldest of the grain-trading giants that control the flow of crops from farmers' fields to food plants and livestock operations. It possesses an armada of grain terminals, processing plants and related assets throughout the Americas. Along with Archer Daniels Midland Co., Cargill Inc. and Louis Dreyfus Co., Bunge is a member of the so-called ABCD club that dominates global agribusiness.

The White Plains, N.Y., company traces its roots to a Dutch firm founded in 1818. Its controlling families, the Bunges and Borns, moved the company to South America and eventually the U.S. as it grew to become the world's largest processor of oilseeds like soybeans, Brazil's largest exporter of agricultural commodities and a major marketer and processor of U.S. crops.

The company launched an initial public offering in 2001 and rode a commodity boom that ran from 2007 to 2013, but since then it has been hampered by a series of record-breaking harvests in the U.S. and South America that have put pressure on grain prices.

Bunge in February reported a 6% decline in net income for 2016 and in May cut its profit projection for this year. The global grain glut has left farmers in many of the world's breadbaskets unwilling to sell crops at cut-rate prices, leaving companies like Bunge with less to trade and process.

VINCENT MUNDY/BLOOMBERG NEWS

A wheat storage facility in Ukraine operated by Bunge, one of the world's largest grain processors.

Meanwhile, some grain buyers, like food processors and meat companies, have been hesitant to purchase commodities in advance since prices are expected to stay low. Soren Schroder, Bunge's CEO, said in May that the standoff has left the global grain-trading system "frozen."

Mr. Schroder has said the grain business is ripe for consolidation, given the industry's struggles to translate a historic flood of crops into consistent profit growth. "It is very clear that there are too many, too many trying to do the same thing with a small margin," Mr. Schroder told investors at a recent event.

Bunge's recent strategy has been to strike joint ventures and partnerships with smaller companies to run mills and processing plants more profitably. However, Mr. Schroder said recently that "if there was something bigger, we're open to it."

Glencore's agriculture business posted $22 billion in revenue in 2016, compared with $66.3 billion for its metals and mining operations. It is one of the world's biggest marketers of wheat, feed barley, canola and sunflower products and is a major exporter from Russia, the European Union, Canada and Australia, though it has little presence in the U.S. It has about 14,000 employees world-wide, with 274 storage and handling facilities in 17 countries, according to Glencore's website.

Like most other Glencore businesses, the firm's agriculture outfit trades heavily in the products it produces around the world. Marketing activities in 2016 accounted for 85% of the group's revenues.

Glencore's Mr. Glasenberg is a prolific deal maker. The former coal trader was part of a team that ousted founder Marc Rich in 1994. In 2002, Mr. Glasenberg became the company's CEO and later took Glencore public.

In 2012, Glencore agreed to buy Canadian grain-marketing and distribution company Viterra Inc. for about $6 billion. The next year, Glencore merged with Xstrata PLC, a diversified mining giant. In 2014, Glencore approached Rio Tinto about a merger that could have created the world's biggest publicly traded miner, but was rebuffed.

A world-wide slide in commodity prices forced Glencore to sell a 40% stake in its agricultural business to the Canada Pension Plan Investment Board last year, among a range of moves to raise money and reduce a heavy debt burden. That deal gave Glencore's agricultural division its own board and put it on course for a potential IPO in about seven years. Glencore sold an additional 9.99% stake in the agricultural unit to British Columbia Investment Management Corp., another pension fund, for $625 million last June.

While Glencore's agriculture business has grappled with the same challenges its larger peers have, the parent company has regained its footing. Since its share price plummeted in late 2015 due to investor fears over its debt, Glencore has returned to profit thanks to surging prices for copper, coal and zinc. The Swiss firm has sharply reduced its debt load, and its shares have gotten back most or all of the earlier decline.

—Ben Dummett contributed to this article.

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WORLD NEWS

President Sees Chance for Mideast Peace

By Carol E. Lee
And Rory Jones

JERUSALEM—President Donald Trump wrapped up a three-day Middle East tour by declaring Tuesday that Israeli and Palestinian leaders are ready to strike a peace agreement, though both sides used the president's visit to highlight the daunting obstacles that stand in the way.

Israeli Prime Minister Benjamin Netanyahu took aim at Palestinian Authority President Mahmoud Abbas, castigating him for his condemnation of Monday night's bombing in Manchester, England, while the authority helps administer a longstanding welfare program for families of Palestinian suicide bombers and those of Palestinian prisoners in Israeli jails.

"Well I hope this heralds a new change because if the attacker had been Palestinian and the victims had been Israeli children, the suicide bomber's family would have received a stipend from the Palestinian Authority," Mr. Netanyahu said.

Standing in the West Bank town of Bethlehem beside Mr. Trump, Mr. Abbas reiterated longtime Palestinian demands for a Palestinian state alongside Israel, with East Jerusalem as its capital.

Many lawmakers in Mr. Netanyahu's parliamentary majority reject that position, even as a starting point for negotiations.

Like Mr. Netanyahu, whom Mr. Trump met Monday for talks, Mr. Abbas was blunt in stating Palestinian grievances: "Our fundamental problem is with the occupation and settlements and failure of Israel to recognize the state of Palestine."

As he did throughout his visit to Israel and the West Bank, Mr. Trump sought to strike a note of optimism, saying at the Israel Museum that he is "personally committed to helping both sides reach a peace agreement."

Both Mr. Netanyahu and the Palestinian leaders, the president said, want peace, adding: "Making peace, however, will not be easy. We all know that. Both sides will face tough decisions."


EVAN VUCCI/ASSOCIATED PRESS
President Donald Trump met with Palestinian Authority President Mahmoud Abbas on Tuesday.

Mr. Trump hasn't committed his administration to the longstanding U.S. policy of a two-state solution to the conflict.

His refusal to do so—which White House officials have said is designed to give the two sides maximum room to negotiate—is an omission that frustrates Palestinians while buoying right-wing Israelis.

He did, however, deliver a veiled criticism of the Palestinian welfare program, the Netanyahu government's latest bone of contention with the Palestinian Authority and the reason, it says, why it has no Palestinian partner for peace.

"Peace can never take root in an environment where violence is tolerated, funded and even rewarded," Mr. Trump said alongside Mr. Abbas in Bethlehem. "We must be resolute in condemning such acts in a single unified voice."

Israeli officials have been pressuring the U.S. to cut funding for the authority while it continues to participate in the program.

Palestinian officials argue that the payments are a social benefit to families and have so far appeared unwilling to restructure the system.

In meetings in Israel on Monday and with regional leaders over the weekend in Saudi Arabia, Mr. Trump has attempted to advance his aim of reaching not only a peace agreement between the Israelis and Palestinians but also a regional alliance between Israel and its Arab neighbors.

"This trip is focused on that goal: bringing nations together around the goal of defeating the terrorism that threatens the world and crushing the hateful ideology that drives it," he said at the Israel Museum.

Following his meeting with Mr. Abbas in Bethlehem, Mr. Trump visited Yad Vashem, Israel's Holocaust museum and memorial, where he laid a wreath and in public comments described the Holocaust as "history's darkest hour."

Trump, Pope Seek Common Ground

Leaders aim to get past public rancor but are left with few points of agreement

By Francis X. Rocca

VATICAN CITY—When President Donald Trump visits Pope Francis on Wednesday, at the halfway point of a trip the White House has cast as a pilgrimage of peace, the two leaders will have a chance to reset an acrimonious public relationship.

Yet the two men, famously divided on the pope's signature issues of migration and climate change, could struggle to find significant areas of agreement.

As of last week, representatives of the White House and the Vatican working on the agenda for the meeting had found few common policy priorities, according to someone familiar with the preparations.

Vatican meetings between pontiffs and heads of state are more stagecraft than hard-nosed politics. Wednesday's meeting carries extra weight given the public sparring match last year, when the pope said Mr. Trump's opposition to migration made him "not Christian," and Mr. Trump shot back that questioning his faith was "disgraceful."

"They have a little fence-mending to do. They got off to a bad start," said Jim Nicholson, ambassador to the Holy See under President George W. Bush.

"Everyone knows there are areas of disagreement," said Cardinal Donald Wuerl of Washington. "It's just important that they're getting together to say, 'What are some of the areas where we have common ground?' "


EVANDRO INETTI/ZUMA PRESS
Pope Francis at the Vatican on Monday.

Mr. Trump stands to gain, amid the many controversies besetting him at home, from images of a friendly encounter with the enormously popular pope. The Vatican is sensitive to the White House's concerns and eager to avoid anything that could appear like a scolding, according to someone familiar with the preparations.

Archbishop Paul Gallagher, the Holy See's secretary for relations with states, declined a request for an interview about the meeting.

The pope himself has sought to play down the tensions. When asked about the coming meeting with Mr. Trump, he said that "we need to look for the doors that are at least slightly open, to enter and talk about the things we have in common, and to go on. Step by step."

On the eve of his departure, Mr. Trump said: "I look forward to speaking with the pope about how Christian teachings can help put the world on a path to justice, freedom and peace."

Abortion, an issue uniting the Trump administration and American Catholic bishops, is a point of common ground, but isn't a priority for the pope.

Pope Francis has made a priority of addressing global warming, describing it as a real threat to life on the planet and calling for cutting fossil fuel use to stem it. The White House, to the contrary, is deciding whether the U.S. should withdraw in full from the Paris Agreement to cap emissions.

A main goal of Mr. Trump's foreign trip—outreach to the Muslim world—is in principle one that could appeal to Pope Francis, who has fervently promoted close relations with Islam. On Sunday in Saudi Arabia, Mr. Trump addressed leaders of dozens of Muslim countries on the need to confront extremist ideologies and promote a peaceful version of Islam.

That could offer a point of convergence with Pope Francis, who issued a forceful call against religiously inspired violence in a speech in Cairo last month.

"That's a way to start a conversation," said Ken Hackett, U.S. ambassador to the Holy See under President Barack Obama.

Pope Francis and Mr. Trump have both voiced concern for besieged Christian minorities in the Middle East, but the Vatican's call to increase aid for displaced Christians and other minorities in the region clashes with the White House's aim to cut budgets. The topic of Mideast peace is a thorny one, with Vatican diplomats wary of what they view as the Trump administration's pro-Israel tilt.

With the two differing on migration, only narrow areas of that theme, such as combating human trafficking, are likely to bring them together.

Other topics that traditionally unite Republican administrations and the Vatican could prove less fruitful this time. For instance, the U.S. bishops have welcomed President Trump's antiabortion stance and have expressed cautious optimism about his moves to exempt them from the contraceptive mandate of the Affordable Care Act. But the two issues aren't likely to figure prominently in the meeting.

U.S. Policy Shift Brings Unease to Iraq, Lebanon

President Donald Trump's overture to Muslim leaders in Saudi Arabia has raised concern and anger in Shiite-majority Iraq and among the Christian, Shiite and Sunni population in Lebanon, two of America's most important regional partners in the war on terror, which maintain good relations with Shiite Iran.

By Maria Abi-Habib in Beirut and Margherita Stancati in Riyadh

The president's speech Sunday—which singled out Tehran and its proxy, the Lebanese Shiite militia Hezbollah, while cementing the U.S. alliance with Sunni power Saudi Arabia—marked a departure from the Obama administration's efforts to engage Iran and drew rebukes from Shiite and Christian lawmakers, as well as rights activists.

Lebanon stands to be most affected by the new U.S. policy. Hezbollah wields significant political power at home and is fighting in Syria to keep ally Bashar al-Assad in power. Mr. Trump's approach could end up alienating the government and its army, which the U.S. considers one of the most adept in the region in the fight against Sunni terror groups al Qaeda and Islamic State.

Lebanese politicians expressed concern their government would be drawn further into the bitter regional power struggle between Iran and its allies and the Saudis and theirs. Although Hezbollah has government positions and a powerful militia, the rest of the government and national military try to remain neutral in regional affairs.

"We seek friendship with everyone, but not at the stake of our own nation," said Alain Aoun, a Christian Lebanese member of parliament. "We're worried. If U.S. and Iranian relations deteriorate dramatically, it will definitely sweep up Lebanon."

In Iraq, which has close ties to both Iran and the U.S., lawmakers were angered by Mr. Trump's comments, which they said would undermine their country's security by threatening Iran's. Iraqi forces are currently fighting alongside American troops against Islamic State.

Iraqi lawmakers called for the Saudi ambassador to be summoned and rebuked for the Riyadh conference that Mr. Trump addressed on Sunday. Parliamentarian Mohamed al-Saihood on Monday called the forum a "sectarian summit" aimed against Shiites.

Mr. Trump's speech glossed over the Gulf's past role in spreading religious extremism and played down U.S. interests in protecting human rights in the region.

Newly re-elected Iranian President Hassan Rouhani responded defiantly on Monday. He stood by Hezbollah. He also said the path to peace in the region was through dialogue, but warned at the same time that Iran would strike back if struck first.

Some fear the Trump administration's pivot will undermine security in the region.

During Mr. Trump's visit, the U.S. signed a new $109 billion arms deal with Saudi Arabia and committed to a further $350 billion in arms over the next decade.

Politicians in Lebanon, Iraq and elsewhere in the region said they fear the Saudis will be given a blank check for their own increasingly aggressive policy in the Middle East.

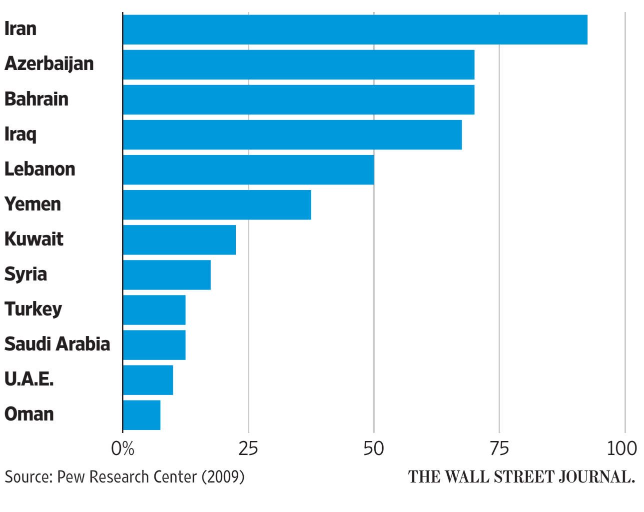
Sectarian rivalries are already helping to fuel multiple wars in the Middle East. And Saudi Arabia has a history of interference in its neighbors' affairs and stoking sectarian tensions—notably in its current war against the Iran-linked Houthis in Yemen.

"The region needs less Saudi and less Iran. Otherwise it'll be two models of governance, two geopolitical contenders that can deploy religion as a weapon if and when needed," said Emile Hokayem, a senior fellow at the International Institute for Strategic Studies.

—Ghassan Adnan in Baghdad and Asa Fitch in Dubai contributed to this article.

Sectarian Divides

Percentage of Muslim population that is Shiite



Source: Pew Research Center (2009)
THE WALL STREET JOURNAL.

Bahrain Security Forces Clash With Shiite Protesters

Bahraini forces clashed with Shiite Muslim protesters, killing one person and wounding hundreds in a flare-up of a long-running confrontation between the Sunni monarchy and majority Shiite population, activists and Amnesty International said.

Tuesday's clashes, in which

By Asa Fitch in Dubai and Margherita Stancati in Riyadh

Amnesty and local activists said forces fired tear gas and birdshot at protesters, took place near the home of Isa Qassim, the country's top Shiite cleric. Shiite activists have held sit-ins since authorities stripped him of his citizenship last year, a move authorities said aimed to clamp down on those subordinate to foreign religious authorities.

Bahraini forces surrounded and raided Mr. Qassim's house, but he wasn't taken into custody, Amnesty said.

The clashes came two days after a court sentenced Mr. Qassim to a one-year suspended jail sentence on charges of money-laundering and raising funds without a license. Amnesty said these activities related to his collection of tithes to be distributed to the poor.


ASSOCIATED PRESS
Bahraini forces raid the Shiite village of Diraz.

They also followed a Sunday meeting in Saudi Arabia between U.S. President Donald Trump and Bahrain's King Hamad bin Isa al-Khalifa, during Mr. Trump's first trip abroad since taking office. Mr. Trump said during the meeting that there wouldn't be any strain in the countries' relationship on his watch.

Bahrain's state-controlled news agency said police carrying out a "targeted security operation" Tuesday morning in Diraz, the coastal village where Mr. Qassem lives, came under attack with firebombs.

Bahrain is an important U.S. ally in the Middle East. It hosts the U.S. Fifth Fleet, the force that patrols shipping channels around the Arabian Peninsula.

U.S. Forces In Yemen Kill Militants

U.S. Special Operations forces backed by an AC-130 gunship killed at least seven al Qaeda fighters in Yemen, the Pentagon said, as the Trump administration stepped up military pressure on the extremist militant group.

Targeting a cluster of build-

By Asa Fitch in Dubai and Ben Kesling in Washington

ings in central Marib province that were thought to be used as a base of operations and to plan attacks abroad, the U.S. forces on Tuesday clashed with fighters of al Qaeda in the Arabian Peninsula and then called in the gunship for reinforcement, Pentagon spokesman Capt. Jeff Davis said.

At least seven AQAP members were killed in the early morning raid, Capt. Davis said. Some U.S. troops were wounded in the fighting, he added, giving no other details other than the injured soldiers left the battlefield under their own power. He also said there were no credible indications of civilian casualties during the operation.

Election Campaign Halted

Suspension comes as Conservatives saw drop in support ahead of June 8 vote

By Stephen Fidler
And Max Colchester


TOBY MELVILLE/REUTERS
U.K. Prime Minister Theresa May's campaign mantra has been 'strong and stable leadership.'

LONDON—The Manchester suicide bombing has led to the suspension of the campaign for the U.K. general election, as Prime Minister Theresa May's party saw its sizable lead in the polls eroding.

Political parties said they would pause their campaigning for the June 8 vote, with Labour leader Jeremy Corbyn announcing it "will be suspended until further notice." The Scottish National Party was scheduled to launch its manifesto on Tuesday but postponed it.

Mrs. May called the election on April 18, hoping her ruling Conservative Party would benefit from the huge lead in the opinion polls they were enjoying over the main opposition Labour Party.

But in the past week, support for her party eroded following publication of its manifesto. On Monday, she backtracked on a proposal in the manifesto to levy a charge on people's houses after they died to pay for their social care. Opposition politicians had described the proposal as a "dementia tax." The manifesto was also criticized for not laying out the costs of its proposals.

Heading into the campaign, Mrs. May had a double-digit lead over Labour's Mr. Corbyn in the polls. That lead shrunk to a nine-point gap over the weekend as voters fretted over the proposal on health care for the elderly, pollster YouGov PLC said.

"She has had the most difficult week since the publication of the manifesto and has looked at her most vulnerable since arriving in Downing Street in July," said Mujtaba Rahman, head of the Europe practice of the Eurasia Group consulting firm.

"All of that will now be overtaken by yesterday's events and will refocus the campaign on the issue of leadership," he said.

That new focus will allow Mrs. May to draw attention back to her mantra of "strong and stable leadership" and emphasize the supposed contrast with Mr. Corbyn.

The campaign pause could give the prime minister an opportunity to regain her footing and burnish her leadership credentials, pollsters say.

"When one has crises of this kind, they tend to favor the government in office," said Wyn Grant, professor of politics at the University of Warwick. "They can reassure people and show people they are in control."

Mrs. May previously dealt with terrorism matters as head of the U.K.'s Home Office, giving her experience that can "equip her to deal with this," he added. Still, analysts cautioned much would depend on how Mrs. May handles the fallout of the attack, details of which still remain unknown.

The bombing in Manchester came two months after Khalid Masood, a 52-year-old British-born man, drove a car into a crowd of people near the British Parliament and stabbed a policeman, leaving five dead.

Past examples of British elections being disrupted by violence are rare. In 1979, Shadow Northern Ireland Secretary Airey Neave was killed by a car bomb just weeks before a general election in which Margaret Thatcher came to power.

Before the Brexit referendum in June 2016, British lawmaker Jo Cox was shot dead by a man motivated by Nazism. Both sides halted campaigning for a day as a mark of respect.

Mr. Rahman said he expected the current campaign to be suspended for longer than a day but certainly less than a week.

Past Terror Attacks on U.K. Targets

By Jason Douglas
And Wiktor Szary

Oct. 5, 1974 Five are killed and dozens injured when bombs go off in two pubs in Guildford in southern England as part of a bombing campaign waged by the Irish Republican Army. A pub in Woolwich, London, is bombed weeks later, killing two.

Nov. 21, 1974 The IRA strikes again in Birmingham, where 19 are killed and more than 180 injured in another set of pub bombings.

March 31, 1979 A car bomb planted by the Irish National Liberation Army kills Airey Neave, spokesman for Northern Ireland in the then-opposition Conservative Party, as he left the House of Commons parking lot.

Aug. 27, 1979 An Irish Republican Army bomb kills Louis Mountbatten, Queen Elizabeth II's cousin, while he is boating on a lake near his family home in County Sligo in the west of Ireland. The earl's grandson and a local boy who worked for the family are also killed. Hours later 18 British soldiers are killed in an IRA ambush near Warrenpoint in Northern Ireland.

Oct. 12, 1984 The IRA bombs the Conservative Party's annual conference at a hotel in Brighton, a seaside resort in the south of England, killing five people. Prime Minister Margaret Thatcher and her husband, Denis, narrowly escape injury. Margaret Tebbit, wife of then-Trade Secretary Norman Tebbit, is left wheelchair-bound by the blast.

Feb. 10, 1996 The IRA announces an end to a months-long cease-fire by exploding a bomb in London's Docklands, killing one and injuring 39. A larger bomb is detonated in central Manchester on June 15, injuring 200 people.

Aug. 15, 1998 A group of dissident Irish republican terrorists calling themselves the Real IRA explode a bomb in the Northern Irish town of Omagh that kills 29 people, the largest loss of life in a single incident during the three decades of Irish violence known as the Troubles.

July 7, 2005 Four Islamist extremists carry out three nearly simultaneous suicide attacks on the London Underground and another shortly afterward on a double-decker bus, killing 52 people and wounding more than 700 others, a traumatizing attack that became known simply as 7/7.

May 22, 2013 Michael Adebolajo and Michael Adebowale, British citizens of Nigerian descent and converts to Islam, attack British soldier Lee Rigby outside an army barracks in London, running him over with a car and hacking him to death with a meat cleaver while shouting "Allahu akbar"—God is great.

June 16, 2016 Jo Cox, a 41-year-old Labour Party lawmaker, is killed in a brutal attack motivated by Nazism and deemed an act of terrorism. Thomas Mair, an unemployed gardener, stabs Ms. Cox and then shoots her three times at close range, shouting words to the effect of "Keep Britain independent." The killing led to a pause in the campaign for the June 23 referendum on Britain leaving the European Union. Ms. Cox had backed the U.K. remaining in the bloc.

March 22, 2017 Khalid Masood, a 52-year-old British man, mows down pedestrians on the crowded Westminster Bridge in central London before crashing his car near the gates of Parliament and stabbing a policeman to death. Masood is shot dead at the scene by police. The attack claims the lives of five victims.

SECURE

Continued from page A1

DARREN STAPLES/REUTERS
Hours after the bombing, shoppers were evacuated from a shopping center over an unrelated incident.

public space in an enclosed foyer near one of the exits of the Manchester Arena. British Prime Minister Theresa May said the bomber, attacking concertgoers as they were leaving following an Ariana Grande concert, "deliberately [chose] the time and place to cause maximum carnage."

The attack, which killed at least 22, has global security officials reassessing procedures. Belgian authorities said they would send their police a list of security measures for music festivals and big events. The French government has issued similar instruction.

Security officials in the U.K. are facing the start of the country's summer season of sporting and cultural events. One of the country's biggest, the FA Cup final, is on Saturday. The soccer event's organizers said Tuesday that it was bulking up security around the events.

While security staff in many places already check audiences and fans as they enter a venue, the Manchester attack could force planners to consider bolstering protection for people leaving as well. But security officials have wrestled with the benefit of ever more checks. Some argue that extending the perimeter of security around such events—just like at airports—simply moves potential targets, and doesn't eliminate them.

Even at facilities where tough security is the norm, terrorists have increasingly found ways to target areas with fewer defenses. In January 2016, terrorists struck the Istanbul Atatürk Airport, Turkey's main aviation hub. Suicide bombers detonated explosives in a publicly accessible area before security.

In March 2016, suicide bombers hit a subway stop and the Brussels airport, also in areas that didn't require passing through security. While some high-risk airports, like Baghdad's, have responded in the past by extending their protected zones, many aviation-security experts don't agree that helps.

Extending the perimeter in many cases moves vulnerability further away from the airport, but can also create new potential targets—where cars are checked before proceeding to the terminal, for instance, or as passengers queue for screening outside the check-in hall, instead of at security gates before departure gates. Instead, some airports have introduced scanning equipment to better monitor crowds and potentially spot bombs.

The vast size of some publicly accessible spaces also proves a challenge. Days before last year's July 14 attack that killed 86 people in Nice, France, police and city officials considered and abandoned an idea to use concrete barriers around the area that had been cordoned off for the Bastille Day fireworks display, according to minutes of the meetings viewed at the time by The Wall Street Journal.

The French government was widely criticized for not sealing off the promenade or providing enough police presence to stop the truck sooner. An inquiry in January into the security measures that night found the government couldn't be blamed for the loss of lives.

—Wiktor Szary and Valentina Pop contributed to this article.

Young People Among Victims

By Saabira Chaudhuri
And Denise Roland


REUTERS
Georgina Callender

The Facebook post early Tuesday started off "STILL MISSING."

Eight-year-old Saffie Rose Roussos, it said, was wearing a white Ariana Grande T-shirt, a denim skirt and black leggings when she was separated from her mother and sister at Ms. Grande's concert the night before in Manchester. "PLEASE SHARE," the post read, ending with a phone number.

A few hours later, Saffie's school, northwest of Manchester, confirmed she had died in the deadly attack at the event. "The thought that anyone could go out to a concert and not come home is heartbreaking," said Chris Upton, head teacher at Tarleton Community Primary School, in a post on the school's website. "Saffie was simply a beautiful little girl in every aspect of the word."

Police say 22 people died in the attack after a man identified as Salman Abedi detonated a bomb outside Manchester Arena, as concertgoers were streaming out after watching Ms. Grande perform. A former children's television actress who more recently had embarked on a successful music career, the pop star attracted a young fan base, many of whom flocked to see her Monday, parents in tow.

In the chaotic aftermath of the attack, family and friends were separated, some for hours, some all night. Victims and wounded were rushed to eight different hospitals, triggering a night of frantic hunting for missing concert goers, some of them children or young adults.

On Tuesday, the identities of two victims—Saffie and 18-year-old Georgina Callander—were confirmed by school officials. Ms. Callander died after her mother took her to the hospital after the attack.

"Today was supposed to be one of the best days of her life," one friend tweeted. "It's still not hit me that Gina is gone," wrote another.

Hospital officials said of 59 wounded, 12 "seriously injured" children had been sent to a single hospital, Royal Manchester Children's.

Carol Bromfield, who went with her daughter Emily to see the concert, said she saw a young girl trampled in the surge as people rushed to flee the venue late Monday. The girl's identity and fate were unknown.

Ms. Callander had been looking forward to Ms. Grande's "Dangerous Woman" European Tour for close to a year. In July 2016, she tweeted to the singer: "I miss you sooo much—can [sic] wait to see you on the dw tour."

She had also met Ms. Grande before. A photograph of her with the singer was being shared widely on Twitter on Tuesday after her death was confirmed.

Another girl, 15-year-old Olivia Campbell, was also still missing as of Tuesday evening. Olivia attended the concert with her best friend, said her mother, Charlotte.

She tearfully told CNN how the pair had bought new outfits for the event. She last heard from Olivia at around 8:30 p.m. Monday. They were just "normal teenage children going to see one of their favorite artists," she said. "It's ended in absolute carnage."

ATTACK

Continued from page A1

It was a strike on one of the softest of soft targets: a crowd pouring out after a pop-music performance by a singer popular with teenage girls.

School officials confirmed the deaths of two young people, an 18-year-old and an 8-year-old. At least 12 children under the age of 16 were seriously injured, authorities said, and others were among the walking wounded. A total of 59 people, adults and children, were hospitalized, some in critical condition, authorities said.

In a televised address, Prime Minister Theresa May said the attack stood out for its "appalling, sickening cowardice, deliberately targeting innocent, defenseless children and young people" and declared that "terrorists will never win."

U.S. President Donald Trump expressed "absolute solidarity" with the British people. "So many young, beautiful innocent people living and enjoying their lives murdered by evil losers in life," he said.

As police probed Abedi's past and connections, they cordoned off a street in a south Manchester neighborhood and carried out what they called a "controlled explosion" to enter a home there. They also raided another apartment and arrested a 23-year-old man.

"I saw someone face down on the floor, and saw men struggling and cuffing him," said Majid Novin, proprietor of a nearby cafe.

In an online statement, Islamic State said the attack was revenge for "aggression toward Muslim countries" and identified the assailant as a "soldier of the caliphate."

Monday night's terrorist attack was the second in the U.K. this year and the deadliest since suicide bombers attacked the London transport system nearly 12 years ago, killing 52 people.

In March, an attacker authorities said was inspired by Islamist extremism targeted the Parliament, killing five people. The man mowed down pedestrians on a London bridge and fatally stabbed a police officer outside Parliament before he was shot dead.

Security was heightened around the U.K. on Tuesday. In Manchester, extra police were deployed and armed officers patrolled the city.

Monday's attack came shortly after Ms. Grande closed her concert with the song "Dangerous Woman," witnesses said. The lights were on and people were leaving, playing and hitting pink balloons that had been released during the show.

The cause of the noise wasn't immediately obvious to many in the crowd, adding to the atmosphere of confusion, and then panic.

"There was a bang," said Charlotte McCluskey, 13, who had been at the arena with her aunt. "Someone came on stage and told us it was just a balloon. Then people from the exits started running back in as we were running to the exit."

Monday night's terrorist attack was the second in the U.K. this year.

Queen Elizabeth II said the nation has been shocked. "I would like to express my admiration for the way the people of Manchester have responded, with humanity and compassion, to this act of barbarity," she said.

In the evening, thousands gathered for a vigil in front of Manchester's imposing gothic town hall. David Walker, the Anglican bishop of Manchester, ended the gathering by calling on the crowd, some in tears, to "go to build and rebuild this city."

Holly Atkinson said the gathering provided an uplifting moment the city needed. "Tonight shows that we in Manchester can come together when it counts," she said. "When you knock us down we stand back up. And tonight we do it for those who can no longer stand up."

—Wiktor Szary and Jason Douglas contributed to this article.

Pakistan Targets Critics of Military

By Qasim Nauman

ISLAMABAD, Pakistan—Pakistan's government is cracking down on social-media critics of the nation's powerful military, a move many activists and opposition lawmakers say is aimed at suppressing free speech and political dissent.

Authorities targeted 27 users on Facebook and Twitter in the past week that allegedly criticized the military, Interior Minister Chaudhry Nisar Ali Khan said Tuesday. Mr. Khan said eight of the 27 are being interviewed about their anti-military posts, while the rest are being sought for questioning. Mr. Khan said the investigation isn't targeting the social-media platforms themselves.

Pakistan's military remains a potent force, controlling security and foreign policies. Ruling party members say the government doesn't want to feud with the military in the run-up to national elections in the next year, when Prime Minister Nawaz Sharif seeks to be re-elected.

"The military is an institution that makes jet fighters, holds nuclear weapons and has five hundred thousand armed men. But they are scared of a 140 character tweet," said Jibran Nasir, a human-rights activist. "It is obvious this is about egos, not national security."

The military didn't respond to requests for comment.

The crackdown comes after a period of renewed tensions between Mr. Sharif's civilian government and the military following a report last year that he confronted the military over its alleged support for some jihadist groups.

After the military termed the leak a breach of national security, the government launched an inquiry that concluded this month. Two ministers were fired, but leaders and supporters of Pakistan Tehreek-e-Insaf, or PTI, the main opposition party, demanded stronger action.

Many PTI supporters took to social media to accuse Gen. Qamar Bajwa, the army chief, of going soft on the government. Others, including supporters of the ruling party, accused the military of acting beyond its constitutional limits in pressuring the civilian government.

Interior Minister Khan said Tuesday such comments were "unacceptable" and that authorities will act against those that "unjustly criticize and ridicule" the country's military and judiciary. Mr. Khan said there are limits in Pakistan's constitution to the freedom of expression in cases where it can harm the country's defense and security. Human-rights activists say the vague phrasing of the constitutional clause about freedom of expression is often used to curb dissent.

"Why are they intimidating people? They're trying to curb people's freedom of expression. This is anti-democratic," said Imran Khan, PTI chairman, threatening street protests if it didn't stop.

Interior Minister Khan insisted Tuesday that the government won't place restrictions on social-media platforms, but "there are red lines, according to the law and constitution of Pakistan." He said none of the social-media users questioned by authorities have been arrested or charged with a crime yet, and that they were allowed to have a lawyer present during questioning. Mr. Khan denied that any of the eight social-media users was harassed.

HOTLI SIMANJUNTAK/EUROPEAN PRESSPHOTO AGENCY

The flogging of a man in Banda Aceh on Tuesday for having same-sex relations reflects the rise of more-conservative Islam across parts of Muslim-majority Indonesia.

Indonesian Men Caned for Gay Sex

By Anita Rachman

BANDA ACEH, Indonesia—Two men were lashed with a cane as punishment for having same-sex relations, part of a growing intolerance of sexual minorities that has marked the rise of more-conservative Islam in the world's largest Muslim-majority country.

The flogging on Tuesday marked the first time the cane has been used to punish same-sex relations in the province of Aceh, though it is used for other offenses there. Besides the two men, eight other offenders were whipped alongside the two, including a heterosexual couple punished for having intimacy outside marriage. That term covers being alone in a private place. They each received 27 lashes.

Aceh is the only province in Indonesia, an archipelago of 18,000 islands home to 250 million people, where Shariah, or Islamic religious law, forms the basis of the justice system.

The two men, identified as Muhammad Taufik, 23 years old, and Muhammad Habibi, 20, were given 83 lashes each before a crowd of 1,000 to 1,500 people in front of a mosque in the capital of Aceh province on the northern tip of Sumatra Island.

Though the public flogging for homosexuality was extreme and Aceh is markedly more conservative than the rest of the country, it is part of what activists say is growing persecution of sexual minorities in a country with a long tradition of religious tolerance.

On Sunday night, police in the cosmopolitan capital, Jakarta, arrested more than 140 men at a gay party at a sauna club. Those arrests, on accusations of violations of pornography law, fit a pattern of similar raids and arrests on private premises, activists said.

"Sadly, it coincides with the rise of intolerant Islamism in Indonesia," said Andreas Harsono, a researcher for Human Rights Watch. "It's time to question the notion that Indonesia is a moderate Muslim-majority country."

In front of the mosque, several hooded men wielding rattan sticks about three feet long took turns striking the backs of those punished, one by one, with a medical official present.

The men stood, while the women were allowed to sit. Those being punished wore long white tops. Messrs. Taufik and Habibi were offered drinks after 40 lashes. The men folded their hands tightly against the pain but didn't scream. There was no blood visible.

More conservative strains of Islam have taken hold in recent years in Indonesia and are increasingly felt in society and politics. Tensions have been high going into the holy month of Ramadan, which starts this week.

The minority Christian governor of Jakarta was sentenced this month to two years in prison for blasphemy for making lighthearted remarks about a verse in the Quran that says Muslims shouldn't be governed by non-Muslims. The case was a driving factor in his electoral defeat by a candidate backed by Islamic hard-liners in April.

The governor, Basuki Tjahaja Purnama, a close ally of President Joko Widodo, withdrew his appeal against his conviction and sentence on Monday. His family and legal team said on Tuesday that he didn't fear receiving a stiffer sentence but wished to defuse the tensions over his case. Islamic hard-liners mobilized crowds at times numbering hundreds of thousands against him during his election bid, and they are expected to use their increasing political influence in the presidential campaign in 2019.

—I Made Sentana in Jakarta contributed to this article.

Greek Deal on Debt Faces Delays

Germany and the International Monetary Fund late Monday found a formula on Greek debt that Greece couldn't swallow: Let's talk again after the German elections.

Greece is now expected to come under heavy pressure to accept, by mid-June, an agreement between its creditors to postpone further discussion about restructuring its €315 billion ($353 billion) debt.

By Nektaria Stamouli in Brussels and Marcus Walker in Berlin

That outcome would keep Greece's debt crisis on the back burner until winter or possibly next summer, avoiding a flare-up that could unsettle the politics in bigger European countries, but also closing off a path to economic recovery on which Greece's government had pinned its hopes.

At Monday's talks in Brussels, postponement of a debt deal proved the only way to bridge stubborn differences between the IMF and Germany. "It would solve everybody's problem," said one official involved in the talks. "Except for Greece's."

The IMF has said it won't lend Greece any more money until German-led eurozone creditors say how they will lighten Greece's debt load. Germany, facing elections in September, doesn't want to spell out measures that imply heavy costs for its taxpayers. But Berlin also wants the IMF, a tough enforcer of economic overhauls in indebted countries, to rejoin the Greek bailout as a lender after a three-year hiatus.

SIMELA PANTZARTZI/EUROPEAN PRESSPHOTO AGENCY

Municipal workers protested against proposed changes to their contracts in Athens on Tuesday.

The compromise, offered by German Finance Minister Wolfgang Schäuble, was for the IMF to say it will offer Greece a new loan program—but not actually disburse money until details of debt relief are agreed later. The IMF was willing. Eurozone finance ministers drafted a statement.

Greek Prime Minister Alexis Tsipras rejected the deal.

For Greece's embattled leader, the deal on offer meant no gain after much pain. Last week, he persuaded his ruling left-wing Syriza party to pass yet another package of pension cuts and tax increases, which creditors insisted upon, by arguing that the sacrifice was necessary to win debt relief. That prize, in turn, would bring an extra benefit: It would allow the European Central Bank to include Greece in its bond-buying program, known as quantitative easing.

The Syriza government fervently hopes that QE would boost credit, confidence and growth in Greece's depressed economy. Before Monday, Greek officials were planning to return to bond markets in July.

Now Athens is being offered only a fresh bailout loan from Europe to cover this summer's debt repayments.

The Greek premier is likely to push for a better deal from European leaders including German Chancellor Angela Merkel and new French President Emmanuel Macron, say officials from Greece and its creditors. But Ms. Merkel stands firmly behind the hard line taken by her finance chief Mr. Schäuble on Monday, people familiar with the matter said.

On Monday, Mr. Schäuble and other eurozone finance chiefs went further than before in saying what they would be willing to do to reduce Greece's debt burden when the bailout program ends in summer 2018. The meeting's chairman, Dutch Finance Minister Jeroen Dijsselbloem, circulated a draft agreement that described a range of possible extensions to the repayment dates of Greece's bailout loans.

But for the IMF, the European offer wasn't concrete enough to render Greece's debt sustainable.

Ethiopian Chosen to Lead WHO

By Betsy McKay

A former Ethiopian government official who led a major expansion of his country's health-care system and served as foreign minister was elected as the World Health Organization's new director-general.

Tedros Adhanom Ghebreyesus defeated two challengers to become the WHO's first leader from a developing country, winning election Tuesday under a new open ballot system that gives equal weight to votes from each of the WHO's 194 member countries. The election was held in Geneva at the World Health Assembly, at which member countries gather every May to vote on key health issues.

Previously, WHO's leaders had been chosen by a small executive board made up of delegates from 34 countries. Membership rotates, but usually includes several of the WHO's most powerful member nations.

Dr. Tedros, as he is called, will take charge of an organization that is struggling to regain the confidence of governments and other donors following a slow, disjointed response that allowed an Ebola outbreak in West Africa in 2014 to mushroom into a devastating international epidemic that killed at least 11,310 people.

He also must define the agency's priorities as health needs mount around the world, from epidemics to heart disease, but funding is constrained and coming under even greater pressure with the Trump administration proposing major cutbacks in global health spending in the fiscal 2018 budget. The WHO's budget is fed by donations from member governments such as the U.S., as well as private donors like the Bill & Melinda Gates Foundation.

Dr. Tedros succeeds Margaret Chan, a physician who was elected in 2006 after leading Hong Kong's containment of the SARS virus in 2003 and the WHO's response to the threat of H5N1 flu. Dr. Tedros will assume his post July 1.

WORLD WATCH

EUROZONE

Manufacturing Adds Jobs at Rapid Clip

The eurozone's economic recovery maintained its stronger momentum in May as the currency area's manufacturing sector added jobs at the fastest pace in 20 years.

Data firm IHS Markit said its composite purchasing managers index for the eurozone, based on a survey of 5,000 companies, was unchanged at 56.8 in May, remaining at a six-year high. A reading above 50 signals an increase in activity, while a reading below signals a decline. Economists had expected the measure to fall slightly.

Separately, Germany's Ifo Institute said its measure of business sentiment rose to 114.6 from 113.0 in April, reflecting what it described as a "euphoric" mood.

—Paul Hannon

BRAZIL

Graft Probe Opened Over Stadium Bidding

Authorities launched a new investigation, this time targeting construction companies that allegedly paid bribes to win the contract to build a stadium in Brasília where World Cup matches were played in 2014.

Two former governors of the Federal District, where Brasília is located, and an adviser to President Michel Temer are among those arrested, the prosecutor's office said. The president's office said the adviser has been fired.

Mr. Temer is himself under investigation for alleged involvement in a different corruption case and faces calls for his resignation or impeachment. He has denied any wrongdoing.

—Jeffrey T. Lewis

SOUTH KOREA

Corruption Trial Starts For Ousted President

The trial of former President Park Geun-hye began less than three months after she was removed from office as part of a sweeping corruption scandal.

Tuesday's court hearing marks the beginning of a closely watched trial that follows months of public protests, parliamentary hearings and the arrests of some of the country's most prominent figures, including Samsung Electronics Co. Vice President Lee Jae-yong.

Ms. Park, making her first public appearance in nearly two months, was handcuffed and escorted by a police officer into Seoul Central District Court. A small white badge was pinned to her lapel bearing her prisoner number, 503. Also on trial are Ms. Park's erstwhile friend Choi Soon-sil and Shin Dong-bin, the chairman of Lotte Group, the country's fifth-largest conglomerate.

When asked by the judge what her job is, Ms. Park replied: "I don't have any occupation." Ms. Park, Ms. Choi and Mr. Shin denied all charges against them.

—Eun-Young Jeong

Budget Cuts Safety-Net Programs

By Kate Davidson
And Peter Nicholas

White House budget chief Mick Mulvaney held a briefing on President Donald Trump's proposed budget in Washington on Tuesday.

JIM BOURG/REUTERS

President Donald Trump proposed a $4.1 trillion spending blueprint that amounts to a sweeping overhaul of the government's safety-net programs. It calls for deep cuts to programs such as Medicaid and food stamps, while projecting a big boost to the nation's economic growth that could be difficult to achieve.

The budget unveiled Tuesday would cut overall federal spending by $4.5 trillion over the next decade, more than offsetting a short-term boost in funding to the military, $200 billion for infrastructure investment and $19 billion on a new parental leave program.

It assumes tax cuts will boost economic growth enough to pay for themselves and raise enough additional revenue to eliminate the deficit in a decade.

The budget proposal, for the 2018 fiscal year that begins Oct. 1, is one of the clearest windows yet into Mr. Trump's values and priorities. But it is likely to face blowback on Capitol Hill, even among some Republicans, who have balked at cuts to foreign aid, farm subsidies and health-care programs for low-income families.

The primary driver of savings in Mr. Trump's budget comes from more than $800 billion in cuts to Medicaid, the federal-state health program for the poor, despite a pledge from the president on the campaign trail not to touch the program.

Mr. Trump's budget director Mick Mulvaney said Monday much of the savings will come from changes in the GOP's health-care overhaul bill, which Mr. Trump supports. But the administration's budget would cut more than $600 billion from Medicaid and the federal Children's Health Insurance Program on top of the $250 billion saved from repealing and replacing the Affordable Care Act.

The plan also assumes that economic growth that would reach 3% by 2021 will help balance the budget within 10 years. Many economists have questioned whether the economy can grow much faster than its current pace without long-term investments in programs that boost worker productivity or help expand the labor force.

The Fed projects the economy will grow at a 1.8% annual rate in the coming years. The Congressional Budget Office projects 1.9% growth.

Mr. Mulvaney said the budget proposals will help bring workers off the sidelines, in part by requiring them to have jobs in order to qualify for assistance programs such as food stamps, a change that is projected to save $193 billion. He said the new paid parental leave programs will help parents keep working.

“We believe that we can get to 3% growth, and by the way we do not believe that that is something fanciful,” he said.

The budget would also limit eligibility for the earned-income tax credit and the child tax credit, trimming $40 billion of spending over the next 10 years, and would slash funding for disability insurance by $72 billion. Other spending cuts include $143 billion from changes to student-loan programs, $63 billion in reduced retirement benefits for federal employees, and $38 billion to curb certain farm subsidies.

Nondefense spending as a share of the economy would fall to just 1.5% by the end of the next decade, well below the lowest level in records going back to 1962.

CAPITAL ACCOUNT | By Greg Ip

Nice Goal, Mr. Trump. How Do You Get There?

Great leaders, whether of sports teams, companies or countries, set audacious goals to spur followers on to great accomplishments. But the goal isn't enough: A leader also needs a credible path to achieve it.

That's the problem with President Donald Trump's first budget. It sets a worthy objective of sustained 3% economic growth, but offers no rigorous plan, at least in what was released Monday, to back it up. To listen to budget director Mick Mulvaney, the main thing holding the U.S. economy back is a bad attitude. Projections by the previous administration and the Congressional Budget Office of 1.9% long-term growth were “sad,” he said.

“That assumes a pessimism about America, about the economy, about its culture, that we're simply refusing to accept. We believe that we can get to 3% growth and we don't believe that's fanciful.”

Mr. Trump—moving in the opposite direction of former President Barack Obama—promises lower taxes and less regulation, which should increase business investment and thus worker productivity. Moreover, a less-generous social safety net could prod some people back to work. More workers who are more productive are the ingredients of faster growth.

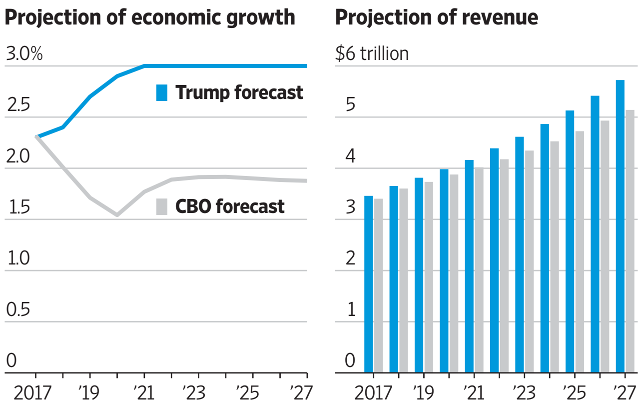
Yet there are good reasons independent economists think the U.S. can't return to its historic growth of 3%. The U.S. working-age population grew 1.2% a year from 1950 through 2000. With the baby boomers retiring and families shrinking, it will grow less than 0.3% a year in the next decade. To make a credible case for 3% growth, Mr. Trump has to identify some wellspring of workers or productivity.

Mr. Mulvaney thinks prodding many people off social safety-net programs and back to work will be good for them, and for growth.

In principle, that's true, but the magnitudes are doubtful. About half of household heads on food stamps and three-quarters of those on Medicaid work, says Robert Moffitt, an economist at Johns Hopkins University.

It's All Up To Growth

Just by projecting higher economic growth, the Trump administration forecasts nearly $600 billion more in annual tax revenue by 2027 than the Congressional Budget Office.



Note: Fiscal years end Sept. 30
Sources: Office of Management and Budget; Congressional Budget Office

THE WALL STREET JOURNAL.

At most, 13 million recipients of Medicaid and 6.5 million recipients of food stamps don't work (and the two groups overlap). The growth of people on disability can be slowed with tougher eligibility, but experience suggests getting existing recipients off is almost impossible.

When welfare was cut off in the 1990s for single mothers able to work, the share of those not working dropped by up to a third. That kind of effect on 13 million Medicaid recipients or 6.5 million food-stamp participants would generate only a modest boost to a labor force of 160 million. The effect on gross domestic product would be more muted because, Mr. Moffitt notes, these workers have low skills and thus productivity.

Nor would repealing the Affordable Care Act do the trick. The CBO estimates the law's health-insurance subsidies, which become less generous as wages rise, discourage work and eventually would reduce employment by two million. But little of that has been felt yet, and in any case, the Republican replacement plan maintains some of those subsidies.

One safety-net reform that would meaningfully expand the labor force would be a higher retirement age for Social Security and Medicare. But Mr. Trump promised not to touch either and his budget, it declares, “does not.” He is also cracking down on illegal immigrants, another restraint on labor force.

Lowering corporate tax rates in theory would make many more capital projects profitable, bolstering productivity. But the budget doesn't include a tax reform plan. It merely assumes reform will be “deficit neutral,” then simply extrapolates today's tax take, as a share of GDP, out for the next 10 years.

Mr. Trump has proposed steep cuts to personal and corporate tax rates that even optimists think will add trillions to the deficit. The Tax Foundation, a pro tax-cut think tank, reckons lowering the corporate rate to 15% as Mr. Trump wants would raise growth only to 2.3% from 1.9%, and that boost would peter out once all the newly profitable capital projects had been undertaken.

Even that is probably high. Businesses generally report that tax rates are unimportant in deciding whether to invest; customer demand is paramount.

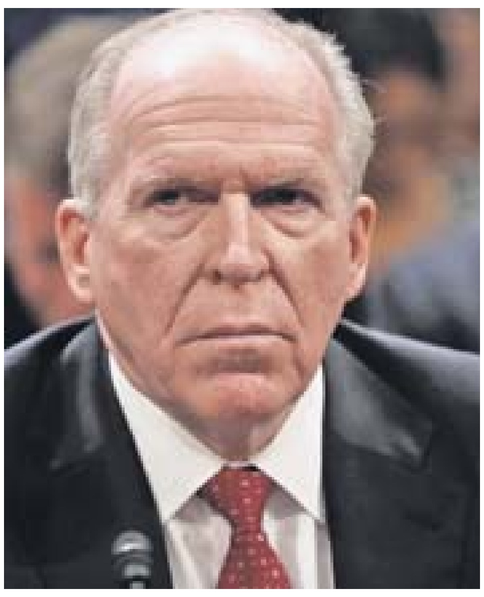
Mr. Trump is intent on limiting regulation. As with taxes, this goes in the right direction, but the benefits are potentially slim.

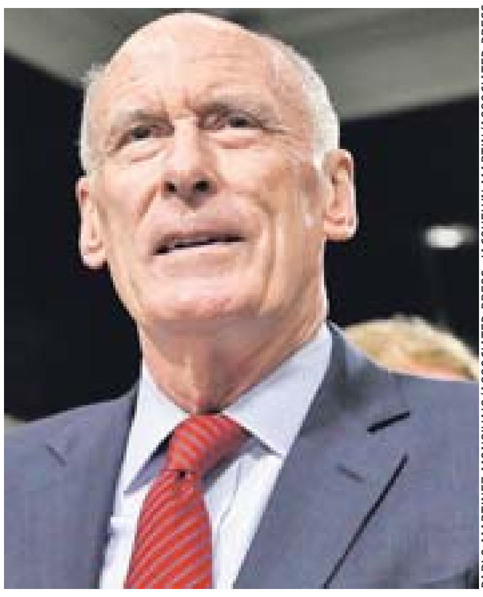
Sam Batkins of the American Action Forum, a conservative think tank, says the administration has already slowed the production of new rules, but repealing significant rules is hard because it requires Congress.

Presidents are supposed to be optimists, and Mr. Trump would hardly be the first to fall short of his target. But a great deal is at stake with this one. Until Mr. Trump presents a credible vision for achieving 3% growth, the rest of his promises are best viewed with deep skepticism.

Russia Ties Raised Worry

By Byron Tau
And Joshua Jamerson





John Brennan, former CIA director, left, and Dan Coats, director of national intelligence.

PABLO MARTINEZ MONSIVAIS/ASSOCIATED PRESS, JACQUELYN MARTIN/ASSOCIATED PRESS

WASHINGTON—Former CIA director John Brennan testified Tuesday that contacts between President Donald Trump's campaign associates and Russian officials last year raised concerns the Kremlin could try to cultivate people close to Mr. Trump, shedding light on why federal agents began a full investigation.

Mr. Brennan also disclosed that the intelligence community's alarm about Russia “brazenly” interfering in the 2016 presidential election prompted him to warn his Russian intelligence counterpart last summer to stop meddling in U.S. politics.

In testimony before the House Intelligence Committee, Mr. Brennan explained the basis for the Federal Bureau of Investigation counterintelligence investigation that was opened after the election, which is looking at potential collusion between the campaign and Russia.

“I encountered and I'm aware of information and intelligence that revealed contacts and interactions between Russian officials and U.S. persons involved in the Trump campaign,” said Mr. Brennan, the head of the Central Intelligence Agency under former President Barack Obama, a Democrat.

Mr. Brennan said he didn't know if these contacts by people tied to Mr. Trump's campaign amounted to “collusion” with Russian officials, but said that a common Russian intelligence technique involved cultivating Americans as either witting or unwitting intelligence assets.

Mr. Brennan said he was concerned because of “known Russian efforts to suborn such individuals.”

He said that the contacts picked up by U.S. intelligence justified the opening of an FBI investigation that has overshadowed Mr. Trump's presidency.

“I know that there was a sufficient basis of information and intelligence that required further investigation by the bureau to determine whether or not U.S. persons were actively conspiring, colluding with Russian officials,” Mr. Brennan said.

Mr. Brennan declined to discuss the specific information that his assessments were based on in the open hearing, saying that much of the information was classified. The House Intelligence Committee subsequently continued the hearing with Mr. Brennan in a classified, closed-door setting.

Mr. Trump, a Republican, has denied that he or his campaign coordinated with any foreign entity, and Russia has denied meddling in the election. Mr. Trump has said continuing questions about his campaign's Russia contacts amount to a “witch hunt.”

The FBI investigation is now being overseen by a special counsel, Robert Mueller III, after Mr. Trump's firing of James Comey as FBI director raised questions about whether the president was trying to quash the probe into whether his associates had contacts with Russians.

Mr. Trump asked Mr. Comey to end an investigation into his former national security adviser, Mike Flynn, according to people close to Mr. Comey. Mr. Trump has denied he made that request.

In a separate hearing Tuesday morning, Director of National Intelligence Dan Coats declined to confirm or deny that Mr. Trump had asked him to state publicly there was no collusion between his presidential campaign and the Russian government in response to a Washington Post report.

The Post reported that the president asked Mr. Coats and the National Security Agency director, Adm. Mike Rogers, to deny publicly the existence of any evidence of collusion between the Trump campaign and Russia.

Mr. Coats said it wasn't appropriate to comment about the topic in his public testimony before the Senate Armed Services Committee.

“We discuss a number of topics on a very regular basis,” Mr. Coats said. “On this topic, as well as other topics, I don't feel it's appropriate to characterize discussions, conversations with the president.”

Mr. Coats was also asked if he knew of any efforts by the White House to interfere in other aspects of the Russia inquiry, including allegations the president asked Mr. Comey to ease off investigating Mr. Flynn. “I am not aware of that,” Mr. Coats said.

Mr. Brennan, the former CIA chief, said in his testimony that the intelligence community determined by last August that there was a “very aggressive” effort by Russia to intervene in the 2016 election.

Mr. Brennan described a previously undisclosed warning he made to his counterpart in Russian intelligence, Alexander Bortnikov, the head of the Russian FSB service, not to interfere in the U.S. election in an August phone call. According to Mr. Brennan's account, Mr. Bortnikov denied any attempt to intervene and said Moscow is routinely and falsely blamed for such efforts by the U.S. government.

Kentucky Looks to Mine Alternatives

By Arian Campo-Flores

PIKEVILLE, Ky.—With coal production on the decline, one energy company is pursuing a project that might seem heretical in this eastern Kentucky mining region: a solar-energy farm.

Berkeley Energy Group and a subsidiary of the French renewable-energy company **EDF Energies Nouvelles** aim to begin building a $100 million facility on a reclaimed strip mine next year.

As the state's largest solar complex, it would produce as much as 100 megawatts of electricity. To fill an estimated 100 jobs that would be created, the partners would give priority to unemployed coal miners.

The project would "put miners back to work and diversify our holdings and diversify the region," said Ryan Johns, project-development executive at Berkeley Energy. "It's kind of a new frontier for our area."

The solar farm is one of a string of ventures in recent years aimed at reviving a region decimated by job losses in the coal industry, including a drone-testing facility, a high-tech greenhouse and software-coding training programs.

But even if all the projects succeed, employment isn't likely to return to previous levels.

Pike County, where the solar farm is planned, has lost more than 2,500 coal-mining jobs since 2011, with the number of remaining jobs totaling 845 as of the first quarter of this year.

Though President Donald Trump has vowed to bring back coal jobs, many analysts are doubtful they will return, because of systemic changes in the energy market.

Natural gas provides a cheap and plentiful alternative, and extracting eastern Kentucky coal has become expensive.

That switch has sapped the region of 10,000 coal-mining positions over six years, according to state data.

"There's no silver bullet to solve this," said Peter Hille, president of the Mountain Association for Community Economic Development, citing a common refrain. "But there could be a thousand silver BBs."

His organization has funded or advised a variety of ventures, including Mountain Tech Media, a digital-marketing company in Whitesburg. The 12-member, worker-owned cooperative provides marketing work to a growing portfolio of restaurants, festivals and tourism organizations.

Other groups are training people to write software code. **Interapt**, a Louisville technology company, created an intensive 32-week classroom and internship program in Paintsville that received federal and local funding, and pays $400 a week.

The first class, which started with 50 people selected from 800 applicants, just completed the program, and Interapt has offered jobs to 22 of them so far, said Chief Operating Officer Eric Seto. Others have found work elsewhere.

One Interapt hire is Anthony Hughes, who formerly ran an animation business in nearby Prestonsburg until the regional downtown from coal-job losses left him with just one customer.

He now works as a developer at Interapt's Paintsville site and hopes one day to be a project leader.

"This is a start of this new ecosystem that we're trying to create here," Mr. HughAes said.

In Hazard, one of the principal coal towns in eastern Kentucky, the local community college has been training laid-off miners to work as linemen for the electrical-utility industry.

So far, more than 180 students have completed the program, which has a 90% placement rate, said Jennifer Lindon, president of Hazard Community and Technical College.

Anthony Bowling, 51, enrolled in the program shortly after losing his coal-mining job in 2014. He said after years of working underground, it was difficult to adjust to a job climbing up utility poles in 100-degree heat. But he has grown accustomed to it and is happy with the pay—$18 more an hour than he earned as a miner.

"I probably will never set foot in an underground coal mine again," he said.

The college has teamed up with county governments and other entities to create a local drone-training and -testing facility on a former strip mine.

The area—secluded, with varied topography and devoid of air traffic—is well-suited to companies seeking to develop and test unmanned aerial vehicles, said Bart Massey, operations manager for the proposed $11 million project. He said the complex could generate jobs in areas ranging from maintenance to engineering to 3-D printing of drone components.

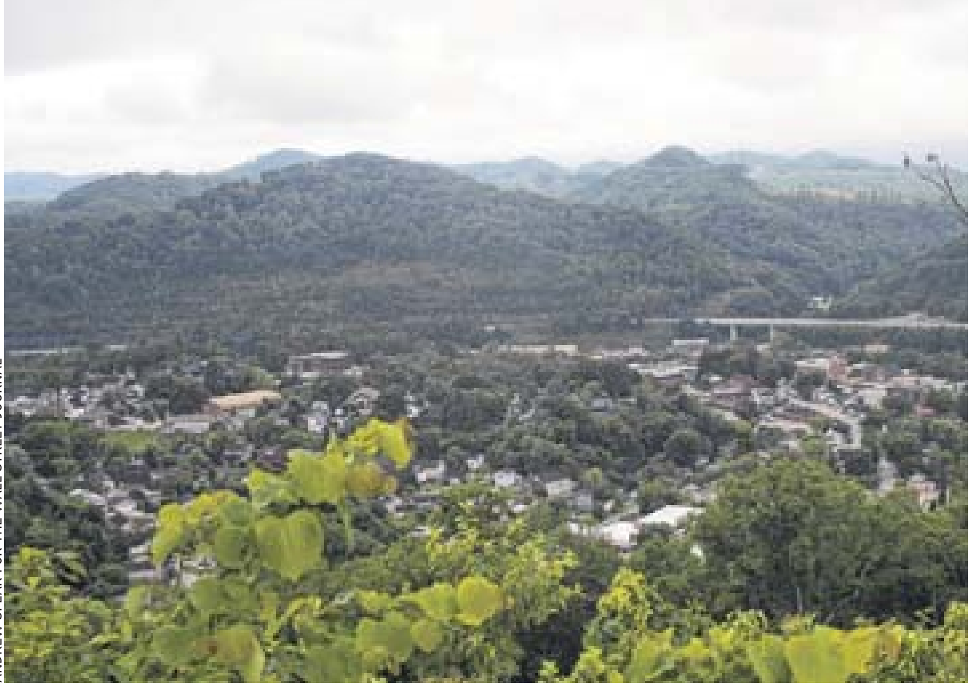
In Pikeville, another key coal center, city leaders created an industrial park on a reclaimed surface mine outside town.

One of the first tenants could be **AppHarvest**, an agricultural startup that seeks to build a 2-million-square-foot, high-tech greenhouse on the property to grow cherry, grape and vine tomatoes for sale in Kentucky and nearby states.

Chief Executive Jonathan Webb said he is raising funding for the $60 million project. He envisions the site as an innovation hub where workers can gather after hours to discuss and nurture other startup ideas.

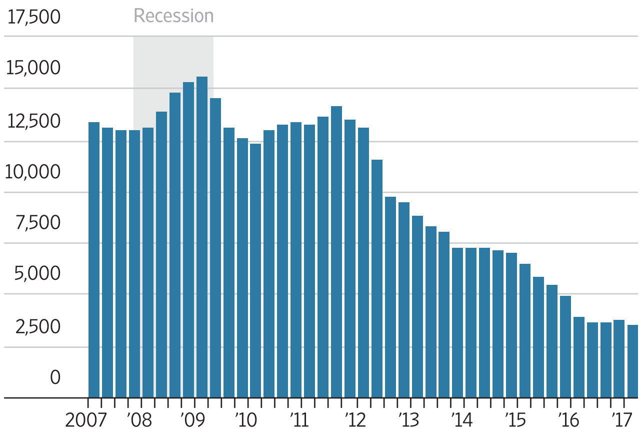
At the site, where tons of coal used to be extracted, he estimates 140 people may instead work growing and harvesting vegetables.

"It is imperative that the area has economic diversification and attracts new investments from outside the state," Mr. Webb said.


ANDREW SPEAR FOR THE WALL STREET JOURNAL
In Hazard, Ky., the community college has been training laid-off miners as electrical-utility linemen.

Mainstay on the Decline

Coal-mining employment in eastern Kentucky, quarterly



Source: Kentucky Energy and Environment Cabinet

THE WALL STREET JOURNAL.

House Talks Up Border-Tax Plan

By Richard Rubin

The tax idea that has sparked a monthslong corporate lobbying battle got its moment in the spotlight at a House hearing Tuesday, but its political future still looks dim.

Backers of border adjustment—taxing imports while exempting exports—are trying to rebuild support for the idea, which has come under attack from corporations, some anti-tax conservatives and Senate Republicans.

The proposal now sits in limbo, where House Republicans insist that it is essential to a major rewrite of the U.S. tax code, but where the political obstacles seem nearly insurmountable. The Trump administration has been ambivalent and has said it can't back the plan in its current form. "It doesn't create a level playing field," Treasury Secretary Steven Mnuchin said Tuesday at a separate event in Washington.

Senate Majority Leader Mitch McConnell (R., Ky.) said last week that it probably couldn't pass the Senate.

Still, border adjustment is a crucial piece of the House GOP tax plan for two important reasons, and those features have kept House Republicans such as Speaker Paul Ryan (R., Wis.) from abandoning it.

First, it provides about $1 trillion over a decade to pay for cutting the corporate tax rate to 20% from 35%. Second, by basing U.S. taxes on the location of consumers—instead of profits—the proposal would eliminate the benefits of the tax-avoidance games that companies have perfected by booking profits abroad. Under the House plan, the U.S. wouldn't tax foreign sales.

"Companies will no longer gain by moving their headquarters to Bermuda, their manufacturing plants to China or their intellectual property to Ireland," Rep. Kevin Brady (R., Texas), House Ways and Means Committee chairman, said at the panel's first hearing on the subject Tuesday.

But the path forward for border adjustment looks murky at best as the GOP tries to finish a major revamp of the business and individual tax systems this year.

The proposal could even have trouble getting out of the Ways and Means Committee because of Republican objections. Rep. Erik Paulsen (R., Minn.) added his name to the list of opponents on Tuesday.

Without a clear decision on whether to back border adjustment or not, the Republican tax agenda is slowed. If and when Republicans jettison the idea, they would need to find another way to pay for corporate rate cuts and to protect the U.S. tax base from fleeing to low-tax countries.

Retailers and other importers have blasted the border-adjustment plan in the House GOP's tax blueprint. They warn that preventing them from deducting the cost of imports would drive up their tax rates and force them to raise prices. And legal experts have warned that the U.S. could lose a challenge to the tax at the World Trade Organization.

Brian Cornell, the chief executive officer at Target Corp., said its tax rate would more than double, to about 75% and the retailer would be left with only bad options.

Backers of border adjustment say those concerns are overblown. They contend that the dollar would rise to offset the tax change and blunt any effects on the prices of imports. And they point out that almost every other country in the world has a border-adjusted tax.

—Nick Timiraos contributed to this article.


SUSANA GONZALEZ/BLOOMBERG NEWS
GM assembles cars at its San Luis Potosi, Mexico, plant.

U.S. WATCH

CHICAGO

City Sets Welcome Mat for Immigrants

Chicago is embarking on a public-service campaign celebrating and welcoming immigrants to the city, one of the boldest moves yet by a sanctuary city.

The campaign features billboards around the city welcoming immigrants and a new website that points immigrants to city resources, including legal assistance, mental health care and information on how to become a citizen. The website also provides information on Chicago's municipal identification program, which will be launched at the end of the year and enables all city residents regardless of federal status to acquire an identification card that they can use to access a range of services.

—Shibani Mahtani

ECONOMY

New-Home Sales Fall More Than Expected

New-home sales fell sharply in April, a potential sign of weakening in the market at a time of rising prices and limited inventories. Purchases of new, single-family homes, which account for a narrow slice of all U.S. home sales, decreased to a seasonally adjusted annual rate of 569,000 in April, down 11.4% from March, the Commerce Department said Tuesday.

The data have a margin of error of 10.5%, and the overall trend remains one of continuing improvement in the market.

—Laura Kusisto and Sarah Chaney

SOUTH CAROLINA

Church Shooter To Appeal Conviction

A white supremacist sentenced to death for killing nine worshipers in a racist attack at a Charleston church petitioned an appeals court for mercy. Attorneys for Dylann Roof filed notice Tuesday they were appealing his conviction and sentence to the Fourth U.S. Circuit Court of Appeals.

The federal judge who presided over Mr. Roof's trial had rejected his first appeal, ruling the conviction and death sentence for the June 2015 massacre at Emanuel AME church should stand. Mr. Roof argued his crime didn't fit the definition of interstate commerce. The judge ruled Mr. Roof used a telephone to call the church and the bullets and gun were manufactured in a different state.

—Associated Press

OFFICE

Continued from page A1

ings, said it is "committed to correcting any deficiencies" in the facility. The agency is currently conducting a study "to identify the immediate and long-term needs of the building," and is seeking to authorize funding to upgrade it, the spokeswoman said.

The conditions owe partly to the fact that the office sits in a building that has never undergone an extensive facelift. The brick-and-concrete structure was built in 1974 in an architectural style bearing echoes of the Soviet era.

The run-down building has almost become a badge of honor, former prosecutors say, signaling the office chooses to spend money on its cases, not on aesthetic improvements. The shabby conditions haven't deterred top law-school graduates from wanting to work as Manhattan federal prosecutors, a high-profile job that often leads to a lucrative law firm partnership.

"You just sort of gave into it," said Carrie Cohen, who left in 2016 after prosecuting public-corruption and securities cases for nearly nine years.

A long line of prominent lawyers have served as the Manhattan U.S. attorney, including former FBI Director James Comey, former SEC Chairwoman Mary Jo White and former New York City Mayor Rudy Giuliani. Most recently, Preet Bharara was fired in March by President Donald Trump, after he refused a request for the remaining U.S. attorneys appointed by President Barack Obama to resign.

"No one comes to us for fancy office space or cushy perks," said Mr. Kim, who became acting U.S. attorney after Mr. Bharara's firing.

Rather, Mr. Kim said, young prosecutors compete for a chance to be part of the office's prestigious record of cases. "That sense of greater purpose, I think, more than makes up for the mismatched furniture and windowless conference rooms."

The Manhattan U.S. attorney's office, whose jurisdiction is the Southern District of New York, is known for its staunch independence from Washington, earning it the nickname "Sovereign District of New York." It has a reputation for sparring with other districts to take control of high-profile investigations.

That competitive attitude also seems to extend to the office furniture, which is so dilapidated that decent chairs and other furnishings are in high demand. By the time Sharon Cohen Levin left as a Southern District prosecutor in 2015, she had worked there for nearly 25 years and accumulated several valuable items, including a coat rack.

A feeding frenzy started when her office mates found out she was leaving.

"I would literally go out to lunch and another piece of furniture would be missing," said Ms. Levin, who led the money-laundering and asset-forfeiture unit. "People were fighting to take my stuff."

The furniture conditions even caught the attention of Loretta Lynch when she led the Justice Department. During a visit to Mr. Bharara's office shortly after she became attorney general, Ms. Lynch took a seat on his couch and immediately sank into the worn cushions—a common frustration among women in the office wearing skirts.

Seeing Ms. Lynch's discomfort, Mr. Bharara asked her about the possibility of obtaining a new couch, saying he needed the attorney general's approval to replace old furniture. Ms. Lynch promptly granted her permission, but Mr. Bharara never replaced his couch.

Ms. Lynch and Mr. Bharara both confirmed the incident.

Desk drawers have contained surprises, according to Randall Jackson, who prosecuted several employees of Bernie Madoff before leaving government in 2015. Mr. Jackson recalled moving to a new office and opening a drawer to find an "outrageous amount of mold," which he theorizes to have originated from a forgotten piece of cheese.

The office is connected to the Metropolitan Correctional Center, a detention facility with nearly 800 inmates, including Mexican drug lord Joaquín "El Chapo" Guzmán. Lawyers in Manhattan have debated which building is in better physical condition.

"The low point was when a defendant...sat in one of our nicer conference rooms and asked to have the next meeting at the prison because it was more comfortable," said Brendan McGuire, who led the office's terrorism and international narcotics unit.

Some lawyers have resorted to do-it-yourself projects. One prosecutor is known to come in on Saturdays to personally spackle and repaint the walls whenever he moves into a new office, according to people familiar with the matter.

Defense lawyers say they sometimes prepare clients before a meeting with the Manhattan U.S. attorney's office.

"I tell them, 'The air conditioning may or may not work. If someone had dinner there the night before, it may be aromatic,' " said Barry Bohrer, a former Southern District prosecutor who now defends white-collar clients.

Anthony Barkow, who left the office in 2008, said he has noticed some improvements during his visits back as a defense attorney. "They did take the garbage bags off the water fountain," he said.


MARY ALTAFFER/ASSOCIATED PRESS
The building of the U.S. Attorney's Office in lower Manhattan.

UBER

Continued from Page One

ultimately bought 510 Systems for about $20 million.

Now Google parent Alphabet Inc. and Uber are embroiled in a legal fight over driverless-car technology, with Mr. Levandowski playing a starring role. The two firms, along with several other companies, are locked in a race to automate cars, a contest that could affect the future of transportation.

A look back at Mr. Levandowski's nine years at Google shows an employee who sometimes operated at the edge of what a typical company would accept—even one like Google that encourages entrepreneurialism among its workers. While Google's approach helps it create new businesses, it also can spark disagreements between the company and its employees over who owns certain technology.

Anthony Levandowski spoke in front of an Uber driverless car in December, months after he joined the company as its head of driverless cars.

ERIC RISBERG/ASSOCIATED PRESS

Alphabet accuses Mr. Levandowski of stealing its driverless-car technology and bringing it to Uber, which he joined as its head of its driverless-car project last year after earning more than $120 million at Google. Alphabet has filed two arbitration claims against Mr. Levandowski and is suing Uber for allegedly conspiring with him.

Last week, the judge handling the civil lawsuit asked federal prosecutors to investigate Alphabet's allegations that Mr. Levandowski stole the trade secrets.

Uber, a ride-hailing company, denies wrongdoing and is contesting the accusations in court. It isn't clear how Mr. Levandowski has responded to the arbitration claims, which are private. Uber declined to make him available for an interview and he didn't respond to requests for comment.

This account of Mr. Levandowski's tenure at Google and simultaneous work for his own companies is based on interviews with a dozen former 510 Systems and Google employees, and on court filings and other public records.

Google encourages employees to spend 20% of their work time on side projects of their choosing that benefit the company, and it has created a so-called incubator for employees to found startups inside the company. Some eventually leave to start their own ventures, such as social-media firms Instagram and Pinterest Inc. Even Google's co-founders, Larry Page and Sergey Brin, have launched their own outside companies in recent years, including firms developing flying cars and an airship.

Mr. Levandowski's outside companies benefited Google for years. Technology developed by 510 Systems helped Google create its own maps and avoid paying for third-party data. When Google launched its self-driving car program in 2009, one of its first vehicles was a Toyota Prius that Mr. Levandowski and 510 Systems engineers had rigged up for a TV show.

The employment agreements signed by many Google employees bar them from starting outside companies that conflict with Google's interests, such as online advertising. It isn't known when Google learned about Mr. Levandowski's initial side project, 510 Systems, or whether his employment agreement permitted his activities there.

Mr. Levandowki started other businesses later in his Google tenure, public records indicate, including an online game for betting on stock-market trends and a California factory building prefabricated housing. Two of the other later startups led to Alphabet's claims against Mr. Levandowski and Uber.

Mr. Levandowski, who stands 6 feet 6 inches tall, was born in Brussels and came to the U.S. in the early 1990s, at age 14. As a teenager in Marin County, north of San Francisco, he created a digital map of his school and started a company to provide technical support for local businesses' websites.

He caught the bug for robots as an industrial-engineering student at the University of California, Berkeley, where he made one with Lego pieces that could sort Monopoly money. He also began experimenting with driverless vehicles, organizing classmates to enter a 2004 Defense Department competition to race autonomous cars across the Mojave Desert. To save money, the team built a driverless motorcycle, dubbed Ghostrider. It crashed within seconds but is now displayed at the Smithsonian Institution.

Around 2006, before he joined Google, Mr. Levandowski was part of a digital-mapping project called VuTool, which used sensor technology developed for the Defense Department race.

Google's Mr. Page was looking for a similar tool for its burgeoning maps service. He believed Google's mission to "organize the world's information" needed a lot more data from streets, according to employees who worked on the project, which became Street View.

Google's team was struggling with an expensive high-resolution camera. Sunlight streaked through images. VuTool was moving faster by using off-the-shelf parts and a system built by Mr. Levandowski and a few classmates that combined information from multiple sensors.

Mr. Levandowski's outside companies benefited Google for years.

Google hired Mr. Levandowski and the VuTool team in the spring of 2007. A few weeks later, Mr. Levandowski registered 510 Systems, named after Berkeley's area code. He soon began selling his sensor-fusion system to Google via a middleman.

The black-and-yellow box became the brains of the Street View system. It synchronized information from multiple sensors, including cameras, satellite data and the cars' wheels, so images gathered as the vehicles drove through neighborhoods would precisely match where they were taken.

During 510 Systems' first several months, Google was its only customer. Former 510 Systems employees say the transactions occurred through a middleman that branded the devices, sold them to Google and eventually manufactured them directly. Google bought more than 100 over the first year. Former 510 Systems employees said they kept quiet about their high-profile customer, giving Google the code name Aspen.

Mr. Levandowski told few employees at 510 Systems about his Google job, although some figured it out because he often wore Google apparel, the former employees say. Fellow engineers on Google's Street View team knew of Mr. Levandowski's connection to 510 Systems, a former Google employee says.

Alphabet lawyers have suggested Google executives initially didn't know they were buying technology from one of their own employees.

"You did not disclose to Google your involvement with 510 Systems…before Google discovered your involvement with them, correct?" an Alphabet lawyer asked Mr. Levandowski in a deposition last month, according to a transcript. Mr. Levandowski declined to answer, invoking his Fifth Amendment rights.

At 510 Systems, Mr. Levandowski appeared sporadically, often scheduling meetings with managers late at night, former employees say. He brought on his stepmother, Suzanna Musick, as chief executive to help manage the dozen or so employees. Former employees described Ms. Musick, a former consultant, as a competent manager but unschooled in the technology. Ms. Musick didn't respond to requests for comment.

By 2008, 510 Systems' devices were helping Google offer street-level images for dozens of U.S. cities. Then Google halted its purchases. It had reverse-engineered the system and built its own, according to employees of both companies.

By that time, 510 Systems was selling its sensor systems to surveying firms and later to Microsoft Corp. Through the middleman, 510 Systems sold Google camera rigs similar to the Street View ones for about 20 small planes Google used to take aerial images for its maps.

Mr. Levandowski's passion for robots hadn't faded. In 2008, he was asked to make a driverless vehicle to deliver a pizza for a Discovery Channel show. He formed another startup, Anthony's Robots LLC, and assembled a few 510 Systems engineers to modify a Toyota Prius to make it drive on its own. Weeks later, the car—emblazoned with 510 Systems and Anthony's Robots decals—drove over San Francisco's Bay Bridge with a police escort and pizza inside.

Months later, in 2009, that car became a seed vehicle for Google's driverless-car project, a bold new venture for a company based on internet search and advertising.

Over the next year, Mr. Levandowski quietly shifted 510 Systems' focus toward driverless cars, pulling 510 Systems engineers onto driverless-car projects. 510 Systems quietly began supplying Google with self-driving technology, including a modified sensor-fusion box and a system that connected computers to a car's steering wheel, gas and brakes.

Photographs viewed by The Wall Street Journal show three of Google's self-driving vehicles at 510 Systems' headquarters in late 2010.

The companies' unusual relationship hardly registered with 510 Systems employees. "Amongst ourselves we said, 'That's a little strange, isn't it?'" said former 510 Systems software engineer Ben Discoe. "But that was extent of it. We liked our jobs."

At last month's deposition, an Alphabet lawyer asked Mr. Levandowski: "You used confidential information from Google to help develop technology at 510 Systems, correct?" Then, "You brought Google Street View source code to 510 Systems…correct?" Mr. Levandowski invoked the Fifth Amendment.

Two former 510 Systems employees said in interviews Mr. Levandowski often would return from a day at Google and suddenly have answers to engineering questions the 510 Systems team had been struggling with.

One day in early 2011, 510 Systems employees awoke to an email from Mr. Levandowski calling a companywide meeting.

At the headquarters, they lined up to sign a nondisclosure agreement at a desk manned by Mr. Levandowski. Then he announced Google was buying 510 Systems and Anthony's Robots for its driverless-car program.

The 510 Systems team gathered at Google headquarters that afternoon for barbecue, beers and rides in self-driving cars. The mood soured when the deal's details came out. Mr. Levandowski had sold the company for about $20 million, just below the threshold at which employees would have shared in the proceeds. Google eventually hired about half of the company's 50 or so employees.

Mr. Levandowski signed a noncompete agreement that for two years barred any outside involvement in a variety of areas, including sensors, robotics and driverless cars.

The relationship between Google and 510 Systems "was completely tangled," says Mr. Discoe, the former 510 Systems software engineer. "I guess the decision to be bought or not be bought was basically: Are we going to untangle this or are we just going to give up and merge it?"

More than five years later, the most valuable piece of the acquisition is 510 Systems' lidar system, a laser sensor crucial to driverless cars because it allows them to effectively see their surroundings.

The system was the predecessor to the lidar that Waymo, Alphabet's recently renamed autonomous-vehicle unit, now uses on its most advanced driverless cars.

That lidar, one of Waymo's most valuable technologies, also is at the center of the claims Alphabet has filed against Mr. Levandowski and Uber.

Alphabet has alleged that Mr. Levandowski continued his side dealings in violation of his noncompete agreement. In August 2012, a year after the 510 Systems acquisition, a new business making lidar was founded at 510 Systems' former headquarters, a building owned by Mr. Levandowski, Alphabet alleges.

Public records show the new company, Odin Wave LLC, was originally registered by Mr. Levandowski's personal lawyer. That lawyer didn't respond to requests for comment. At the time, Mr. Levandowski ran the lidar team at Google.

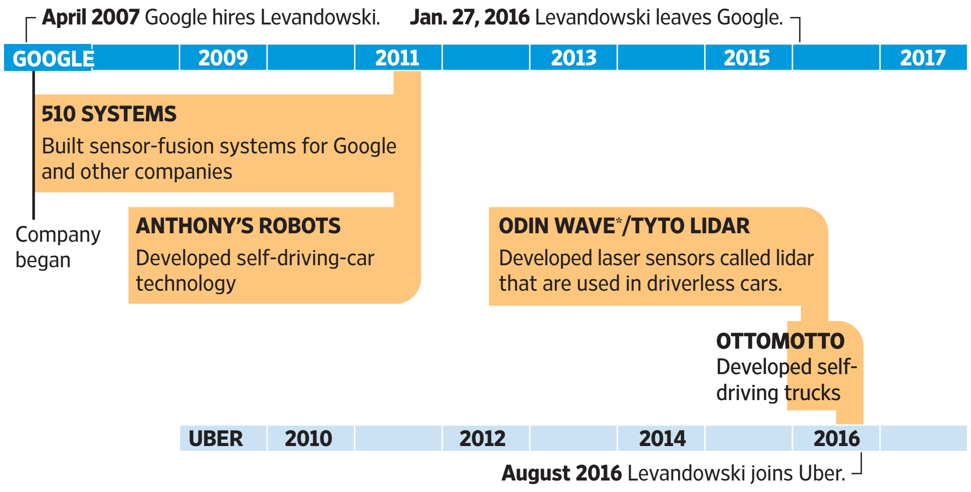
Mr. Levandowski quit Google in January 2016, days after launching his own driverless-car venture, Ottomotto LLC. Alphabet alleges that when he left, he took 14,000 confidential files about Google's lidar system, and some top engineers.

Mr. Levandowski then merged Ottomotto with the lidar business housed at the former 510 Systems headquarters, Alphabet alleges.

In August, Uber bought the new company for $680 million in stock. Court documents show Mr. Levandowski received more than $250 million.

Side Projects

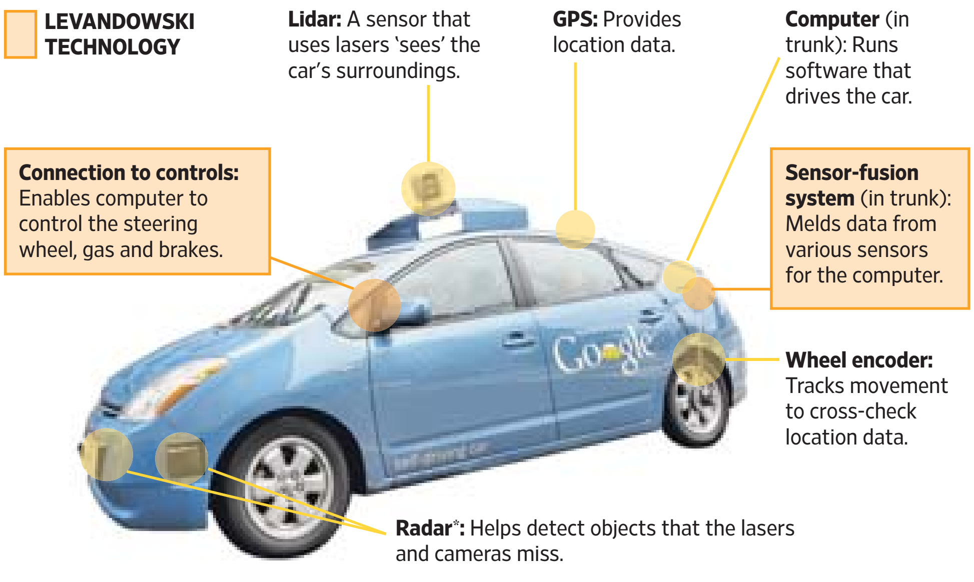
While working for Google, Anthony Levandowski started several outside firms that developed technology related to his projects at Google. Google bought two of the firms, and Uber acquired the others.



*Google alleges Levandowski owned the company; public records say it was initially registered by his personal lawyer.
Sources: court documents; public records
THE WALL STREET JOURNAL.

Key Contributor

While Google engineer Anthony Levandowski was helping run the company's self-driving car program, outside firms he founded supplied two key technologies for the cars.

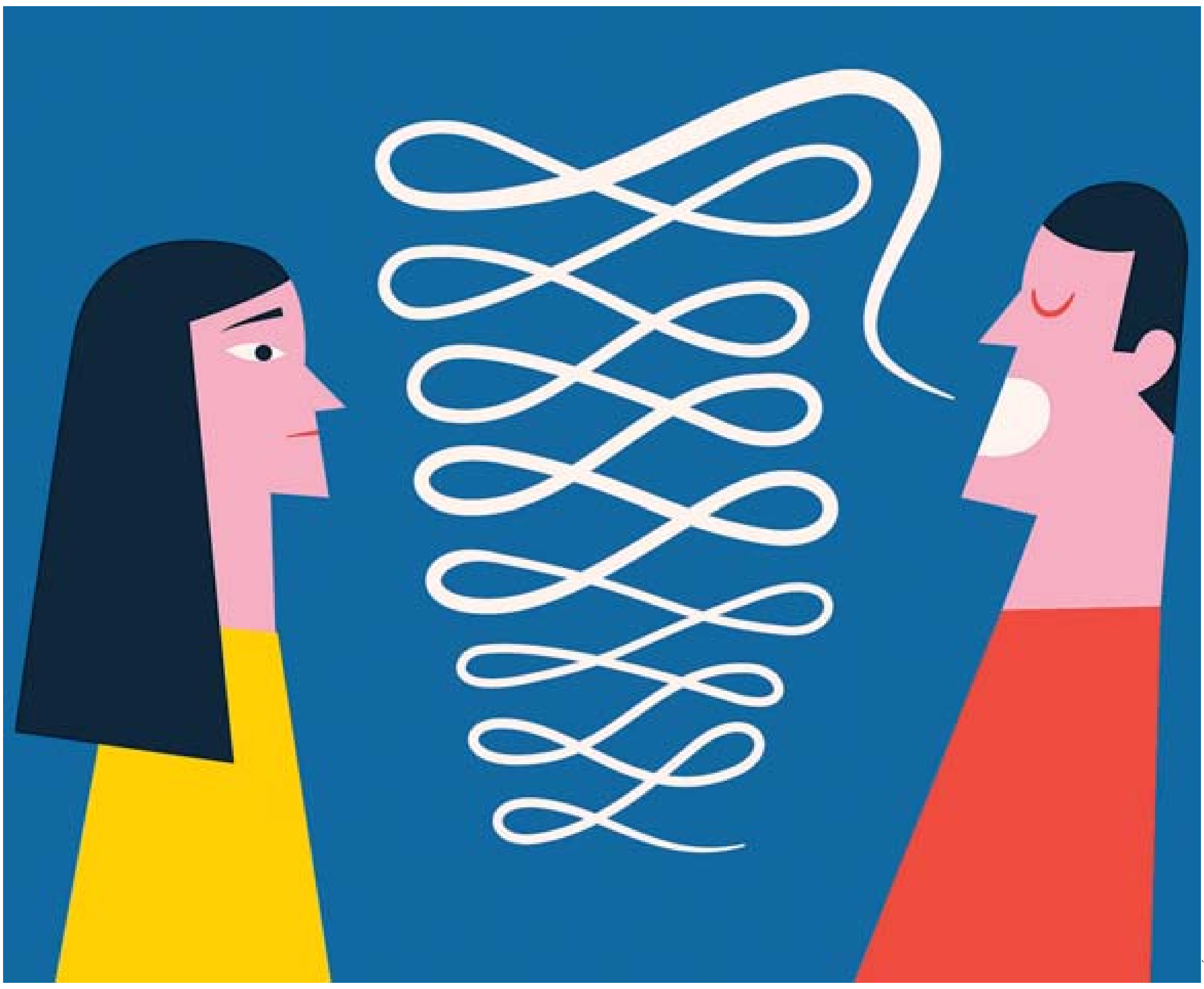


*Not all highlighted Sources: Former employees (Levandowski's technology); Google; Getty Images (photo) THE WALL STREET JOURNAL.

WORK & FAMILY | By Sue Shellenbarger

Spare Yourself From Small Talk

What seems banal can turn into something more meaningful—and help your career—if you know how to steer the discussion



VERONICA GRECH

WE'VE ALL GOTTEN MIRED in banal small talk at some point. What if there were a way to avoid that conversational quicksand?

If someone says, "I just got back from vacation," three in four people give a dead-end reply like, "Boy, do I need one of those." A more inviting question, such as, "What was your favorite day like?" can keep the conversation from dying on the vine, according to research by Contacts Count, a Newtown, Pa., consulting and training firm that advises employers on networking.

Much of our day-to-day talk is a missed opportunity. The ability to draw others into meaningful conversations can determine whether people want to get to know you, or remember you at all. Failure to learn it can stall your career.

Vanessa Van Edwards had been attending networking events for several years during and after college when she realized she was having the same conversation again and again. "It went like this: So what do you do? Yeah. Where are you from. Yeah, yeah, been there. Do you live around here? Well, I'd better go get another glass of wine," says Ms. Van Edwards, a Portland, Ore., corporate trainer and author of "Captivate," a new book on social skills.

She started trying conversation-openers that jarred people a bit, in a pleasant way: "Have you been working on anything exciting recently?" Or, "Any exciting plans this summer?"

"If I'm feeling very brave, I ask, 'What personal passion projects are you working on?' " Ms. Van Edwards says. She began making contacts who followed up more often.

People are more likely to remember encounters that are emotionally charged, research shows. Opening lines that spark pleasure, such as, "What was the highlight of your day?" tend to spark conversations that are memorable and enjoyable, Ms. Van Edwards says.

Such openers also risk falling flat. Ms. Van Edwards recently asked a stranger she met on a business trip what he was working on that was exciting. The man replied that he hated his job and was going through a divorce. She salvaged the exchange by thanking him for being honest, empathizing and drawing him into brainstorming about what's it's like being stuck in a rut and how to escape it.

Only one in four people sees value in asking probing questions of strangers, based on a Contacts Count survey of 1,000 people. Doing so can be risky, says Lynne Waymon, the firm's CEO and co-author of a book on networking. "I'm demanding more of you when I ask thought-provoking questions. I'm making an assumption that you're not going to this conversation to make something of it—that you're not going to see somebody across the room and say, 'Oh, I need to go talk to Susan or Bob,'" she says. "But the connections you make are going to be much more dramatic and long-lasting."

A valuable 17-year friendship for Bill Stokes, an executive recruiter, began when a woman he met at a fundraiser asked him, "What do you do to relax?" His reply, that he'd been raised on a farm and loved going to horse races, sparked a conversation about her hobby of rescuing retired racehorses in need of a home, and the friendship blossomed quickly, says Mr. Stokes, founder of the Washington Network Group, a Washington, D.C., executive group.

Many people who rely on small talk don't realize they lack critical conversational skills until they hit a career wall. Employers can hire coaches or trainers to deliver a crash course in conversation to professionals who lack the skills to engage new clients or customers, or middle managers who lack the internal networks needed to rise to executive jobs.

> One expert's conversational tactic: Give a mundane topic a more serious twist.

Dianna Booher coached an attorney several years ago whose bosses wanted to promote her but didn't trust her to socialize with clients. "She was sharp in her answers" to acquaintances' opening questions, giving dead-end or one-word replies that made her seem arrogant, says Ms. Booher, a Colleyville, Texas, communications consultant and author. Ms. Booher brought the attorney to her office for coaching and recorded her practicing warmer responses that revealed more about herself. She soon learned to start conversations on a more inviting note.

Among the tactics Ms. Booher suggests is giving mundane topics a serious twist. If an accountant or lawyer says she's just returned from vacation, ask, "Can someone in a stressful job like yours ever really get away totally and shut down?"

Learning to start deep conversations can be a relief to the people who dread networking the most. Pamela J. Bradley says she's an introvert. Meeting strangers used to touch off an anxious voice in her head. The voice would scream, "I have a terrible time networking, or I have a terrible time remembering names," says Ms. Bradley, human-resources manager for Keiter, a Glen Allen, Va., accounting and consulting firm. Asking probing questions turns down that voice and puts the spotlight on the other person, she says. Among her favorites is, "What's keeping you awake at night?" because it encourages clients to explain their most worrisome issues.

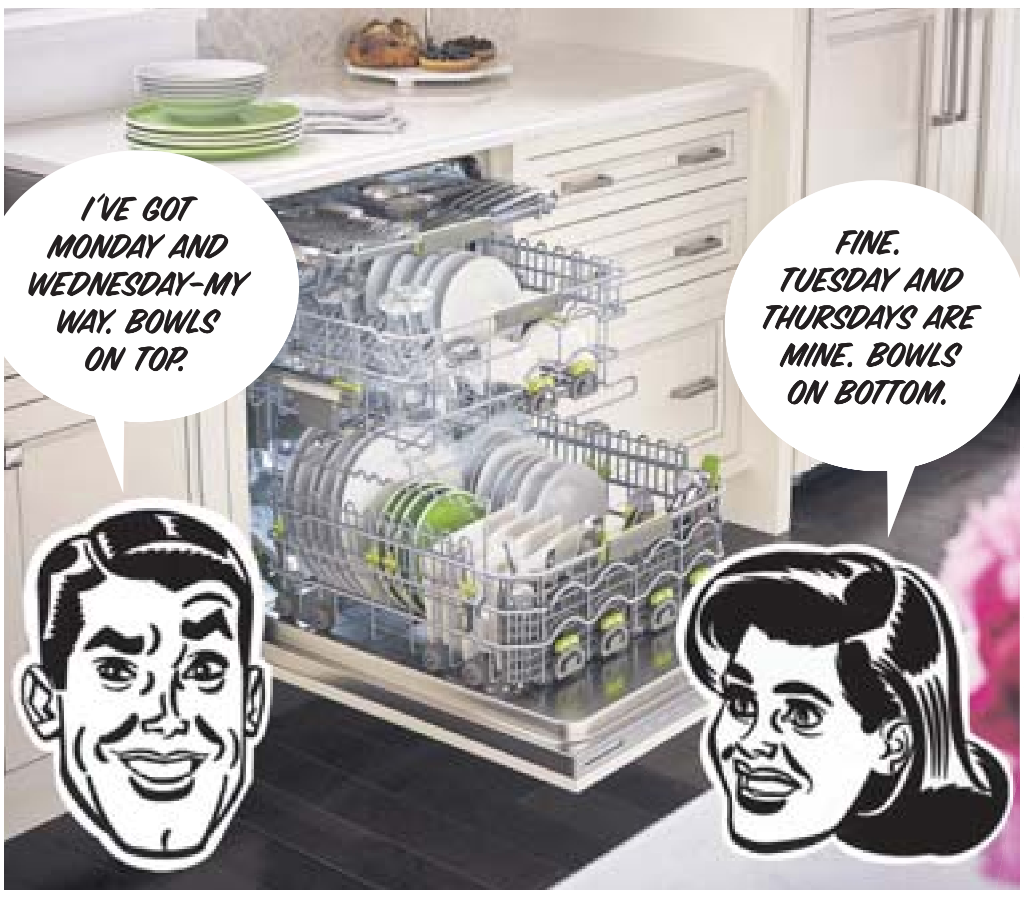
Such skills also make you happier. People who have more substantive conversations with others report a greater sense of well-being than those who engage in small talk, according to research led by Matthias Mehl, a psychology professor at the University of Arizona. Those findings, first reported in a 2010 study of 79 college students, have recently been replicated in a larger, unpublished study of 500 adults led by Anne Milek, a postdoctoral researcher working with Dr. Mehl.

It isn't clear whether people who are already happier have deeper conversations, or the conversations make people happier, but Dr. Mehl suspects each factor fuels the other.

HOME

TO BUILD A DISHWASHER, SUB-ZERO GETS THE DIRT

BY ELLEN BYRON



SUB-ZERO GROUP, INC. (PHOTO); MITCH O'CONNELL (ILLUSTRATIONS)

TO BUILD A NEW luxury dishwasher, Sub-Zero Group Inc. developers aimed to clean dirty dishes and ease marital discord.

And they came up with Cove, which Sub-Zero plans early next year to introduce as its first dishwasher. The luxury appliance maker, whose namesake refrigerators and Wolf stoves can top \$10,000, expects its new dishwasher to cost around \$2,000.

Loading the dishwasher is usually among the most contentious household chores. "When we asked the wife or the husband if the other loads it the right way, nine times out of 10 they said 'absolutely not,' " says Jeff Sweet, product marketing manager for Sub-Zero and Cove. So Cove made adjustable racks so everyone can load correctly. Bright green coatings mark areas of the racks that adjust to better accommodate many different dishes and arrangement quirks. "Children didn't use the dishwasher as much as their parents would like them to," Mr. Sweet says.

Consumers typically pick their stove or refrigerator first, and design the rest of the kitchen around one of those appliances. "The dishwasher just tags along," says Mr. Sweet. "And it's the hardest-working appliance."

The Cove dishwasher has more than 200 cycle options, 41 jets and three spray arms. Its marketers, though, choose the name Cove because they wanted to convey "a tranquil bay of water," the company says. Quietness is the most important feature to buyers, its research showed, and Cove dishwashers will be quiet, it promises, and have an "Extra Quiet" cycle that runs at a slower speed.

Sub-Zero views European luxury brands as its main competitors, so it says its dishwasher will better suit North American tableware styles. Americans tend to use deeper bowls, bigger platters, thicker stoneware, concave plates and larger lasagna pans and casserole dishes, says Brian Jones, Sub-Zero Group's director of marketing. Its target consumers drink a lot of wine, Cove developers learned. "We wanted to be able to put in as many wine glasses as it would allow," says Mr. Sweet. Shelves fold down to hold stemware on the top and bottom racks.

The launch has been delayed repeatedly. Sub-Zero started the project 10 years ago. But when the recession hit, the project was put on hold. It resumed in 2012. They expected to launch this year, but delayed again to adjust features including drying cycles and tine angles as well as make the controls that operate the wash cycles more intuitive.

REVIEW & OUTLOOK

Jihad in Manchester

British police on Tuesday identified the terrorist bomber who blew himself up outside Manchester Arena on Monday night as Salman Abedi, a 22-year-old born in Manchester. This means Britain has been terrorized again by a native-born Muslim who became radicalized while enjoying the freedoms of Western society.

Muslim integration is central to Europe's counterterror agenda.

Islamic State took credit for the attack, and we'll learn more in the days ahead about how Abedi turned to jihad. But the Manchester bombing follows the vehicular assault near Parliament in March that was also perpetrated by a native British Muslim.

This is the devilish challenge Western officials face as they attempt to stop attacks like Monday's on teenage and preteen girls attending a show by pop star Ariana Grande. At least 22 were killed and 58 wounded in the deadliest attack in Britain since the London Underground bombings of July 7, 2005.

British security forces have a better record than many European governments in foiling terror. Prosecutors convicted 264 people on Islamism-related terror offenses between 1998 and 2015, according to an open-source study by the London-based Henry Jackson Society. The figures don't include cases that don't end in convictions and often remain classified.

Yet the homegrown radical who is increasingly recruited by groups like Islamic State is hard to identify and stop. This is why governments must tackle the problem at its roots in Muslim communities in major cities such as Manchester, Paris and Brussels that are isolated from mainstream society.

British opinion surveys consistently find gaps between the attitudes of Muslims and the liberal ethos of the wider culture, on everything from homosexuality to women's rights to anti-Semitism. One survey last year found that 7% of British Muslims support the idea of an Islamic caliphate while 4% believe terrorism is an acceptable form of protest. That is an alarmingly large pool of potential jihadists. Promoting integration involves deeper questions about belonging and identity that don't have easy answers. But one way to start is to consistently enforce British laws in all communities.

National leaders have a role to play. Prime Minister Theresa May on Tuesday halted her re-election campaign and vowed "to take on and defeat the ideology that often fuels this violence." Speaking in the West Bank, President Trump condemned the "evil losers in life" who carry out such violence. That note about "losers" is welcome even as it's jarringly colloquial, since Islamists see themselves at the vanguard of a triumphant millenarian ideology. Leaders should look for opportunities to undermine that narrative.

Muslims will have to take ultimate responsibility for rooting out radicals in their midst. In Britain indigenous Muslim groups, such as the counterterror Quilliam Foundation, have made strides, but they often find themselves in the minority among imams and community leaders. As long as that continues, the failure of integration will pose a mortal threat to Europe.

Ending Kim Jong Un's Cyber Impunity

The world will have to take Pyongyang's hackers as seriously as its nuclear weapons and missile programs. That's one conclusion from Monday's release of evidence by a private cybersecurity firm that North Korean hackers are behind the Wannacry ransomware that froze computers and encrypted data around the world on May 12.

Evidence suggests Pyongyang is behind the Wannacry ransomware.

In its investigation Symantec found the digital footprints of the Lazarus Group, a hacking syndicate that took data from Sony Entertainment in 2014 and stole $81 million from the Bangladeshi central bank last year. While computer forensics can't finger hackers with 100% certainty, the code, techniques and servers point to Pyongyang.

The Symantec findings come as Reuters published new details this week about North Korea's growing cyberwarfare capabilities. According to a former computer-science professor who defected in 2004, a unit within the country's spy agency hacks into foreign financial institutions to steal cash.

State-sponsored hacking for profit is unique to North Korea—a useful reminder that it isn't so much a country as a criminal syndicate operating for the benefit of the Kim family. As sanctions close off other avenues for earning foreign currency, Pyongyang will likely step up its cyberattacks.

The Wannacry worm demands that victims pay in Bitcoin to get their data back. At least so far, it's not proving successful as a money-making venture, having extorted about $100,000. But the North's hackers, who are recruited from the nation's best math and science schools, are capable and persistent. They appear to have built the worm in part with hacking tools stolen from the U.S. government and released on the internet last month.

So far Pyongyang has suffered little retaliation for its cyberwarfare, which includes the hacking of a South Korean nuclear plant. After the Sony attack three years ago, Barack Obama promised to retaliate: "We will respond proportionally, and we'll respond in a place and time and manner that we choose." But the follow-through was underwhelming: A few North Korean institutions and individuals were barred from doing business in the U.S.

We called on the Obama Administration to support Rep. Ed Royce's bill to sanction banks facilitating North Korea's finances. After being blocked by Senate Democrats, that legislation was eventually signed into law last year. This month a new bill from Rep. Royce to toughen sanctions on the North's shipping and exports of slave labor passed the House with bipartisan support. That would be another good way to make Pyongyang pay a price for its criminal acts.

U.S. Voting-Rights Confusion

State legislatures have been trying to figure out how much they can or should consider race when redrawing political districts and on Monday the Supreme Court increased the confusion. In a 5-3 decision, the four liberals plus Justice Clarence Thomas struck down North Carolina's congressional map, ruling that the district lines were drawn in a way that disadvantaged black voters.

The GOP can't use race in redistricting but it also must use race.

After the 2010 census, North Carolina Republicans drew up a congressional map that moved more black voters, who tend to vote Democratic, into two districts. Republicans said their motivation was partisan, with an eye toward improving Republican odds in other districts. Democrats challenged the law on grounds that by altering the concentration of black voters, the gerrymander violated the Constitution's guarantee of equal protection.

In her opinion for the Court, Justice Elena Kagan wrote that race was the predominant factor in redrawing the maps and that "a State may not use race as the predominant factor in drawing district lines unless it has a compelling reason" (*Cooper v. Harris*).

Yet under the 1965 Voting Rights Act, state legislatures are required to take race into account when drawing district lines. When North Carolina drew its maps, it sought pre-clearance from the Obama Justice Department. In its application, the state noted that the increase of black voters in District 12 to 50.66% from 43.77% "maintains, and in fact increases, the African-American community's ability to elect their candidate of choice in District 12."

Democrats argue that those numbers are evidence of impermissible concentration of black voters. But the legal uncertainty has created a tightrope for state lawmakers, who must find a balance between impermissible black vote dilution and impermissible black vote concentration. If they fail to take race into account when redrawing districts, they can fall afoul of the 1965 Voting Rights Act. If they take race into account too much they fall afoul of the Equal Protection Clause of the Constitution.

In his dissent, Justice Samuel Alito notes that the problem is complicated by the fact that race and political affiliation are highly correlated, making it hard to tell why a redistricting decision was made. "If around 90% of African-American voters cast their ballots for the Democratic candidate, as they have in recent elections," Justice Alito wrote, "a plan that packs Democratic voters will look very much like a plans [sic] that packs African-American voters."

Justice Thomas's vote with the liberals is an extension of his consistent and principled absolutism on issues of race. Once the state conceded it had used race, even benignly, Justice Thomas was out. "I think North Carolina's concession that it created the district as a majority-black district is by itself sufficient to trigger strict scrutiny," he wrote.

The opinion is also notable for the fact that it gets all the Court's liberal justices on board with the argument that the use of race is always subject to strict scrutiny, not merely sometimes as they have argued in past cases. That could be tricky for liberals if a future case challenges Section 2 of the Voting Rights Act on grounds that it *requires* states to take race into account when redrawing their districts.

As Justice Thomas wrote in his magnificent 1994 opinion in *Holder v. Hall*, "few devices could be better designed to exacerbate racial tensions than the consciously segregated districting system currently being constructed in the name of the Voting Rights Act," and "our drive to segregate political districts by race can only serve to deepen racial divisions by destroying any need for voters or candidates to build bridges between racial groups or to form voting coalitions."

Meantime, the Court's decision is most likely to guarantee more litigation by Democrats, who are happy to use the courts as a way to maximize the opportunities for Democratic candidates, and race as a sword for partisan purposes.

The Pontiff and The President

MAIN STREET
By William McGurn

Is Pope Francis the Donald Trump of popes?

The pontiff and the president meet for the first time at the Vatican on Wednesday. In the run-up to this meeting, the press has been playing up the contrasts: the brash billionaire who celebrates his wealth versus the humble Jesuit who calls the unfettered pursuit of money "the dung of the devil."

The irony here is that Pope Francis and President Trump are more alike than commonly supposed. The similarity begins with how insulting both can be to folks they disagree with. In his presidential bid, Mr. Trump turned name-calling into an art. Jeb Bush became "Low Energy Jeb," Marco Rubio "Little Marco," Ted Cruz "Lyin' Ted," and, most notable of all, Hillary Clinton "Crooked Hillary."

But the Holy Father casts a mean first stone himself. The same man who famously said who-am-I-to-judge had no problem—in the thick of a U.S. presidential election—anathematizing anyone who would even think of building a border wall as "not Christian." Scarcely a year later, just as Mr. Trump was being inaugurated, the pope was back at it, saying he didn't like "to judge people prematurely" even as he invoked Hitler as a warning about the danger of electing populist leaders.

Mr. Trump isn't the only one to feel the papal sting. Manifestly Pope Francis regards a good part of his own flock as deplorables. Whether he's warning Catholic women not to "breed like rabbits" or suggesting that anyone who disagrees with him must suffer from some psychological defect, there is something distinctively Trumpian about the way Pope Francis speaks about his critics.

With all this, the penchant for insults is not nearly as dispiriting as another Francis-Trump commonality that gets almost no attention: The zero-sum mentality each brings to the debate about trade and a liberalized global economy.

Mr. Trump famously rails against trade deals as helping foreigners at the expense of Americans. Long before he arrived in the Oval Office, he campaigned on the idea that U.S. companies were unpatriotic if they relocated factories overseas. In this cramped view, whether they labor in these factories on their home soil or come to America to find work, they are no more than job-stealers.

Alas, the pope is the other side of the same materialist coin. He treats commerce from North America as but the latest form of *yanqui* imperialism rather than the liberating investment ordinary Latin Americans so desperately need. He betrays not the slightest understanding of the difference between a genuine free market—in which a little guy with a good idea can challenge the business status quo—and the crony variety that predominates in his native Argentina and much of his home continent.

Typical is the pope's railing against "unfettered" or "unbridled" capitalism—an abstraction that exists nowhere on this planet. Typical too is this line from his apostolic exhortation "Evangelii Gaudium," in which he excoriates a world where "it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points?"

Isn't this a perfect description of the silence on the human tragedy that is today's Venezuela, a once-rich nation whose people are now reduced to picking through garbage heaps to ward off starvation? The pope complains about "an economy that kills," but it isn't free-market Hong Kong where citizens are being killed by their economy. It's socialist Venezuela.

Donald Trump and Pope Francis may be more alike than anyone realizes.

For his part, Mr. Trump sees Mexican workers as a threat. But the Mexican people have as much of a moral right to compete for their place in a global economy as Americans do—which includes competing for U.S. investment and manufacturing. As for Mexicans coming to America to work, no one likes illegality, but Mr. Trump would have a far better time addressing the problem if he could first acknowledge the reality that, at least in free societies, human beings are assets and not liabilities.

Mr. Trump's low view of Latin American labor is matched by the pope's crude and materialist understanding of North American capital and capitalism. Never does it occur to Pope Francis that one reason economies supposedly based on greed do better by the poor than socialist or "third way" rivals is that, in a system of *voluntary* exchange, competition means that to succeed businesses must please their customers.

No one would ever confuse the Golden Rule with the breaking down of barriers that stop people from voluntarily exchanging their goods and services across borders. But for the poor struggling to build a future of hope and dignity and possibility for their families, the two are not as far apart as thought. The real tragedy of Wednesday's Vatican get-together is that neither the president nor the pope is in a position to let the other in on it.

Write to mcgurn@wsj.com.

America's Foreign Policy Crisis

By Walter Russell Mead

Watching Donald Trump on the world stage must be surreal for the academics, politicians, diplomats and soldiers of the foreign-policy establishment. They haven't been this alarmed since the Senate failed to ratify the Treaty of Versailles. Yet Mr. Trump is merely a symptom of America's greatest problem in international affairs, and the crisis in foreign policy will not disappear when he leaves office.

The roots of the problem go back to the late 1940s, when the U.S. set out to build a global order in the aftermath of World War II. America helped create a long period of integration and growth by rebuilding Europe, promoting development in the decolonizing Third World, encouraging free trade and providing safe passage for global commerce across the seas.

When the Soviet Union collapsed in 1991, the bipartisan foreign-policy establishment was united in seeing a historic opportunity to deepen the liberal order and extend it into the rest of the world. Yet the public had always been skeptical about this project. Jacksonians in particular believed that American global policy was a response to the Soviet threat, and that once the threat had disappeared, the U.S. should retrench.

After World War I, and again at the start of the Cold War, Americans had held great debates over whether and how to engage with the world. But that debate didn't happen after the Soviet collapse. Elites felt confident that the end of history had arrived, that expanding the world order would be so easy and cheap it could be done without much public support. Washington thus embarked on a series of consequential foreign-policy endeavors: enlarging NATO to include much of Central and Eastern Europe, establishing the World Trade Organization in the mid-'90s, promoting a global democracy agenda whenever possible.

American voters have never shared the establishment's enthusiasm for a foreign policy aimed at transforming the post-Cold War world. When given the choice at the ballot box, they consistently dismiss experienced foreign-policy hands who call for deep global engagement. Instead they install untried outsiders who want increased focus on issues at home. Thus Clinton over Bush in 1992, Bush over Gore in 2000, Obama over McCain in 2008, and Trump over Clinton in 2016.

Today the core problem in American foreign policy remains the disconnect between the establishment's ambitious global agenda and the limited engagement that voters appear to support. As Washington's challenges abroad become more urgent and more dangerous, the divide between elite and public opinion grows more serious by the day.

The establishment is now beginning to discover what many voters intuitively believed back in the 1990s. Building a liberal world order is much more expensive and difficult than it appeared a quarter-century ago, when America was king. Further, Washington's foreign-policy establishment is neither as wise nor as competent as it believes itself to be.

Meantime, the world is only becoming more dangerous. North Korea threatens to take America hostage. The Middle East burns. Venezuela descends into chaos. Jihadist groups develop new capacities. A failing Russia lashes out. The European Union risks breaking apart. China presses toward regional hegemony. Trade liberalization grinds to a halt. Turkey turns away from democracy. And the U.S. still lacks a strong consensus on what its foreign policy should be.

Washington's foreign policy needs more than grudging acquiescence from the American people if it is to succeed. How to build broad support? First, the Trump administration should embrace a new national strategy that is more realistic than the end-of-history fantasies that came at the Cold War's conclusion. The case for international engagement should be grounded in the actual priorities of American citizens. Second, Mr. Trump and other political leaders must make the case for strategic global engagement to a rightfully skeptical public.

For much of the establishment, focusing on the Trump administration's shortcomings is a way to avoid a painful inquest into the failures and follies of 25 years of post-Cold War foreign policy. But Mr. Trump's presidency is the result of establishment failure rather than the cause of it. Until the national leadership absorbs this lesson, the internal American crisis will deepen as the world crisis grows more intense.

Mr. Mead is a fellow at the Hudson Institute, a professor of foreign affairs at Bard College, and editor at large of the American Interest.

OPINION

The New Foreign Policy, Same as the Old

By John Bolton

The White House decided last week to continue President Obama's waiver of significant economic sanctions against Iran. The news, coming hard on the heels of U.S. Secretary of State Rex Tillerson's April 18 certification that Iran is complying with the 2015 Vienna nuclear agreement, was both revealing and distressing. New missile-related sanctions, simultaneously imposed, were small consolation.

This continuity with Obama-era policies fits a larger pattern. Despite generally tougher rhetoric against Iran and North Korea—including the president's weekend speech in Saudi Arabia—the Trump administration's actions against the proliferation of weapons of mass destruction increasingly resemble its predecessor's.

Despite tougher rhetoric, Trump's actions on Iran and North Korea echo Obama's strategic vision.

Rhetoric doesn't faze Iran so long as the nuclear deal's goodies keep coming, and the ayatollahs have had the effrontery to complain they aren't flowing fast enough. Mr. Obama and Tehran crafted the Vienna accord in ways that front-loaded the benefits for Iran, intending to lock America and Europe into economic ties that would be too costly to untangle. Every passing day validates that strategy.

Meanwhile, Iran's violations—regarding uranium enrichment, heavy-water production, ballistic-missile testing and concealed military dimensions such as warhead development—continue unimpeded. Unexpected, unnecessary and divorced from reality, Mr. Tillerson's certification of Iranian compliance blindsided the White House, which responded by toughening up the final presentation but lacked the wherewithal to reverse the decision. Friday's election returning Hassan Rouhani to Iran's presidency changed nothing, since the nuclear and ballistic-missile programs are controlled by Supreme Leader Ali Khamenei and Iran's Revolutionary Guard Corps.

A similar policy continuity can be seen regarding North Korea. Unlike his predecessors, Mr. Obama didn't obsess over negotiations with North Korea (preferring to obsess over negotiations with Iran). Instead, he propounded the doctrine of "strategic patience," a synonym for doing nothing, which proved equally as dangerous as making foolish concessions. Predictably, Pyongyang took advantage of American passivity. It concentrated on making steady, significant progress on both nuclear weapons (a sixth test is reportedly being readied) and long-range missiles.

Mr. Trump's current policy differs little from that of Bill Clinton, George W. Bush or Mr. Obama, relying mistakenly on China to pressure Pyongyang. As before, Beijing is feigning pressure, but as yet there is no evidence it will be any tougher than is necessary to quiet America down. South Korea has just thrown Kim Jong Un a lifeline by electing a president eager to return to the "sunshine" policy—appeasement by another name. And the full scope of Pyongyang's cooperation with Tehran remains unknown.

Why do Mr. Trump's proliferation policies increasingly echo his predecessor's? Although Mr. Obama's aides derided Washington's foreign-policy establishment as "the blob," they were part of it, and, progressively, so are Mr. Trump's. The failure to make decisive changes in policy during the administration's early days, coupled with delays in making presidential appointments in the national-security departments, is taking its toll. Washington's political distractions aren't helping.

REUTERS

President Trump at the Arab-Islamic-American Summit in Riyadh, Saudi Arabia, on May 21.

Mr. Trump's "new" power elites are increasingly succumbing to (or were already adherents in good standing of) the conventional wisdom, as their respective agency bureaucracies define it. The "capture" problem (more pointedly known as "clientitis" or "going native") is hardly new. Jim Baker once wisely said about becoming secretary of state under President George H.W. Bush: "I intended to be the president's man at the State Department, not State's man at the White House."

The State Department is Washington's most sophisticated bureaucracy in capturing political appointees and acculturating them to accept existing policies, but the military and intelligence bureaus are no slackers. The policies they pursued on Jan. 19, the day before Mr. Trump's inauguration, are the same they pursue on Jan. 21, and Jan. 22, and so on until their direction is changed. Pushing through that change is what presidential appointees are needed to do.

What is true in proliferation policy is also true more broadly. Example: Before Mr. Trump's current trip to the Middle East, senior administration officials repeated the mantra that Jerusalem's Western Wall was not "in Israel" because Jerusalem's final status remained to be negotiated. The White House responded that the wall is "clearly in Jerusalem"—a point no one has disputed for several thousand years.

Curiously, the State Department's incantation apparently never reached U.S. Ambassador to the United Nations Nikki Haley, who cheerily opined that the wall was in Israel. Likewise, Mr. Trump's campaign promise to move the U.S. Embassy from Tel Aviv to Jerusalem remains in limbo, just like his predecessors' pledges did.

Despite the furor over Mr. Trump's purported Moscow connection, his administration's policy regarding sanctions on Russia over its Ukraine adventure is essentially the same as Mr. Obama's. When Mr. Trump exhorted NATO allies to meet their commitments to increase defense expenditures to at least 2% of gross domestic product, critics acted as if the barbarians had breached the gates of civilized national-security discourse. But Mr. Obama previously characterized many of these same allies as "free riders."

There are exceptions to this policy continuity. Proposed increases in Washington's defense budget are a major example. But even there critics such as Sen. John McCain have rightly argued that the increases need to be significantly larger.

But by default, and perhaps by accident, the Trump White House has left Mr. Obama's flawed and otherworldly strategic vision in place. It isn't enough for the administration to say that a strategy is being written. The strategy must come first, with the clerical task of writing it down coming last, reflecting what is actually being done day by day. That isn't happening.

The Trump administration hasn't yet passed the point of no return on these critical issues, but it is getting perilously close. Warning flags are multiplying. Ronald Reagan once said he wanted a Republican Party that stood for "bold colors, no pale pastels." Mr. Trump should get out his paintbrush.

Mr. Bolton is a senior fellow at the American Enterprise Institute and author of "Surrender Is Not an Option: Defending America at the United Nations and Abroad" (Simon & Schuster, 2007).

A Eurozone Bond Solution With Its Own Problems

By Marcello Minenna

In the eurozone, sometimes everything old is new again. Witness how an idea for creating safe eurozone bonds devised in the heat of the sovereign crisis six years ago is reappearing as a solution to a very different problem. That's right: ESBies are making a comeback.

In 2011, a team of economists proposed the idea of European Safe Bonds as a replacement for German Bunds and safe-haven investment in the eurozone. The concept is similar to an asset-backed security. An asset-management company would raise cash on the market by selling new ESBies, then use the cash to buy eurozone government bonds from banks.

Because the portfolio effect would reduce the riskiness of any individual sovereign-bond issue within the pool, this would create a new bond that could serve as high-quality collateral. Because banks in crisis economies would have been able to unburden themselves of bonds issued by their own struggling governments, this would reduce the risk of bank nationalization.

The idea never went anywhere during the crisis. It was overtaken by events, and before anyone could start creating ESBies, the European Central Bank dove into alternative policies to deal with the crisis.

But now some economists think it's time to dust off the ESBie in response to a different challenge: how the ECB can exit from its asset purchases, or quantitative easing.

The ECB faces a problem as it starts to contemplate winding down its purchases of government bonds, or even reducing its balance sheet by selling the €1.7 trillion ($1.9 trillion) holdings of sovereign bonds it will have amassed by December. The central bank has become such an important buyer in eurozone bond markets that an exit could trigger significant price declines on government bonds, including in crisis-prone economies.

ESBies are being floated as a solution. Shifting the ECB's individual sovereign-bond holdings into an ESB asset manager would create a stable market for those bonds while removing them and their risk from the ECB balance sheet. The securitization of those bond holdings in turn would shift the risk back into the marketplace in a safer form less likely to trigger a yield spike.

Unfortunately there are some problems. ESBies aren't designed to work as eurozone government bonds. The risks embedded in government bonds purchased by the asset-management company aren't shared among the eurozone members. Each country retains its own default risk and the associated yield demanded by the markets, as well as the spread over any safer assets, be it an ESB or a Bund.

'European Safe Bonds' might help the ECB exit quantitative easing, but at a steep economic cost.

Put another way, because the ESB asset manager would securitize only some of the bonds issued by a government—and because there still would be no fiscal-transfer mechanism by which "safe" governments would guarantee repayment of riskier debts—ESBies wouldn't prevent the yields of individual sovereign bonds from fluctuating.

The project to create a European safe bond fails the reality test in other ways. To allow for the issuance of low-risk securities, the proposal relies on two ingredients: a predominant investment in Bunds on the asset side and a capital structure with at least two tranches of ESB issues on the liabilities side.

German prominence within the portfolio of bonds held by the vehicle wouldn't be a nice thing for indebted countries, especially Italy. Should ESBies become widely available in the eurozone, banks wouldn't need riskier governments' debt as collateral. There would be a greatly reduced demand for the public debt of riskier countries that hadn't been absorbed by the vehicle.

This would force those governments to pay significantly higher yields in auction to refinance debt. Their unpalatable alternatives would be rapid and deep tax increases and spending reductions to balance their budgets or—worse—giving up fiscal sovereignty to a newly instituted European authority.

As for tranching, it is a well-known tool of risk repackaging: The losses incurred in the underlying portfolio primarily hit the junior slice of securitized bonds and reach the senior tranche only when the junior has been completely exhausted. According to the authors of current ESB proposals, eurozone banks would purchase only senior securities while junior tranches would be fully underwritten by speculative investors.

If that really happens, ESBies could improve the creditworthiness of peripheral banks. But things might go differently.

The main problem is that the level of returns earned by the asset holdings of vulnerable-country banks must match their higher funding costs. These banks could end up having to invest in the riskier tranche of ESBies to achieve suitable returns. The final outcome would be risk segregation with senior ESBies replacing Bunds in core countries' banks and junior securities replacing riskier sovereign bonds in banks of the periphery. It starts to resemble the status quo.

Seven years after the start of the eurozone sovereign crisis, policy makers continue to look for ways either to make the old system of fragmented sovereign risk work better or to make fiscal union politically viable. ESBies may go in and out of style, but they're never a solution to that problem.

Mr. Minenna is a doctoral lecturer at the London Graduate School of Mathematical Finance.

Deregulators Must Follow the Law, So U.S. Regulators Will Too

By Alexander Acosta

President Trump has committed—and rightly so—to roll back unnecessary regulations that eliminate jobs, inhibit job creation or impose costs that exceed their benefits. American workers and families deserve good, safe jobs, and unnecessary impediments to job creation are a disservice to all working Americans. As the U.S. Labor Department approaches this regulatory rollback, we will keep in mind two core principles: respect for the individual and respect for the rule of law.

America was founded on the belief that people should be trusted to govern themselves. Citizens sit on juries and decide the fate of their fellow citizens. Voters elect their representatives to Washington.

By the same token, Americans should be trusted to exercise individual choice and freedom of contract. At a practical level, this means Washington should regulate only when necessary. Limiting the scope of government protects space for people to make their own judgments about what's best for their families.

The rule of law is America's other great contribution to the modern world. Engraved above the doors of the Supreme Court are the words "Equal Justice Under Law." Those four words announce that no one is above the law, that everyone is entitled to its protections, and that Washington must, first and foremost, follow its own rules. This means federal agencies can act only as the law allows: The law sets limits on their power and establishes procedures they must follow when they regulate—or deregulate.

The Administrative Procedure Act is one of these laws. Congress had good reason to adopt it: In the modern world, regulations are akin in power to statutes, but agency heads aren't elected. Thus, before an agency can regulate or deregulate, it must generally provide notice and seek public comment.

The process ensures that all Americans—workers, small businesses, corporations, communities—have an opportunity to express their concerns before a rule is written or changed. Agency heads have a legal duty to consider all the views expressed before adopting a final rule.

Today there are several regulations enacted by the Obama administration that federal courts have declared unlawful. One is the Persuader Rule, which would make it harder for businesses to obtain legal advice. Even the American Bar Association believes the rule goes too far.

Last year a federal judge held that "the rule is defective to its core" and blocked its implementation. Now the Labor Department will engage in a new rule-making process, proposing to rescind the rule.

Another example is the Fiduciary Rule. Although courts have upheld this rule as consistent with Congress's delegated authority, the Fiduciary Rule as written may not align with Mr. Trump's deregulatory goals. This administration presumes that Americans can be trusted to decide for themselves what is best for them.

As the Labor Department acts to revise the Fiduciary Rule and others, the process requires patience.

The rule's critics say it would limit choice of investment advice, limit freedom of contract and enforce these limits through new legal remedies that would likely be a boon to trial attorneys at the expense of investors. Certainly, it is important to ensure that savers and retirees receive prudent investment advice, but doing so in a way that limits choice and benefits lawyers isn't what this administration envisions.

The Labor Department has concluded that it is necessary to seek additional public input on the entire Fiduciary Rule, and we will do so. We recognize that the rule goes into partial effect on June 9, with full implementation on Jan. 1, 2018. Some have called for a complete delay of the rule.

We have carefully considered the record in this case, and the requirements of the Administrative Procedure Act, and have found no principled legal basis to change the June 9 date while we seek public input. Respect for the rule of law leads us to the conclusion that this date cannot be postponed. Trust in Americans' ability to decide what is best for them and their families leads us to the conclusion that we should seek public comment on how to revise this rule.

Under the Obama administration, the Securities and Exchange Commission declined to move forward in rule-making. Yet the SEC has critical expertise in this area. I hope in this administration the SEC will be a full participant.

America is unique because, for more than 200 years, its institutions and principles have preserved the people's freedoms. From administration to administration, respect for the rule of law has remained, even when Americans have been bitterly divided.

Some who call for immediate action on the Obama administration's regulations are frustrated with the slow process of public notice and comment. But this process isn't red tape. It's what ensures that agency heads don't act on whims but only after considering the views of all Americans. Admittedly, this means deregulation must find its way through the thicket of law. Casting aside the thicket, however, would leave Americans vulnerable to regulatory whim.

The Labor Department will roll back regulations that harm American workers and families. We will do so while respecting the principles and institutions that make America strong.

Mr. Acosta is secretary of labor.

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MY RIDE | By A.J. Baime

It's Her Thing: A Strange '70s Volkswagen

Brenda Berys, the San Francisco-based director of events at Gigya, a tech company, on her 1973 Volkswagen Thing, as told to A.J. Baime.

You never know when a chance encounter is going to change your life. In 2006, I was walking through a parking lot in Miami when I saw this bright yellow car. I was immediately struck by it. By the end of that day, I had found the owner, who was this beautiful, eccentric blond woman. I said, "I want that car." She said, "Whoa! Settle down." We started talking, and we became instant friends.

Four years later, we both moved to the West Coast, and had the Thing shipped to East Palo Alto. We had the engine rebuilt, banged out all the dents, and got to work, hoping we could blaze future careers in the nonprofit world. We drove that car all over—a blonde and a redhead, sun shining, no roof. The Thing represented our new lives and all the good we were going to do for people.

For the few who recognized the car, it brought back all these memories of the 1970s. The Thing [not a nickname, this is the car's actual name] was a descendant of a German World War II vehicle, and it was only sold in the U.S. for about two years starting in 1973. The doors are detachable, the windshield folds down. It's not quite a dune buggy, not quite a Jeep. It's just...a Thing.

Soon after the Thing appeared in 1973, the federal government and Ralph Nader criticized it for not meeting safety standards. After just two years, sales ended in the U.S.

About five years ago, my friend moved away, but she left the Thing for me. Driving it is still so much fun. It feels like a go-kart on the road, and everywhere I go, VW enthusiasts come out of the woodwork to share their car stories with me. The Thing lacks every comfort and convenience, and it's broken down a million times. But still, its charm never wears thin.

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

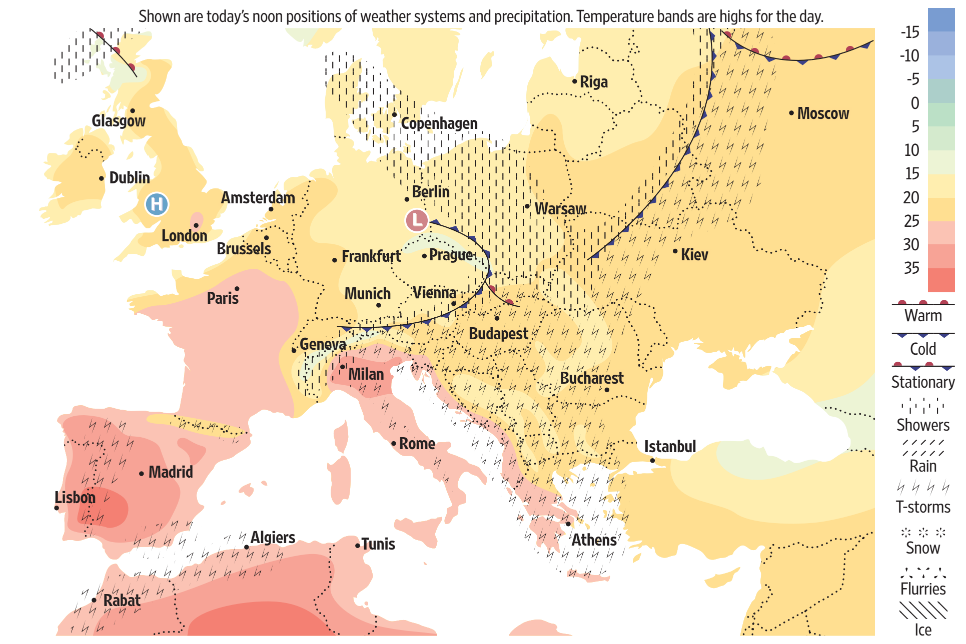
Brenda Berys, the San Francisco-based director of events at Gigya, a Silicon Valley tech company, with her 1973 Volkswagen Thing. All four doors pop off, and the windshield, above, flips down. A peek at the no-frills interior, bottom left.

ANGELA DECENZO FOR THE WALL STREET JOURNAL

Weather

AccuWeather.com

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

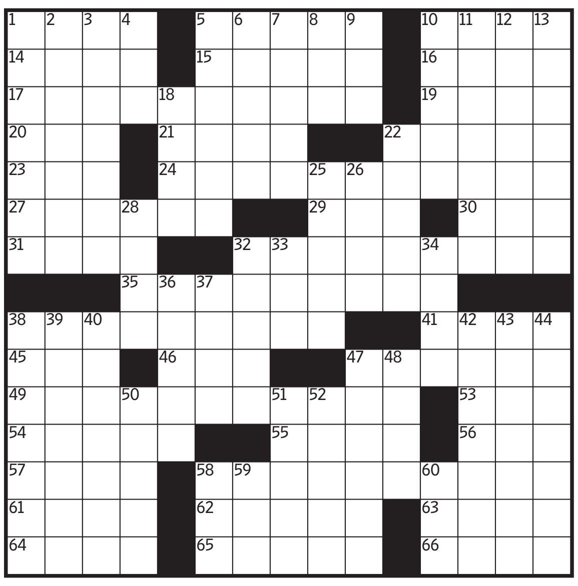


Global Forecasts

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	21	11	c	22	12	pc
Anchorage	10	5	r	11	4	sh
Athens	25	16	t	25	16	pc
Atlanta	23	13	t	22	14	pc
Baghdad	35	19	s	36	20	s
Baltimore	23	14	pc	22	13	t
Bangkok	34	27	t	34	26	t
Beijing	34	17	s	30	15	s
Berlin	17	9	c	19	11	pc
Bogota	20	11	c	20	10	t
Boise	23	7	pc	20	8	pc
Boston	19	12	pc	15	12	r
Brussels	22	11	pc	23	12	pc
Buenos Aires	20	14	c	18	8	t
Cairo	31	19	s	32	20	pc
Calgary	10	6	r	14	4	r
Caracas	32	26	pc	32	26	s
Charlotte	22	15	t	21	14	t
Chicago	16	10	sh	19	10	pc
Dallas	27	15	s	32	24	s
Denver	26	11	s	20	8	t
Detroit	22	14	r	20	12	sh
Dubai	37	28	s	39	28	s
Dublin	20	11	pc	22	13	s
Edinburgh	20	11	pc	23	12	s
Frankfurt	20	11	c	23	11	pc
Geneva	24	12	s	24	11	pc
Hanoi	32	24	c	29	23	pc
Havana	31	24	pc	31	23	t
Hong Kong	29	23	t	29	24	r
Honolulu	29	21	sh	29	21	pc
Houston	28	17	s	32	23	pc
Istanbul	21	13	pc	23	16	pc
Jakarta	33	25	pc	33	25	pc
Johannesburg	21	5	s	20	5	s
Kansas City	18	8	pc	24	15	s
Las Vegas	38	24	s	35	20	s
Lima	22	18	pc	23	18	s
London	25	14	s	26	14	s
Los Angeles	24	14	pc	19	14	pc
Madrid	32	17	s	32	17	s
Manila	34	28	t	34	28	t
Melbourne	15	9	pc	18	10	c
Mexico City	28	14	pc	28	14	c
Miami	33	25	t	31	24	t
Milan	31	17	c	28	16	s
Minneapolis	19	11	pc	23	14	s
Monterrey	28	18	t	35	20	pc
Montreal	24	13	pc	23	12	r
Moscow	21	12	pc	19	9	r
Mumbai	35	28	pc	34	28	pc
Nashville	21	12	sh	22	13	pc
New Delhi	42	29	pc	42	30	pc
New Orleans	25	16	pc	29	20	s
New York City	24	15	pc	18	16	r
Omaha	20	9	pc	25	14	s
Orlando	30	20	t	27	16	pc
Ottawa	24	13	c	20	11	r
Paris	25	14	pc	27	15	s
Philadelphia	25	14	pc	21	16	t
Phoenix	41	25	s	38	22	s
Pittsburgh	24	14	c	20	12	sh
Port-au-Prince	36	24	pc	37	22	pc
Portland, Ore.	18	10	c	24	11	pc
Rio de Janeiro	27	21	pc	28	21	s
Riyadh	41	27	s	40	25	s
Rome	26	14	pc	26	14	pc
Salt Lake City	29	11	s	21	10	pc
San Diego	21	16	pc	20	16	pc
San Francisco	20	13	pc	21	12	pc
San Juan	32	26	s	32	25	s
Santiago	13	5	r	14	4	pc
Santo Domingo	32	25	pc	32	23	s
Sao Paulo	23	16	pc	26	17	s
Seattle	18	10	c	21	11	pc
Seoul	28	17	s	25	15	s
Shanghai	24	17	c	29	18	pc
Singapore	31	27	c	31	27	c
Stockholm	21	8	s	18	7	pc
Sydney	22	12	s	19	11	s
Taipei	30	22	r	26	21	pc
Tehran	33	19	c	31	18	s
Tel Aviv	25	16	s	26	17	pc
Tokyo	25	20	c	24	19	sh
Toronto	22	11	c	15	11	r
Vancouver	16	8	sh	18	10	s
Washington, D.C.	23	16	pc	24	15	t
Zurich	22	9	c	23	10	pc

The WSJ Daily Crossword | Edited by Mike Shenk



NON-PUZZLE | By Pancho Harrison

Across

1 Worker's compensation
5 Company that bought about a million feet of blue ribbon in 1892
10 Frat vowels
14 Aphrodite's son
15 Lou who produced Carole King's "Tapestry"
16 Pluck
17 Siesta for a Panera employee?
19 Dreyfuss's "Close Encounters" wife
20 Hearst kidnap gp.
21 Sergeant Snorkel's dog
22 Swiss miss of literature
23 Nation on the Med.
24 Marriage-age Mumbai boy, maybe?
27 "The tiny little tea leaf tea"
29 Sleeper, e.g.
30 Saison avant l'automne
31 Facilitate
32 Romantic proposals
35 Diploma?
38 Constant
41 He fought Darth Sidious
45 Vatican vestment
46 Article written by Engels
47 Checked out
49 Result of van Gogh's depression?
53 Suffered from
54 Put your foot down, perhaps
55 ___ Field (Shea Stadium's successor)
56 Be off
57 Initials of urgency
58 "That dress looks great on you," maybe?
61 Downtime
62 2017 role for Emma Watson
63 Publican's stock
64 Grounded fleet
65 Meal at which the Haggadah is read
66 Pitch

Down

1 Surfer's destination
2 Its surface area is about 25% of what it was in 1960
3 Kids' racers
4 Jargon ending
5 Danish, e.g.
6 Supplement
7 Open, in a way
8 "___ who?"
9 Average of due and quattro
10 Spurred (on)
11 Movie promo
12 Show time
13 Progress
18 Weapon for Professor Plum
22 Budget alternative
25 Cupcake finishers
26 Draped dress
28 Longevity, so to speak
32 Ukrainian port, to Ukrainians
33 Corp. bigwigs
34 Road reversals, in slang
36 Gave a new look to
37 "Regrettably..."
38 Famed Vegas casino
39 Passes
40 Side by side
42 Fictional general in the Venetian army
43 Pets
44 Try to tackle
47 Restraint
48 Buffalo's county
50 Corp. divisions
51 Give the business to
52 Championship
58 Rather firm?
59 "Life of Pi" director
60 Collected dust

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

Previous Puzzle's Solution

TECHNOLOGY: FACEBOOK TOOL HANDLES MEDIA COMPANIES' VIDEO-AD SALES B4

Euro vs. Dollar 1.1208 ▼ 0.27% | **FTSE 100** 7485.29 ▼ 0.15% | **Gold** 1254.80 ▼ 0.47% | **WTI crude** 51.47 ▲ 0.66% | **German Bund** yield 0.415% | **10-Year Treasury** yield 2.285%

Uber Shortchanged Some Drivers

By Greg Bensinger

SETH WENIG/ASSOCIATED PRESS

Uber's mistake led to underpaying of drivers in New York City.

Uber Technologies Inc. on Tuesday said it mistakenly underpaid New York City drivers for the past 2½ years, an error that will likely cost it tens of millions of dollars. It is the second time in three months the ride-hailing company has acknowledged it deprived workers of their proper earnings.

Under the terms of its November 2014 nationwide driver agreement, Uber was meant to take its commission, generally 25%, from U.S. drivers based on fares after any taxes and fees were deducted. Uber said that, instead, in New York City it calculated a higher cut using the full fare before accounting for sales tax and a local injury-compensation fund fee.

Uber told The Wall Street Journal it would refund the money plus interest, which comes to an average of about $900 per driver. The San Francisco company declined to say how much the mistake would cost, but it could total at least $45 million, based on an estimate of 50,000 drivers from the New York-based Independent Drivers Guild. All New York City drivers, whether still active or not, are eligible for a refund as long as they completed a trip since signing the 2014 agreement.

Uber, already reeling from a series of stumbles this year, said it discovered the error while it was creating a more detailed receipt for its drivers.

"We made a mistake and we are committed to making it right by paying every driver every penny they are owed, plus interest, as quickly as possible," Rachel Holt, regional general manager of Uber in the U.S. and Canada, said in a statement. "We are working hard to regain driver trust, and that means being transparent, sticking to our word, and making the Uber experience better from end to end."

The accounting error—and a similar one in Philadelphia earlier this year—is striking for a company whose business hinges on complex mathematical formulas that match drivers with riders and that crunch fares by the millisecond based on traffic, demand and other factors.

Technology giants like Uber employ armies of engineers and data scientists that develop sophisticated algorithms, but their ambition can sometimes cause them to gloss over basic-level concerns for their customers. Last week, Facebook Inc. acknowledged it misstated advertising impressions

Please see UBER page B4

Greece's Debt Is Tough To Trade

By Jon Sindreu

Greek debt has been a great investment this year, in theory.

The reality is that almost nobody trades it, even with yields at a three-year low, so actually making significant money is all but impossible. The tiny volumes are also a sign that Athens has a long road ahead before it can borrow from investors again.

On Tuesday, yields on 10-year Greek government debt rose to 5.751% from 5.549% the previous day. The move higher comes after eurozone finance ministers failed to agree on the release of another round of bailout cash that Greece needs to keep paying bondholders this summer. Yields rise when bond prices fall.

Yet, there are few people trading these bonds.

Only €160 million ($180 million) of Greek government bonds has changed hands on the country's HDAT electronic-trading platform this year, according to figures from the **Bank of Greece.** That is a fraction of the levels before Greece ran aground in a decadelong economic crisis. All of the debt traded this year is about as much as was traded in half an hour, on average, from 2001 to 2007.

Moreover, trading volumes are lower this year than they were in 2016, underscoring the challenges the Greek government will face to stage a return to financial markets, even as officials plan the first bond issue in three years for as early as this summer.

J.P. Morgan Asset Management, a $1.7 trillion money manager, is confident that Athens will ultimately get the funds, and it doesn't believe private investors will take any write-downs. But it doesn't own any Greek bonds.

"It's not really in the universe for us," said Mike Bell, the company's global market strategist.

One problem is that ratings firms still rank Greek debt as junk. This means it is off the radar for most money managers other than hedge funds and some domestic investors, said John Stopford, head of multiasset income at Investec Asset Management.

"There may be opportunities. But we're looking at 70 to 80 different countries and, for the moment, Greece isn't one of them," he said.

Indeed, the spread between the price that banks dealing in Greek bonds are willing to buy the debt and the price at which they are willing to sell it is the widest among eurozone bonds, which is a further indication of a thin market.

This spread was 0.2 percentage point at Tuesday's close, according to Tradeweb, compared with 0.061 percentage point for Portugal and 0.004 for Germany.

There isn't much to buy and sell in the first place, because most of Greece's debt is in the

Please see DEBT page B7

HEARD ON THE STREET

By Justin Lahart

Why Trump Doesn't Scare the Market

President Donald Trump has stirred plenty of uncertainty, but except for one day last week, he hasn't shaken stocks. Two economists have a theory for why.

Last week's little bout of market jitters was quickly forgotten. With stocks moving higher on Monday, the CBOE Volatility Index, or VIX, slipped back below 12. Meanwhile, an index based on word combinations in news articles shows uncertainty surrounding U.S. policy is unusually high. And so the mystery of why the market's fear gauge can signal so little worry, despite everything else, is back.

Usually periods of unusual policy uncertainty are periods when stock-market volatility is unusually high. Economists Lubos Pastor and Pietro Veronesi even developed a model of why, theorizing that policy uncertainty reduces the value of the implicit protection that the government provides for the market. Investors, knowing they may be facing more risk than before, get a bit wobbly.

What is going on now might seem out of step with that model, but Messrs. Pastor and Veronesi say that isn't the case. Rather, they argue that volatility is a function not just of policy uncertainty but how clear a signal is being sent by Washington.

What may really have changed, they say, is that U.S. political signals have become less precise than they used to be amid all of the White House's reversals. (Mr. Trump said the North Atlantic Treaty Organization is obsolete, for example, and then he said it isn't.) So much noise with so little signal may make investors nervous, but because it is so uninformative it doesn't push prices around.

That is a sharply different situation than in the early 2000s, when policy uncertainty was high during the regulatory backlash to the dot-com bust, and later during the financial crisis. In fact, the only other time the news-based U.S. policy uncertainty was high and the VIX was low was around 2013. But that was probably only because the newspapers the index uses were writing a lot about European woes that only had a glancing effect on U.S. stocks.

None of this is to say that policy uncertainty might not move the market in the

Please see HEARD page B2


FELIX ODELL FOR THE WALL STREET JOURNAL (TOP); GENSCAPE

Stockholm resident Samir Madani, who researches crude and runs a website as a hobby. says 'there's so much drama in oil.'

Do Dishes, Then Track Oil Data

Amateur sleuths are among new providers of information on crude's global ebb and flow

By Georgi Kantchev

Crude-oil storage tanks from several companies in Cushing, Okla.

On a recent Sunday evening, Samir Madani had dinner with his family in suburban Stockholm, did the dishes and put his two children to bed.

Then he opened his laptop and started crunching U.S. oil import data late into the night.

Mr. Madani, a technology executive who trades and researches crude as a hobby, is part of a growing group of oil sleuths who have sprung up to sate the market's voracious appetite for data and intelligence.

"So much of oil data is hidden and we're trying to make it accessible," said Mr. Madani, who runs a free oil-data website from his house. "Besides, there's so much drama in oil."

Dramatic gyrations in the price of oil in the past three years have boosted demand for such services, intensifying competition in a market that for years had been dominated by governments, oil companies and a handful of big data providers.

The new entrants include both amateurs armed with an internet connection and a Twitter account, and professional services using shoebox-size satellites and sophisticated computer models. They are crunching data on everything from Middle Eastern exports to U.S. drilling. Such statistics often move oil prices as they predict government releases on crude inventories or cover data black spots such as Chinese stockpiles and Iranian tanker movements.

With the proliferation of data sources, the oil industry is catching up to other sectors. Retail and commodity investors, for instance, have long had access to a wealth of sophisticated information on things like store traffic and crop yields. But the free-fall in the price of oil—from more than $100 a barrel in 2014 to around $50 today—created new trading opportunities for hedge funds and day traders.

When Doug King started the Merchant Commodity hedge fund at RCMA Asset Management

Please see SLEUTH page B2

Fidelity CEO Cites Bitcoin's Appeal, Hurdles

By Sarah Krouse

Fidelity Investments Chief Executive Abigail Johnson championed the growth of bitcoin and other alternative currencies in a speech Tuesday, a rare vote of confidence by a major player in the financial world.

Her remarks at a conference in New York set her apart from other CEOs of large banks and financial-services companies who have been cautious and even skeptical of bitcoin's benefits. Fidelity first began exploring the possibilities of bitcoin and other digital currencies roughly three years ago.

"Some of you might be wondering: Why am I here today?" Ms. Johnson said at the digital-currency news service CoinDesk's Consensus conference. "I'm here because I love this stuff…all that the future might hold."

Bitcoin, introduced in 2008 by an anonymous creator, is a digital currency that operates online and is designed to allow users to transact with each other directly, bypassing governments and banks in financial transactions.

Ms. Johnson, whose family owns 49% of Fidelity, is an unlikely proponent of digital currency. Her views are notable not only because she gives public speeches rarely but also because her firm is a major provider of 401(k) services and other savings products to millions of Americans. Fidelity had $2.13 trillion in assets under management and $5.7 trillion in assets under administration at the end of last year.

Ms. Johnson on Tuesday acknowledged digital currencies' problems, laying out in detail the obstacles that bitcoin, and the blockchain technology that underpins it, face in moving from a slow start to widespread adoption.

"It's no accident that I'm one of the few standing before you today from a large financial-services company that hasn't given up on digital currencies," she said. "I am still a believer."


BRIAN SNYDER/REUTERS

Fidelity CEO Abigail Johnson

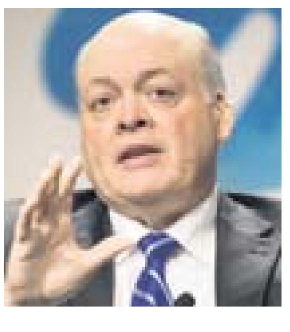
Fidelity has worked with bitcoin platform Coinbase Inc. to allow charitable giving in bitcoin and enabled bitcoin payments in its cafeteria. Ms. Johnson said the firm will soon make it possible to display bitcoin assets held through Coinbase on Fidelity.com.

Yet fewer than 100 employees at the firm have completed bitcoin transactions, she said. Potential users of the technology, she said, are also confused or frustrated by it. Ms. Johnson's speech stopped short of making firm recommendations on ways to make the currency more mainstream.

Regulatory, security and risk-related issues are major barriers to broader adoption of bitcoin and related technol-

Please see BITCOIN page B2

INSIDE



ALL EYES ARE ON FORD'S NEW CHIEF

BUSINESS NEWS, B3

INDEX TO BUSINESSES

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

INDEX TO PEOPLE

China-Russia Venture Aims at Boeing, Airbus

By Trefor Moss

SHANGHAI—China and Russia have joined forces to build a large passenger airliner designed to challenge **Airbus SE** and **Boeing** Co., in the latest sign of strengthening Sino-Russian ties.

State-owned aerospace giants **Commercial Aircraft Corp. of China** and Russia's **United Aircraft** Corp. say they are forming an alliance to build a 280-seat long-haul plane that will enter service in the mid- to late-2020s.

The deal was signed at a ceremony in Shanghai on Monday, formalizing plans set out in a 2016 memorandum.

China and Russia have been developing rival jets as they both seek to pry open Airbus's and Boeing's duopoly in the single-aisle jet market. China's new C919 airliner flew for the first time in early May, while Russia's MC-21 is expected to conduct its maiden flight within the next few months.

Both aircraft face uncertain commercial futures, aviation analysts say, thanks to the American and European companies' dominance and their technical advantages, including greater fuel efficiency.

Teaming up allows the two countries to pool know-how and resources in developing the larger, twin-aisle jet that China is calling the C929. Beyond the commercial potential, the tie-up also reflects a decadeslong warming in relations between Beijing and Moscow—bitter rivals until the end of the Cold War—that has accelerated under Presidents Xi Jinping and Vladimir Putin.

"China needs Russia's military technologies and energy [resources]...Russia needs China's financial help," said Zhang Baohui, a professor at Hong Kong's Lingnan University. "They want to refashion the global order," he said, and "develop a genuine strategic partnership to counterbalance U.S. power."

Increasingly, Beijing and Moscow give each other mutual support on key global issues, said Mr. Zhang. Last September, the Chinese and Russian navies held joint drills in the disputed South China Sea.

BUSINESS & FINANCE

MARK STOCKWELL/ASSOCIATED PRESS

The retailer agreed to pay $18.5 million to resolve an investigation by state prosecutors into its massive 2013 data breach.

Target Settles Hack Probe

By Nicole Hong

Target Corp. on Tuesday agreed to pay $18.5 million to resolve an investigation by state prosecutors into its massive 2013 hack, a deal that represents the largest multistate data breach settlement in history.

The investigation, led by the attorney generals in Connecticut and Illinois, focused on allegations that more than 40 million customers had their credit or debit card information compromised in 2013 after Target failed to provide reasonable data security.

The money will go to 47 states and the District of Columbia, with California receiving the largest share, more than $1.4 million.

"Millions of consumers...across the country were impacted by this data breach and by what we believe, through our multistate investigation, were Target's inadequate data security protocols," said George Jepsen, Connecticut's attorney general.

A spokeswoman for Target said the company is "pleased to bring this issue to a resolution." Target has been working with states to address claims from the 2013 breach, and the costs with this settlement are reflected in reserves that the company has previously disclosed, the spokeswoman said.

The investigation by state prosecutors found that hackers accessed Target's server in November 2013 through credentials stolen from a third-party vendor. The attackers used the credentials to access a customer-service database and installed malware that captured consumers' personal data, including credit-card numbers.

Tuesday's settlement requires Target to hire an executive to oversee an information security program and an independent third party to conduct a comprehensive security assessment.

Target also agreed to separate its cardholder data from the rest of its computer network and to take other steps, including implementing password rotation policies and two-factor authentication.

Four years after the hack, Target's breach still ranks among the most high-profile cyberintrusion incidents at a publicly traded company. The theft took a heavy toll on the retailer's reputation with shoppers, cut into sales and led to the ouster of the company's chief executive.

It was followed by a string of similar breaches at other well known merchants, including Home Depot Inc., luxury retailer Neiman Marcus Group Ltd. and Asian restaurant chain P.F. Chang's China Bistro Inc.

Experts often point to the Target breach as a turning point that alerted American corporations to the idea that managing cybersecurity should be a priority for the C-suite, not only for the IT department.

After the breach, Target faced dozens of lawsuits, as well as federal and state investigations into how the company responded to the attack. In 2015, it agreed to pay out millions in settlements to reimburse financial institutions for costs incurred.

—Khadeeja Safdar contributed to this article.

SLEUTH

Continued from the prior page

ment in 2004, there were only a few outside data sources, he says. "We used to do our own data crunching by hand. It was a simpler time," said Mr. King, who now subscribes to several data services.

"The oil data industry has exploded," said Mr. King, chief investment officer at RCMA.

At least three new oil data services companies are launching this year. One is Kayrros, a Paris-based startup due to open for business in June. It aims to use computer algorithms to analyze satellite imagery, financial data and social news to come up with detailed estimates and forecasts for key oil numbers, says Antoine Halff, a founding partner of the firm.

"A decade or more ago, it used to be people with binoculars sitting in a hotel watching tankers move in and out of the port," said Mr. Halff, who is also a senior researcher at Columbia University's Center on Global Energy Policy.

A popular service such firms offer is tracking where oil tankers are going. That gives, for instance, insight into how much crude that members of the Organization of the Petroleum Exporting Countries are exporting after their deal last year to limit supply.

Another new entrant, Vortexa, promises real-time tracking of more than 94% of all oil cargos globally. The firm was co-founded by a former head of trading technology at oil giant BP PLC.

Paris-based Kpler has 19 data "engineers" spread across offices in France, Singapore and Houston who use sources like shipbrokers and customs data and tiny nanosatellites, which can deliver more-frequent imagery than traditional satellites.

Oil upstarts like Vortexa and Kpler are moving onto the turf of more-established players. Financial data companies like **Bloomberg** LP, **Thomson Reuters** Corp. and the commodity-market information provider **Genscape** Inc. have been offering oil data such as tanker movements and production surveys for years. Reuters and Bloomberg compete with Dow Jones, the publisher of The Wall Street Journal, on some services.

Services like Louisville, Ky.-based Genscape cost up to several hundred thousand dollars a year, depending on the size of the customer and the data package. Such hefty price tags have been driving independent traders like Mr. Madani to look for data themselves.

Mr. Madani turned to Twitter. A year ago, he created the #OOTT hashtag, which stands for Organization of Oil Trading Tweeters, to collate posts about oil news and publicly available data. The community quickly grew, with tweets featuring the hashtag reaching more than seven million accounts in the first two weeks of May, according to information provider Klear.

Mr. Madani then started crunching oil data from publicly available sources like free tanker-tracking websites and government statistics. Mr. Madani used a shared Google spreadsheet to publish his findings, and that later grew into TankerTrackers.com, a free oil-data website. He says he doesn't plan to charge a subscription as his website is aimed at independent traders who often can't afford professional services.

"We're looking after the average Joe & Jane," said Mr. Madani who routinely stays up until 2 a.m. trying to estimate OPEC members' compliance with the group's deal to cut production. "We're all news and data junkies."

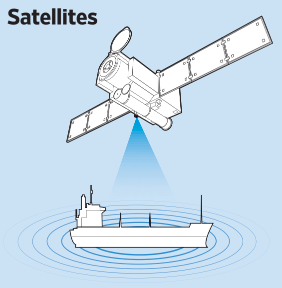
Executives at some of the incumbent providers say they offer more data than the upstarts do, but that they welcome the competition. "The more eyes we have watching the market, the more transparent it gets," said Matt Smith, director of commodity research at ClipperData, a New York-based oil data provider.

Lee Saks, a New York-based oil futures trader who often tweets using the #OOTT hashtag, says while that such free websites don't have the resources of paid providers and can make mistakes, "they are on point a lot."

Oil Sleuths

Oil data gatherers use a variety of technologies to match the market's voracious appetite for statistics and scraps of intelligence.

Satellites

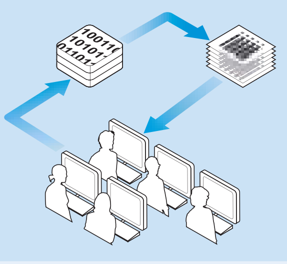


- Companies use satellites to monitor oil tankers as they criss-cross the seas
- That helps them reveal the location of Iranian oil tankers or how congested major oil ports are
- Some firms use shoebox-sized nanosatellites which can deliver more frequent imagery than traditional satellites

Infrared cameras

- Louisville, Ky.-based Genscape uses infrared cameras to measure the level of stored oil
- Those cameras are mounted on helicopters that fly around tanks around the world
- The market-moving data is usually released a few days ahead of government statistics

Computer algorithms



- Oil data firms use computer programs to analyze reams of data to come up with forecasts for key oil numbers
- Input sources include: satellite imagery, customs databases, shipping records, social news
- The data is then distributed via online portals featuring charts and live tanker tracking maps

Sources: the companies; staff reports THE WALL STREET JOURNAL.

BITCOIN

Continued from the prior page

ogy after a string of headlines related to the cryptocurrency. Hackers behind the WannaCry cyberattack this month, which held for ransom the computer files of hundreds of thousands of victims, demanded payment in bitcoin.

"I'd like to think that huge new markets and products are going to be built on these open platforms," Ms. Johnson said. "Blockchain technology isn't just a more efficient way to settle transactions, it can fundamentally change market structures and perhaps even the architecture of the internet itself."

Ms. Johnson urged the audience to make cryptocurrency and related technology more accessible for individuals and large institutions. "Too often, we see bitcoin and blockchain technologies as solutions in search of a problem," Ms. Johnson said. "We don't just need these systems to be technically better, we need them to be more user-friendly."

Ms. Johnson first became interested in bitcoin and blockchain about three years ago when the firm's Fidelity Labs unit held a meeting that explored emerging technology that could affect its business or customers, according to a person familiar with the matter.

HEARD

Continued from the prior page

months ahead, the economists say. Just because political signals coming directly from the White House aren't getting the kind of attention they did in past administrations doesn't preclude the market from reacting to political signals that come from elsewhere.

Last Wednesday's selloff provides a case in point: It wasn't one of Mr. Trump's pronouncements that sparked the selling, but reports that Mr. Trump in February allegedly asked then-Federal Bureau of Investigation Director James Comey to back off the investigation of former national security adviser Michael Flynn.

Just because the market has been quiet doesn't mean it can't spring a leak.

Ford CEO Tackles Challenges

New chief Jim Hackett earlier turned around University of Michigan's football program

BY ADRIENNE ROBERTS


RENA LAVERTY/EUROPEAN PRESSPHOTO AGENCY
Jim Hackett spoke Monday at Ford headquarters in Dearborn, Mich. He succeeds CEO Mark Fields

Ford Motor Co.'s new boss doesn't have to sell a single car to win fans in the dozens of factory towns and suburban communities within a short drive of company headquarters. He already brought home Jim Harbaugh, coach of the University of Michigan's football team.

Ford Chief Executive Jim Hackett ran a major furniture company in the state for decades but wasn't widely known before taking the reins at Michigan's embattled athletic program in 2014. Turning around a college's sports department isn't a typical resume builder for an aspiring automotive chief, but it distinguished the 62-year-old executive in the race to replace Mark Fields.

Bill Ford, the company's executive chairman, on Monday laid out a series of characteristics that Mr. Hackett brings to the job, including calling him a "transformational leader," visionary and "cultural change agent." Mr. Hackett is a former Ford board member and has been leading the company's Smart Mobility innovation unit for a year.

Mr. Ford, whose family has owned the Detroit Lions NFL football team since 1963, during a press conference also talked about Mr. Hackett's time as interim athletic director for the Wolverines and the bold move to lure a big name in football coaching. In addition to recruiting Mr. Harbaugh from the San Francisco 49ers NFL football team back to Michigan, where both men played football and where Mr. Harbaugh grew up, Mr. Hackett also secured a $169 million sponsorship pact with Nike Inc. considered to be a landmark deal for college athletics.

"You can say, well is (the University of Michigan) relevant to what Ford has got going on?" Mr. Ford said when announcing the company's leadership change. "He was walking into a very difficult and very public situation."

Mr. Hackett spent the bulk of his career steering furniture maker Steelcase Inc. He was recruited by University of Michigan President Mark Schlissel to serve as interim director of an athletic department in turmoil. The school's revered football program had been tarnished by a decade of mediocrity.

Mr. Schlissel said in an interview Monday that employees at the athletic department at the time were "unhappy and insecure."

Mr. Ford expects Mr. Hackett to re-energize the company's ranks of more than 200,000 employees. The auto maker is scrambling to confront a wave of Silicon Valley tech giants and startups edging in on the auto industry with electric vehicles, autonomous-car programs and other services.

Ford, an icon in American business and celebrated for not taking government bailouts during the financial crisis, was dented when Tesla Inc. surpassed it in market value in April. The development reinforced the view that Detroit is behind in the race to redefine the car business.

Mr. Ford said Steelcase's emergence as an industry powerhouse and innovator showed Mr. Hackett's business acumen.

Mr. Hackett spent the bulk of his career steering furniture maker Steelcase.

The job at Michigan "shows that Jim can be successful and operate in multi-environments," Mr. Ford added.

Before luring Mr. Harbaugh in December 2014, Mr. Hackett let the team play out the 2014 season to evaluate them, Mr. Schlissel said. Then, he aggressively courted Mr. Harbaugh in a recruiting process that captivated the sports world.

Mr. Hackett also oversaw the signing of an outfitting deal with Nike 2015. The deal, which took effect last summer and is worth $169 million through 11 years, brought the swoosh back to Ann Arbor, Mich., after the Wolverines sported Adidas AG apparel for nearly a decade.

"He owned the Nike deal," Mr. Schlissel said. He said Mr. Hackett took over one of the suites in the University of Michigan's football stadium during the off season and turned it into a war room. He had Nike, Adidas and Under Armour Inc. make proposals, and he laid out the details of the offers on display boards.

"He taught me it's not a matter of choosing dollars, it's about the relationship," Mr. Schlissel said. "He explained the process, his analysis, the goals and then gave us his recommendation. The process he went through was instructive."

The Michigan-Nike tie-up set the pace in an increasingly competitive college sports-licensing market.

—Sara Germano contributed to this article.

Hurdles Await Arconic Despite Elliott Truce

BY BOB TITA AND DOUG CAMERON

The settlement reached between **Arconic** Inc. and activist investor **Elliott Management** Corp. over board seats this week puts to an end a big distraction for the embattled aluminum-products manufacturer.

But it doesn't change the tough task of meeting aggressive sales and profit goals set by Elliott given the challenging market conditions in its key aerospace and automotive markets.

Auto sales have plateaued and while Airbus SE and **Boeing** Co. are working through a record backlog of aircraft orders, they and engine makers like General Electric Co. are pressing suppliers for ever-better terms.

"We believe this is an especially difficult time for suppliers to push back on [plane makers'] price pressure, particularly for Arconic, which is trying to take share," Seth Seifman at J.P. Morgan wrote to clients on Tuesday.

Arconic, one of the biggest suppliers in the aerospace industry, split from raw aluminum maker **Alcoa** Corp. late last year, and is trying to extract better profit margins from its businesses as it integrates a series of recent acquisitions.

Elliott, which owns close to 12% of Arconic, has been pushing the company to accelerate cost-cutting and eliminate what it considers a bulky management structure that discourages factory-level efficiency and production improvements. It ran a heated, five-month campaign to oust longtime Chief Executive Klaus Kleinfeld and get its nominees installed on the board.

Following Thursday's shareholder vote on nominees to the company's board, six of the company's 13 directors will be Elliott picks, giving the hedge fund some responsibility and significant influence over Arconic's operations as well as the search for a permanent chief executive. Elliott declined to comment.

Arconic, which provides complex parts for engines as well as the fasteners used to hold aircraft together, said it can produce 90% of the structural and rotating parts on a jet engine.

The aerospace industry is highly cyclical and tied to global economic growth. After an extended seven-year boom in sales, deals for the wide-body jets that are the most profitable for suppliers have stalled, and investors remain concerned that airlines may not take all of the thousands of smaller single-aisle jets they have ordered.

"Nobody really knows how long it's going last," said Luigi Peluso, an aerospace and defense analyst for consulting firm AlixPartners LLP.

Elliott's campaign for changes at Arconic relied heavily on comparing the company's performance with that of Precision Castparts Corp., a rival supplier acquired in 2015 for $37 billion by Warren Buffett's Berkshire Hathaway Inc.

Portland, Ore.-based Precision Castparts made a series of big acquisitions to extend its reach supplying aircraft and engine makers and generated industry-leading margins through aggressive cost-cutting. The 30% margin on estimated sales of around $10 billion last year compared with 21% at Arconic's engineered products unit.

Arconic's management team aims to boost margins for its engineered products unit that most closely mirrors Precision's business by 4 percentage points over the next three to five years. But analysts said Arconic faces tough competition from a rival able to generate more economies of scale.

"There's room for margin improvement, but it's not necessarily going to be at Precision Castparts' level," said Josh Sullivan, an analyst for brokerage Seaport Global Securities LLC.

Chevron's Tax Strategy Faces Potential Crackdown

BY BRADLEY OLSON AND ROBB M. STEWART

A contentious tax dispute between Australia and **Chevron** Corp. could cost the company billions of dollars and open a new front in global efforts to crack down on the aggressive tax strategies used by many multinational firms.

The case deals with Chevron's practice of financing its Australian operations by providing loans to its in-country subsidiary at interest rates much higher than market benchmarks, even though the company pays less to raise capital. The arrangement boosts the Australian unit's costs, in turn reducing taxable profit. In some cases, the difference in rates was almost 7 percentage points, according to reports released as part of a court case in Australia.

Chevron, which says its tax strategies are legal, last month lost an appeal of a 2015 ruling in favor of the Australian Taxation Office and said Friday that it is planning an appeal to the country's highest court.

The case is limited to Chevron's business dealings in Australia, and means the company owes a tax bill of about $250 million, including penalties, for the tax years from 2004 to 2008. But the ruling could cost Chevron far more if the same principles are applied to the company's massive natural-gas export projects in the country, which it and several partners have spent more than $80 billion since 2009 to build. Australia's tax office is auditing Chevron over similar issues during that later period.

Should the same principles apply in more recent years, Chevron's tax bill could jump by about $150 million to $300 million a year, according to a Wall Street Journal analysis of company interest rates in both jurisdictions. Over a decade, that would amount to as much as $3 billion, although the exact figure would depend on a number of factors, including oil and natural-gas prices and how long Chevron takes to repay the loans.


CHEVRON
Liquefied natural gas from Australian Chevron project is shipped.

"There's an awful lot at stake with this ruling, not just for Chevron but for any intercompany lending in Australia and, more broadly, around the globe," Pat Yarrington, Chevron's chief financial officer, told investors in a conference call last month. "If the ruling stands, it's certainly going to affect any future investment in Australia."

The stakes go beyond Chevron. Regulators in the U.S., European Union and elsewhere have cracked down on what tax professionals call an aggressive use of transfer pricing—setting payments to subsidiaries for services in order to shift profits to low-tax jurisdictions and expenses to high-tax areas. Such practices can save billions of dollars across industries, tax experts say.

But several experts said this was the first tax ruling on this scale that they could recall involving the interest rates an international company charges to a subsidiary.

Previous cases, which have involved corporations including Coca-Cola Co., Facebook Inc. and Starbucks Corp., centered on how companies sell assets to subsidiaries or charge them for licensing fees, royalties or other goods. Those disputes have often hinged on the value of whatever is being sold to a subsidiary, which can be hard to determine in the case of unique items such as the formula for a beverage or another proprietary business matter.

Examining loans and interest charges to subsidiaries could prove simpler for investigators because of the relative transparency associated with interest-rate benchmarks, tax professionals said. "Interest rates on loans are a prime candidate for transfer-pricing scrutiny," said Robert Willens, an independent tax adviser.

Australia's tax office has been aggressive in its scrutiny of global corporations and is auditing Apple Inc., Google parent Alphabet Inc. and Microsoft Corp. Those audits have been linked to where the companies book revenue. Company representatives have said their tax practices are legal in Australia.

With Chevron, the Australia tax office has zeroed in on the use of what it believes are higher-than-market interest rates to reduce in-country profits, as well as the costs of shipping goods, both items of particular import to Australia's newfound status as a natural-gas exporting superpower. The U.S. is also weighing limits to tax benefits from interest payments, according to one of the tax overhaul packages being considered by Congress.

Hack Is Tied to Shadowy Group

By Timothy W. Martin

A group linked to North Korea is highly likely behind this month's global ransomware assault, though the attack more closely resembles the behavior of a crime ring than a government-orchestrated campaign, a cybersecurity researcher said.

Cybersecurity firm **Symantec** Corp. said in a blog post late Monday that the WannaCry ransomware carried "strong links" to Lazarus, a group security experts suspect was behind last year's theft of $81 million from the Bangladesh central bank and a 2014 hack of **Sony Pictures Entertainment**. U.S. officials have said they believe North Korea orchestrated the Sony attack—which North Korea has denied—and federal prosecutors are building cases that would accuse Pyongyang of involvement in the Bangladesh heist.

Cybersecurity researchers, including **Alphabet** Inc.'s Google unit, **Kaspersky Lab** ZAO and Comae Technologies, had previously drawn parallels between a variant of WannaCry and code used in previous attacks attributed to Lazarus. But those initial reports were cautious about drawing deeper conclusions about how the digital clues related to Lazarus or North Korea.

Little is known about Lazarus, though cybersecurity researchers say the group has been active since 2009. Its initial efforts were focused on Asia, but the group has begun targeting global banks.

Symantec's new analysis showed "substantial commonalities" with prior Lazarus attacks and WannaCry's tools and techniques, as well as network infrastructure used in the attack. That makes it "highly likely that Lazarus was behind the spread of WannaCry," Symantec said. There was also a series of smaller attacks using the WannaCry software in February, March and April, before a widespread assault this month that hit computer networks around the world.

Symantec didn't address whether North Korea was directly involved with the latest WannaCry assault. Cybersecurity experts have said the code in question could have been copied by various hackers, meaning the WannaCry malware could have originated from groups other than Lazarus. And even if Lazarus were the culprit, the group could have unleashed the malware without North Korean orders, they say. It is unclear who leads or funds Lazarus.

Lazarus has been linked with North Korea in past cyberattacks.

North Korea's official state media on Monday denied that Pyongyang had a hand in the WannaCry attack, lambasting South Korean press reports suggesting North Korean involvement as "misinformation" and a "dirty and despicable smear campaign."

The WannaCry attack, which began on May 12, ultimately infected more than 200,000 computers in more than 100 countries. The malware worm exploited vulnerabilities in Microsoft Corp.'s Windows systems, attacking machines that didn't have up-to-date security patches.

That Windows exploit was made public in April, when a shadowy hacking group released documents and hacking tools it says it stole from the U.S. National Security Agency. The leak of the Windows vulnerability "was what allowed the attackers to turn WannaCry into a far more potent threat," Symantec said. Microsoft had issued a patch for the vulnerability on March 14 but not all computers had the update.

Security researchers say nation-state cyberattacks tend to target foreign intelligence, though North Korea has been suspected of attacks on banks.

—Robert McMillan contributed to this article.

Facebook Tests an Ad-Sales Tool

Product would help media companies sell video advertising on their own websites

By Jack Marshall

MEG ROUSSOS/BLOOMBERG NEWS

Facebook's new offering, called Audience Direct, will invite publishers to list video ad inventory for sale from across their properties.

Facebook is testing a new tool designed to help media companies sell video advertising on their own websites, apps and other digital properties in a more automated fashion, the company said Tuesday.

The new ad offering, called Audience Direct, will invite publishers to list video ad inventory for sale from across their properties, and to specify pricing.

Marketers will then have the ability to log on to the system and to purchase ad space from specific publishers on a self-service basis, potentially streamlining the buying and selling process for both parties.

Crucially, marketers can also specify which types of users they wish to display ads to, based on Facebook's mountain of user data. For example, an advertiser might purchase video ads on a specific TV network's website or app, but targeted only to women in a specific city.

Video publishers including Hearst, A+E Networks and **Scripps Networks Interactive** are currently testing the system with their advertising clients, according to Facebook. It is unclear how much ad inventory they will make available.

Business terms are still evolving, but it is likely Facebook will take a cut of revenue from the transactions it helps facilitate. That could be a welcome revenue stream for the social network as it begins to reach capacity in the number of ads it can squeeze into users' news feeds.

The move comes as Facebook is intensifying its push into video. Separately, the company is working to license TV-like original programming and sports rights, to be featured in a video tab separate from users' feeds. Facebook is also beginning to introduce mid-roll advertising within videos across its platform.

Combined, all those efforts could help the company win a bigger slice of a U.S. digital video ad market that touched $10 billion last year, according to eMarketer.

Facebook believes its new tool can streamline and modernize the labor-intensive ad-buying process. Currently, ad sellers and buyers often negotiate and place orders in a more manual fashion, including via phone, email and even fax machine.

"We've heard from video publishers that today their existing business is mainly direct-sold," said Facebook's vice president of publisher solutions, Brian Boland. "That business has some opportunities and challenges as it moves to digital."

Various other advertising technology companies provide similar sales tools for publishers, which are often referred to as "programmatic direct" or "automated guaranteed" technologies.

But Facebook is betting that the addition of its powerful targeting and tracking capabilities will make its offering more attractive for marketers, and potentially more lucrative and efficient for publishers.

Mr. Boland said the Audience Direct tool will function separately from Facebook's existing Audience Network, a product that allows marketers to target specific groups of users across a range of websites and properties.

By contrast, Audience Direct is designed to broker deals between marketers and individual media properties in a transparent fashion.

"If you're an advertiser, you can buy from the Audience Network and reach audiences irrespective of the content they're on. But some marketers do want to buy specific publishers because context is important to them," Mr. Boland said.

Marketers have been especially concerned lately about their online ads showing up alongside objectionable content. But Mr. Boland said Audience Direct isn't specifically designed to help alleviate those worries. Rather, it was designed to cater to the needs of publishers looking for technology to aid their sales process, he said.

Man vs. AlphaGo Match: Fans Lost

By Liza Lin And Alyssa Abkowitz

WUZHEN, China—The event was billed as a battle pitting man against machine. Yet the rematch between the world champion in the ancient strategy game of Go, Ke Jie of China, and artificial-intelligence player AlphaGo also offered **Alphabet** Inc.'s **Google**, the machine's owner, the chance to raise its profile in China seven years after it abandoned its search business here.

However, as the first game began Tuesday, there was one hitch: Chinese audiences were largely unable to watch the live stream of the event on Alphabet's Google and **YouTube** websites, both of which have been blocked in the country since 2010 after the U.S. company refused to submit to government censorship.

On social media, Chinese Go fans expressed disappointment that the matches weren't live-streamed on sites they could view without using virtual private networks, or VPNs, that can circumvent the country's strict internet filters, known as the Great Firewall.

A large entourage of Alphabet officials are here for the five-day event, including Eric Schmidt, the company's executive chairman. But they were hard-pressed to explain the event's lack of domestically accessible streaming, which has become ubiquitous in China.

"There is a lot of media interest so I'm hoping people will get to see this on various channels, however they need to do that," said Demis Hassabis, the chief executive and a co-founder of DeepMind, the Google subsidiary that created AlphaGo.

There were originally plans to stream the event live in China, but they fell through for reasons that weren't immediately clear, according to people with knowledge of the event.

One popular internet portal, Sohu.com, declined to say why it didn't live-stream the match. A representative said the site was still devoting extensive "words and pictures" to the event.

Shaun Rein, the founder of China Market Research Group, called it a "missed opportunity" for Google to build cachet in China, given the buzz around the game and the fact that people under the age of 30 are avid consumers of live-streaming video here.

Go was invented around 2,500 years ago in China. The rules are simple: Players take turns placing black and white stones on a grid, seeking to capture patches of territory by surrounding them. However, the game has so many possible moves that programming a computer to take on a human opponent had long been one of the biggest challenges in artificial intelligence.

Last year, AlphaGo beat South Korea's top player in a match that was streamed online and watched by an estimated 200 million viewers, according to DeepMind's website.

The match between 19-year-old Mr. Ke and AlphaGo was the first of a series of three games that is scheduled to end Saturday. Mr. Ke stands to win about $1.5 million if he can beat AlphaGo, which previously bested him in a set of games early this year.

Tuesday's game was watched by hundreds in a conference center in the eastern Chinese city of Wuzhen. Mr. Ke started the match calmly, playing moves similar to AlphaGo's strategy in the past and pensively fingering his black playing beads before placing them on the board.

Still, as the match progressed and as AlphaGo's attacks intensified, he cupped his chin with his palms and stared intently at the board.

More than four hours later, the game was over. AlphaGo had narrowly won the game by half a point.

CHINATOPIX/ASSOCIATED PRESS

Go player Ke Jie, left, watches Tuesday as a game move is made on behalf of Google's AlphaGo.

Apple to Pay Nokia as Part of Truce

By Dominic Chopping And Sam Schechner

Apple Inc. and **Nokia** Corp. settled dueling lawsuits over what Apple should pay for intellectual property used in its iPhone, a surprisingly quick end to what analysts had said could have been years of litigation.

The companies didn't disclose financial terms, but said Tuesday that Apple has agreed to make an upfront cash payment to Nokia, with additional payments over the term of the "multiyear" deal.

The companies also said that Apple will resume selling Nokia's digital health products—which include Withings-branded connected objects—in Apple retail and online stores. Nokia has said it is devoting considerable investment in that product line.

The quick resolution to the deal surprised patent experts who had been expecting a drawn-out fight over multiple countries. The deal could help cash flow and product sales for Nokia.

Analysts said the agreement frees up legal resources for Apple, which is locked in an intensifying patent fight with Qualcomm Inc. over how much Apple should pay for intellectual property used in Apple products.

"It sounds like business considerations other than patents played a role here," said Florian Mueller, an independent intellectual property analyst.

He said: "This deal should allow Apple to focus on the dispute with Qualcomm, which is economically and strategically much bigger."

At the end of last year, Nokia confirmed it had filed actions against Apple in 11 countries in total, saying the U.S. company violated 40 of its patents covering technologies such as display, user interface, software, antenna, chipsets and video coding. At the same time, Apple filed a suit in the U.S. District Court for the Northern District of California, arguing that Nokia excluded some patents from a 2011 agreement and transferred them to third-party companies "to be used for extorting excessive royalties" from Apple.

It asked the court to award damages and rule that Nokia breached its contract.

UBER

Continued from page B1

for the fifth time since September and would refund some marketers' money.

Uber is grappling with a number of controversies, including investigating charges of sexual harassment and sexism by a former worker, contesting a lawsuit from Google parent Alphabet Inc. alleging theft of trade secrets and facing potential two criminal probes into its operations. The company is expected to soon release results of an internal investigation into its workplace culture and name a deputy for its pugnacious chief executive, Travis Kalanick.

The Independent Drivers Guild, which represents ride-hailing workers in New York and has been pressing for benefits like a tipping option, criticized Uber's gaffe. "This is exactly why we have been calling for industrywide pay protections to stop the exploitation of New York's drivers once and for all," said IDG founder Jim Conigliaro Jr.

The accounting error marks the latest turn in the company's contentious relationship with its 1.5 million contract drivers, many of whom have fought for greater benefits and wages, including through lawsuits and union affiliations. Uber this year vowed to focus more attention on retaining its drivers and boosting their wages through improvements to its routing software, rating systems and other changes.

But in January, Uber agreed to refund drivers a total of about $20 million to resolve Federal Trade Commission allegations that it exaggerated the amount of money the workers could earn in nearly 20 cities. Then in March, Uber admitted it erroneously collected its commission from black-car drivers in Philadelphia at a 25% rate instead of 20% since August 2015. The company refunded some $4.3 million in wages, including interest.

Together, the refunds are a fraction of the $6.5 billion in revenue Uber generated last year, but they threaten to erode the trust of drivers who are the lifeblood of the ride-hailing service.

Adding to the pay issues, Uber last year rolled out a new fare system called upfront pricing, a guaranteed price for riders based on the software's estimate of time, distance and other factors. But Uber calculates drivers' pay based on actual miles and minutes, which sometimes leads to a gap in rates that some drivers have complained leaves them shortchanged.

Facing driver pushback, Uber recently devised a new receipt that more clearly breaks out Uber's take and customers' fares. As part of that review, Uber said, it uncovered its mistake in New York City.

Uber, valued by investors at $68 billion, had an opportunity to fix the problem in New York City sooner. A lawsuit filed by the New York Taxi Workers Alliance in the Southern District of New York last June contesting the classification of drivers as contractors noted the accounting discrepancy.

Two drivers won the right to some benefits typically reserved for employees of Uber as a result of the suit.

Trips to Home Office Boost Projects

BY JOANN S. LUBLIN

How do far-flung employees win support for their projects from bosses at company headquarters? Well-timed travel may be the key.

A new analysis of business trips by 238 India-based inventors to their employer in the U.S. found those staffers were twice as likely to get the idea patented if they visited headquarters just before or during the Fortune 50 software concern's fiscal fourth quarter. That is when product managers were eager to finish spending their annual budgets. The study didn't identify the firm.

Multinational companies with research centers far from their home countries don't always see significant payoffs from their investment because businesses lack efficient ways to fund innovative projects at those facilities, says Prithwiraj "Raj" Choudhury, an assistant professor at Harvard Business School who conducted the research.

Study finds 'distant inventors lose out' when they can't make a well-timed pitch.

"Distant inventors lose out because they are not face to face at the right time with corporate decision makers," Mr. Choudhury explains.

Visiting inventors tracked for his study needed to confer informally with product managers at headquarters in order to stoke interest in innovative projects.

"It's like a beauty contest for patentable ideas," one inventor told the researcher. Inventors had their best chance to win funding during April, the initial month of their employer's fiscal fourth quarter, because product managers "risked losing the unspent funds the following year," according to the research paper, which Organization Science published this spring.

The company now encourages U.S. product managers to visit its India R&D facility ahead of budget decisions, though there still is no formal mechanism, Mr. Choudhury says.

Cisco Systems Inc. takes a different approach. The Silicon Valley company gives its Globalization Center East in Bangalore, India, millions of dollars a year to spend on research, a company spokeswoman says. Some of the nearly 10,000 center staffers designed the ASR 901, network equipment for cellphone carriers that has become one of Cisco's fastest-selling products since its 2012 launch, she adds.

SIMON SIMARD FOR THE WALL STREET JOURNAL (2)

Teenage employees at a Roche Bros. supermarket in Millis, Mass. Lately, the chain has had to compete with summer-enrichment programs or extracurricular activities.

Teens Miss Out on Summer Jobs

A struggling retail sector isn't the employer it once was; plus, teenagers themselves are forgoing work

BY IMANI MOISE

This summer, plenty of teens will be working at summer camps or taking enrichment courses. But few will be folding apparel or stocking shelves at the mall.

A retail-industry shakeout has made hourly jobs at chains like **Gap** Inc. and **Abercrombie & Fitch** Co. hard to come by this spring. A forecast from outplacement firm **Challenger, Gray & Christmas** Inc. suggests that the creation of retail jobs, which have typically accounted for a quarter of teenage employment, won't pick up until back-to-school shopping gains steam in late July.

So far this year, retailers have announced plans to close thousands of stores, resulting in the loss of tens of thousands of hourly wage jobs. For teenage job seekers, that means getting more creative with the job search—or staying out of the labor market entirely.

Though the numbers of working teens has risen slightly in the last few years, overall teen employment has steadily declined for nearly 40 years, according to the U.S. Bureau of Labor Statistics. The rate of teen participation in the labor force during the month of July peaked in 1978 at 72%, falling to 43% last year.

The BLS links the decline to increased enrollment in summer school and heightened emphasis on extracurricular activities. In the bureau's most recent survey, less than 9% of teens who didn't have a job said they were interested in finding one.

The trend is setting off alarm bells for many who believe that teens are missing out on opportunities to learn the soft skills needed for their adult careers.

Hoping to save up money for a car, Danei Wesley applied for summer jobs at Wal-Mart, Forever 21 and Charlotte Russe stores near her hometown of Gary, Ind.

The 18-year-old, a rising sophomore at Indiana University Bloomington, followed up on each of her applications online, by phone or even in person, but was told in each case the position was already filled.

Looking closer to home has proven successful for Ms. Wesley. A member of her church offered her a job for $8 an hour at an Italian-ice store, and not long after, she found another job through the father of a cheer-squad teammate, tutoring children in math and science for $9 an hour.

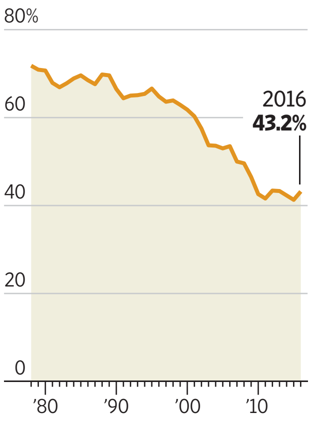
Large employers often assume teens lack the punctuality and professionalism needed on the job, said Nancy Snyder, chief executive of Commonwealth Corp., a Massachusetts-based nonprofit that helps find employment for teens. Ms. Snyder recommends that young job seekers follow Ms. Wesley's lead and try grocery stores or local mom-and-pop stores.

"Main Street businesses' hiring practices change with the economy," she said. "During the recession, they could hire more adults and probably did so. As the economy has recovered and the labor market has tightened, they are having a harder time finding adults and, therefore, more open to hiring teens."

In some cases, companies are struggling to attract the teen workers they need.

Not Working

Rate of teenage participation in the labor force, July of each year



Source: Labor Department
THE WALL STREET JOURNAL.

Roche Bros. Inc., a regional supermarket chain in Massachusetts, is well known for hiring teens and starts its summer hiring process in March, months before school lets out. Lately, the chain has had to compete with summer enrichment programs or extracurricular activities like sports and clubs.

Teens comprise 25% of the grocery chain's workforce. John Melo, the company's vice president of human resources, said the number of job applications from teens has gone down slightly in the last decade. This summer, the supermarket hired 229 teens across its 20 locations to fill seasonal needs in Cape Cod and other popular summer destinations.

Tim Ryan, U.S. chief executive for accounting and consulting firm PricewaterhouseCoopers LLP, got his first job bagging groceries at a Roche Bros. store when he was 14. He stayed on for 10 years, stocking shelves and ringing up customers, and even worked weekends at the store during his first two years at PwC.

Messrs. Ryan and Melo note that entry-level positions like those at Roche Bros. are important for learning the ropes of professional life.

"There's a mentality that you want to build your resume for college, which is good," said Mr. Melo. "There are also a lot of schools that place a high value on work ethic."

BUSINESS WATCH

TATA MOTORS

Profit Tumbles 17% As Revenue Slips

Tata Motors Ltd. on Tuesday reported a 17% decline in profit as its commercial vehicle sales took a hit from the government's crackdown on cash and stricter emission rules.

Consolidated profit at the Mumbai-based parent of Jaguar Land Rover Automotive PLC fell to 43.36 billion rupees ($672 million) during the three months ended March 31, from 52.11 billion rupees a year earlier. That was above the 26.95 billion rupees consensus estimate in a Thomson Reuters survey.

Consolidated revenue fell 3% to 787.47 billion rupees.

—Anant Vijay Kala

SEARS HOLDINGS

Retailer Pushes Back Debt Payments

Sears Holdings Corp. said Tuesday that it had reached an agreement to extend the maturities for some of its debt.

Sears said it would pay $100 million of a $500 million loan at the original maturity in July and would extend the maturity of the rest of the loan until January. The loan is held by Bill Gates's Cascade Investment LLC and by companies controlled by Edward Lampert, Sears's chief executive and controlling shareholder.

In March, Sears raised doubts about its ability to keep operating after seven years of losses.

Sears also said Tuesday that it would transfer pension liabilities to an insurance company, **Metropolitan Life Insurance** Co.

Sears said it is working to reduce its debt and pension obligations by $1.5 billion during the year through improving profitability, asset sales and capital management.

In afternoon trading Tuesday, shares of Sears were down seven cents to $7.79

—Austen Hufford

MERCK

Keytruda Receives New FDA Approval

The U.S. Food and Drug Administration on Tuesday approved Merck & Co.'s Keytruda drug to treat tumors with a certain genetic defect—the first time the agency has cleared a cancer drug for a use not tied to the site of a tumor.

The Food and Drug Administration approved Keytruda to treat advanced solid tumors with genetic defects known as "microsatellite instability" or "mismatch repair" deficiencies.

A study showed Keytruda shrank tumors in a significant number of patients with colorectal and 14 other cancer types that had the genetic defect.

Merck's Keytruda, which works by harnessing the body's immune system to attack tumors, has previously been approved to treat several site-specific tumors, including those of the skin and lung.

—Peter Loftus

Morgan Stanley Curbs Broker Recruiting

Memo shows firm is joining rivals in pulling back from poaching of expensive talent

By Michael Wursthorn

Morgan Stanley will curtail its recruiting of veteran brokers, joining other big firms on Wall Street that are no longer willing to gorge on the pricey practice of paying top dollar to poach talent.

The New York firm told brokerage managers on Tuesday that it would "significantly reduce experienced adviser recruiting" in an effort to tamp down those costs, while spending more on supporting existing brokers and investments in new technology, according to a memo from wealth-management heads Shelley O'Connor and Andy Saperstein that was viewed by The Wall Street Journal.

Morgan Stanley is the latest brokerage to say it wants to cut back its recruitment activities, which usually involved paying brokers six- or seven-figure signing bonuses, Wall Street's main mechanism of attracting brokers, assets and revenue.

Such bonuses were structured as loans forgiven over as long as eight or nine years, with brokers initially getting paid up to 150% of the annual revenue they generated off fees and commissions. Such deals usually included back-end portions that brokers would earn after hitting certain asset and revenue targets over the life of the deal—an arrangement that had become problematic under new retirement rules set to take effect next month since they could be perceived as a conflict of interest. Brokers who changed firms before the deal's term ended were usually forced to pay back a remaining portion.

Executives bemoaned the giving of signing bonuses, calling it a 'zero-sum game.'

Executives had bemoaned the practice for years as costly and called it a "zero-sum game" among the four main brokerages—Merrill Lynch, Morgan Stanley, UBS Group AG and Wells Fargo & Co.—as they routinely traded brokers with one another. Still, brokerage executives viewed it as a necessary pipeline for asset and revenue growth.

The problem, recruiters say, is that brokerages were hesitant to pull back from recruiting if their rivals wouldn't. That was until UBS Group said last year that it would reduce by 40% the number of brokers it recruited annually.

Following UBS's lead, Merrill this month told some executives that it would stop all recruiting after June 1 as it developed a new incentive package aimed at courting the industry's most valuable free agents, the Journal previously reported.

Morgan Stanley will continue to honor recruitment agreements it has with brokers through June 16 and have a start date no later than Sept. 1, according to the memo to managers. In the meantime, Morgan Stanley is developing new recruiting policies that will be revealed in the coming weeks, the memo added.

The money Morgan Stanley saves from its recruiting pullback will be funneled into a series of investments aimed at encouraging the firm's roughly 15,700 brokers to attract more client assets and revenue, similar to changes made in the wake of decisions by UBS and Merrill. That includes hiring hundreds of tech-savvy employees known as digital adviser associates who will help train Morgan Stanley's brokers on new digital tools, including a robo adviser that will be rolled out this year to help brokers attract and keep younger clients, according to people familiar with the matter.

Still, even though brokerages have gained the confidence to pause their recruitment activities, those decisions may not last long, recruiters say, especially as firms such as Raymond James Financial Inc., the U.S. brokerage arm of the Royal Bank of Canada and Edward Jones continue to aggressively hire brokers from rivals.

"Firms start to coast when they stop recruiting," said Rick Peterson, president of a brokerage recruiting firm that bears his name. "Six or eight months later sometimes, there's a managers' meeting and leadership gets input from the field that scares them. Then they say it's time to get back out into hiring mode again."

Humans Still Rule Machines in Insurance

By Leslie Scism

THE QUANTS

Machines and their masters are the undisputed new kings of Wall Street

American International Group Inc. uses one of the industry's leading algorithmic models to determine how much companies should pay for insurance. It just doesn't trust what the model computes on its own.

As part of an approach it started rolling out last year, the global insurance conglomerate pairs its models with human underwriters. The approach reflects the company's belief that human judgment is still needed to size up most of the midsize to large businesses it insures. AIG even has a nickname for underwriters who keep the same price as the model every time: "flat liners."

Insurers such as AIG are among the original financial quants, from tracking ships to derive marine-insurance prices to using quantitative analysis to determine the likelihood of automobiles crashing, hurricanes wiping out beach towns and juries finding doctors liable for malpractice.

Now, promising new techniques including algorithms can help carriers tap into a growing array of detail to price risk: sensors in factories, devices worn by construction workers, employee-sentiment data and satellite imagery, to name a few.

AIG's commercial-insurance unit alone pays $75 million each business day in claims. The insurer is a major seller of policies that cover such diverse things as the cost of injured workers; wrecks of corporate-owned vehicles; fire and other damage to premises; hacking;, contaminated products and offshore drilling rigs.

When an underwriter "turns off his or her brain, we're done," said Madhu Tadikonda, chief underwriter for AIG's commercial unit. "The models by themselves are not perfect" for many of the risks posed by policyholders.

Still, in an example of how data analysis can make a difference, AIG recently informed a hotel client that it should mop its floors at 3 a.m. to reduce slips and falls. It also has advised clients that employees with carpal tunnel syndrome are at high risk of repeat injuries, so the customary push to quickly get a person back on the job can backfire.

Underwriters such as Matthew Lebron call on business clients keeping an eye out for characteristics that distinguish them, "so I can make the judgment call to go upward or downward" from the computer-generated average price. Among questions he asks: Is a business up to snuff with industry safety standards? Is it working with AIG's loss-control program to try to minimize the risk of claims?

"There's definitely an element of human touch," said Brett Herrman, who works as a "technical underwriter" at AIG, running the model when colleagues go out in the field. "We're diving in on detail and collaborating as a team."

The need to pair with humans hasn't stopped the arms race for data and innovative technology in the industry.

In a recent survey by consulting firm **Accenture**, 37% of about 550 insurance executives said they plan to invest "extensively" in machine learning over the next three years, and an additional 44% anticipate "moderate" investment.

More "insurers are doubling down on their efforts to combine human intelligence with the fast, effective decision-making capabilities of machine intelligence," said John Cusano, Accenture's global head of insurance.

Progressive Corp. is among the elite few with successes in hand. Back in the 1990s, the car insurer identified correlations between credit histories and claims, testing a hypothesis that financially responsible people are more cautious drivers. Previously, insurers relied on underwriters to place applicants within broad categories such as age, gender and car type.

More recently, insurers have begun using algorithms to issue policies to small to midsize businesses online. They can draw on data such as construction features of a business's premises, proximity to fire hydrants and code violations.

Berkshire Hathaway Inc. has such an offering, and last year AIG joined with **Hamilton Insurance Group** Ltd. and an affiliate of quantitative hedge fund **Two Sigma Investments** LP in an online venture.

Analysts and executives say algorithms work well for standardized policies, such as for homes, cars and small businesses. Data scientists can feed millions of claims into computers to find patterns, and the risks are similar enough that a premium rate spit out by the model can be trusted.

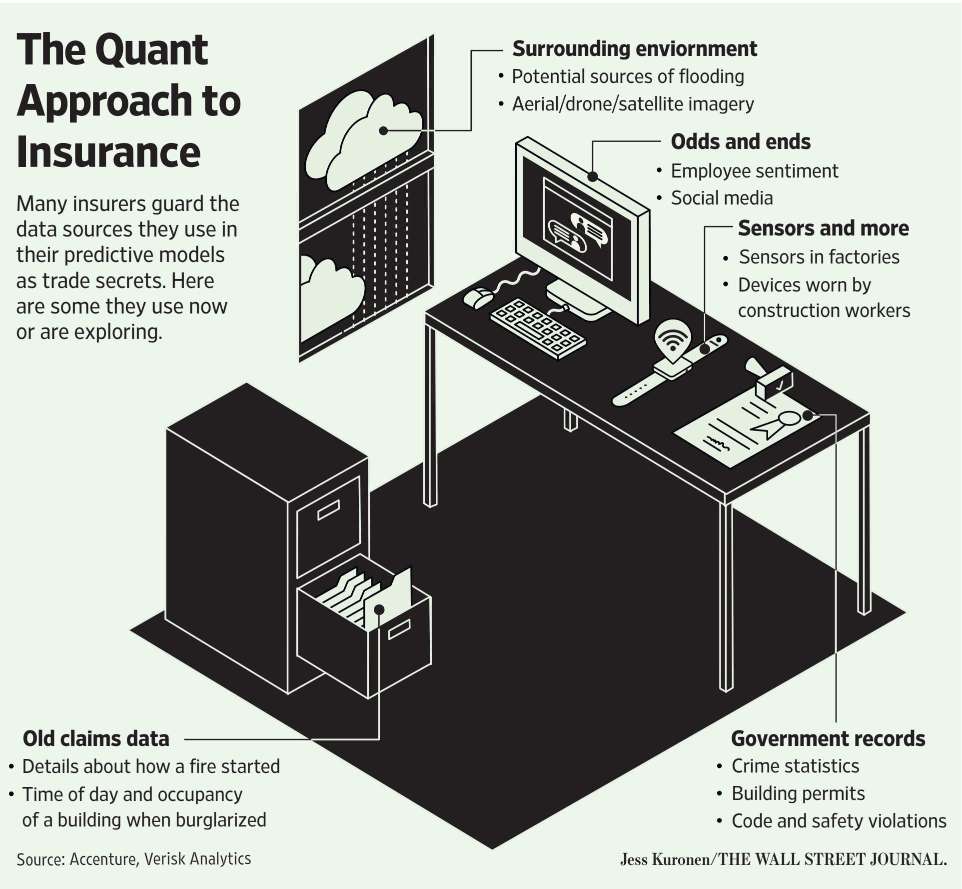
But risk is increasingly nuanced the bigger the business. Policies often are tailored, and claims infrequent, so there is less information to work with. And, mistakes can be costly.

Former AIG Chief Executive Peter Hancock has been one of the industry's biggest champions of data analytics, frequently narrating how, about six years ago, researchers at Johns Hopkins Bloomberg School of Public Health studied millions of AIG's old workers' compensation medical records and identified problems from overuse of opiates. Now, AIG reaches out to a patient's medical provider early to suggest nonaddictive treatment.

Mr. Hancock was succeeded last week by Brian Duperreault, formerly Hamilton's CEO and another leading proponent of data science. As part of his hiring, AIG said it would work with Two Sigma to develop an estimated $250 million "next generation insurance platform" to accelerate its use of data science.

Sitting at his desk with photographs from **Apple** Inc.'s 1990s' "Think Different" marketing campaign on the wall behind him, Mr. Tadikonda said he prefers to see many policies priced both above and below the model-driven average price.

He said there are times the modeling team will call an underwriter and say, "Hey, what's going on? You are down 25%" against what the model recommends. His favorite response from an underwriter: "You're damn right."



No Delay For U.S. Fiduciary Rule

By Lisa Beilfuss

The Labor Department's landmark retirement-savings rule is set to take effect in 2½ weeks, a move that underscores the difficulty the Trump administration is encountering in undoing Obama-era financial regulations.

In a Wall Street Journal opinion piece published late Monday, Labor Department Secretary Alexander Acosta surprised many across the brokerage and insurance industries by not recommending a delay in the rule beyond June 9.

"The Labor Department has concluded that it is necessary to seek additional public input on the entire Fiduciary Rule, and we will do so," Mr. Acosta wrote. "Some have called for a complete delay of the rule," but after considering the matter, "respect for the rule of law leads us to the conclusion that this date cannot be postponed."

The rule, which requires that stewards of retirement savings act in clients' best interest as opposed to the lower "suitability" standard, takes partial effect on June 9. Brokers and insurance agents don't need to comply with certain parts of the regulation until Jan. 1.

Still, Mr. Acosta's decision against further delaying the regulation's applicability date is a setback for critics in the financial-services industry. Leaving the June 9 deadline in place ensures that firms and advisers will need to be at least partially compliant and communicate certain changes to clients, effectively making the rule harder to reverse later.

"We are disappointed in this latest development," said the Financial Services Institute, a trade group representing financial advisers.

Advocates of the rule, however, were heartened by the move. Nancy LeaMond, executive vice president at AARP, a group representing the interests of older Americans, called Mr. Acosta's decision a significant victory for retirement savers.

Although it is a longer shot now, the Labor Department's review of the fiduciary rule could still result in significant revisions or even find that a repeal is in order.

In a memorandum to the department shortly after taking office, President Donald Trump specifically asked the department to evaluate the regulation's effects on consumer choice, potential industry disruption, and increased litigation.

In his opinion piece, Mr. Acosta left open the possibility that the review will lead the Labor Department to revise or scrap the fiduciary rule. He acknowledged the Trump administration's commitment to reversing "unnecessary regulations" that eliminate jobs or impose costs that exceed their benefits.

"The Fiduciary Rule as written may not align with President Trump's deregulatory goals," wrote Mr. Acosta.

Aramco IPO Propels Plan to Extend Oil-Cut Pact

By Summer Said, Benoit Faucon and Sarah McFarlane

VIENNA—Saudi Arabia is pushing the OPEC oil cartel and other big producers gathered here this week to extend crude production cuts for a further nine months. The reason: the timing of the blockbuster IPO of **Saudi Arabian Oil** Co., people familiar with the matter said.

The Saudis want higher oil prices well into 2018 to support the initial public offering of their state-owned oil company, Aramco, the people said. The initial offering of 5% of the company is being timed for some time in 2018 and has been billed as the biggest ever, with valuations reaching over $2 trillion.

But the IPO's value will largely be determined by oil prices, which have yet to recover fully from the 2014 price crash.

National oil ministers from OPEC's 13 countries began arriving in Vienna Tuesday and said they were on board with the Saudi plan for a nine-month extension of production cuts agreed to last December.

BANDAR AL-JALOUD/AGENCE FRANCE-PRESSE/GETTY IMAGES

Saudi Prince Mohammed bin Salman unveiled the IPO last year.

That six-month agreement between OPEC and 11 heavyweight producers outside the cartel was meant to drain 2% of global oil production from the market and start bringing supply back in line with demand.

Ecuadorean Energy Minister Carlos Perez said most OPEC members support a nine-month extension of cuts at current levels of about 1.8 million barrels a day. Russia, the largest of the non-OPEC producers in the agreement, has said it supports a nine-month extension.

The ministers meet Thursday to decide.

"We will support the majority," Mr. Perez said.

The price of Brent crude, the international oil benchmark, rose for a fifth day in a row Tuesday, by 0.5% to $54.15 a barrel on optimism about a new production deal.

The Saudis have been trying to push oil higher since January 2016, when prices hit a 12-year low of less than $28. Earlier that month, Saudi Deputy Crown Prince Mohammed bin Salman had announced the IPO.

Saudi officials say they want to get oil prices above $60 a barrel. They need oil prices much higher to balance their war-strained budget, to as much as $80 this year and $75 next year, said Bjarne Schieldrop, analyst at Sweden's SEB bank. "It's hugely important for Mohammed bin Salman," Mr. Schieldrop said. "He cannot slip now. He needs the IPO to be successful as he has a lot at stake. An oil price of $50 will not do it in the longer term."

Russia issued a rare joint statement with Saudi Arabia calling for a nine-month extension last week. Russian President Vladimir Putin is heading into an election in 2018 with a budget strained by low oil prices, said Robert McNally, president of energy consultancy Rapidan Group. "If they abandoned their restraint and returned to an all-out market share policy, prices would plunge into the $30s," Mr. McNally said.

Brent crude will average $57 a barrel this year, reaching $60 in the fourth quarter, according to a poll of 14 investment banks surveyed by The Wall Street Journal in late April. The banks in the Journal survey expect Brent to rise to an average of $62 a barrel next year and $65 a barrel in 2019.

A nine-month agreement would be unusual for OPEC, which generally meets twice a year and makes agreements that last six months.

In addition to helping the Aramco IPO, a longer agreement would reassure the oil market that OPEC is committed to supporting prices. A nine-month agreement would keep OPEC output contained during 2018's winter months, when demand for crude traditionally declines.

Saudi Arabia is OPEC's most influential member, but it doesn't always get what it wants. In 2011, Saudi Arabia wanted OPEC to agree to raise output to make up for Libyan outages. It was thwarted by Iran, which wanted the higher prices caused by Libyan-related shortages. Then Saudi Oil Minister Ali al-Naimi stormed out, calling it the "worst meeting."

Pushing production cuts to help Aramco's IPO is delicate for Saudi Arabia. Not all countries will want to cut output at a time of recovering prices to help the Saudi's public listing.

Banks Help Boost S&P 500

By Akane Otani and Christopher Whittall

Financial stocks lifted the S&P 500 Tuesday, putting it on course for a fourth consecutive session of gains.

U.S. stocks have been resilient in recent months to investors' concerns that political turmoil in Washington could push back the Trump administration's plans for policy changes like tax cuts and fiscal stimulus. A strong corporate earnings season and a largely stable economy are helping major indexes stay buoyant, investors and analysts say.

TUESDAY'S MARKETS

"First-quarter profits were clearly exceptional—not just better than what analysts forecasted—and I think that's the primary reason why this market just keeps driving higher," said Ed Keon, managing director and portfolio manager with QMA, a multiasset manager owned by Prudential Financial.

The Dow Jones Industrial Average rose 43 points, or 0.2%, to 20938 on Tuesday. The S&P 500 added 0.2%, and the Nasdaq Composite edged down less than 0.1%.

In Europe, the Stoxx Europe 600 rose 0.2% to 392.02, led by gains in shares of banks and technology companies, as investors looked past a blast at a concert hall in Manchester, England, late Monday.

Financial stocks in the S&P 500 rose with yields, finishing as the best-performing sector in the broad index for the day. Morgan Stanley shares added 2%, Huntington Bancshares gained 2% and Goldman Sachs Group rose 1.7% by late afternoon.

Government bonds edged lower, with the yield on the 10-year U.S. Treasury note rising to 2.285% from 2.254% on Monday, according to Tradeweb. Yields rise as bond prices fall.

Consumer discretionary shares fell 0.5% in the S&P 500 by late afternoon, dragged lower by shares of auto-parts companies. Shares of AutoZone lost 11% after the company reported a slide in same-store sales and earnings that missed analysts' expectations.

Looking ahead, investors are watching for the release of minutes of the U.S. Federal Reserve's May meeting on Wednesday.

Some investors are speculating that the central bank could hold interest rates steady at its June meeting after the recent decline in the dollar and Treasury yields. But others say the Fed is on track to continue raising rates.

"We think they're going to go in June. There seems [to be] no reason for them not to—the economy seems strong," said Mike Bell, global market strategist at **J.P. Morgan Asset Management.**

The British pound was 0.3% lower against the U.S. dollar, while some initial buying of havens such as government bonds from earlier in the session eased.

Earlier in Asia, the Shanghai Composite Index declined 0.4% and the Shenzhen Composite Index lost 2.1%. Japan's Nikkei Stock Average fell 0.3% and Australia's S&P/ASX 200 declined 0.2%.

DEBT

Continued from page B1

hands of international public institutions. Out of more than €300 billion in government debt, private investors hold only €36 billion of bonds. It's sort of a Catch-22: The market is shallow because there aren't any new bonds, but selling new bonds into a thinly traded market is hard for Greece.

"The market just isn't big enough and there isn't really any issuance," said Patrick O'Donnell, senior investment manager at Aberdeen Asset Management, which means the price on Greek bonds "tends to go one way very quickly."

While new issuance could increase investor confidence, Greek bonds have had false dawns before.

The ability to buy and sell the debt picked up in 2014 after Greece issued $4 billion in bonds, raising hopes that the country could return to global debt markets. But as Greek politics returned to crisis again the following year, liquidity evaporated.

Even then, the €10 billion transacted in 2014, before it fell to €1 billion the next year, is trivial compared with the €630 billion of average transactions in the years leading up to the 2008 financial crisis.

Low volumes expose Greek debt to larger swings as negotiations with international creditors continue. Eurozone nations have locked horns with the International Monetary Fund, which is demanding further debt relief for Greece to participate in new loans.

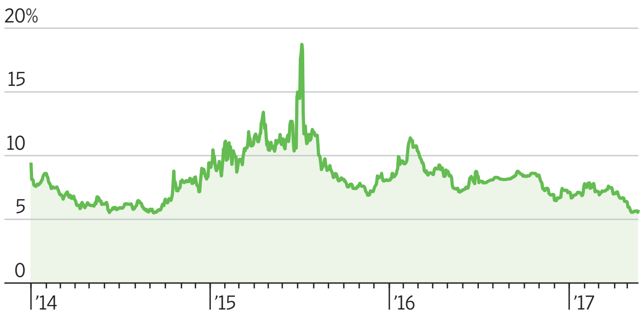
Yet, some analysts think that yields will remain contained as long as expectations remain that a deal will allow the European Central Bank to buy it as part of its stimulus programs.

"The inconclusive Eurogroup meeting should question Greek valuations with yields at postbailout lows, but a larger reversal should not be in store as long as hopes about debt relief and ECB buying linger," said Christoph Rieger, an analyst at German lender Commerzbank AG.

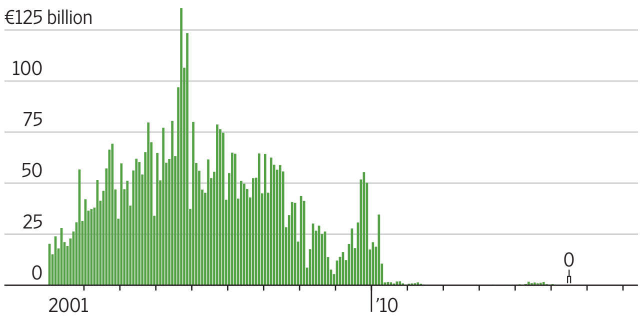
—Christopher Whittall contributed to this article.

Low Interest

Greek bonds are on a roll...
Yields on Greek 10-year government debt, prices move opposite to yields.



...but trading volumes remain a fraction of precrisis levels
Monthly volumes of Greek government bonds traded in the HDAT electronic platform



Sources: Tradeweb (yields); Bank of Greece (volumes)

THE WALL STREET JOURNAL.

BANKING

Chinese Regulator Faces Graft Probe

A high-ranking banking regulator has become the latest Chinese financial figure caught up in President Xi Jinping's long anticorruption campaign.

Yang Jiacai, assistant chairman of the China Banking Regulatory Commission, is under investigation on suspicion of a "serious violation of rules"—a euphemism for corruption—according to a brief statement posted Tuesday on the website of the Central Commission for Discipline Inspection, the ruling Communist Party's antigraft agency.

The banking commission didn't respond to a request to comment. Mr. Yang can't be reached and it is unclear whether he has a lawyer.

The investigation follows a probe of then-top insurance regulator Xiang Junbo, as Beijing sought to unravel tangled investment products and rein in risky insurance policies that feed the swelling shadow-banking sector. Mr. Xiang was dismissed on April 17 for suspected disciplinary violations, according to state news agency Xinhua.

The central government has been tightening the leash on financial regulatory bodies as part of a broad effort to reduce systemic risks and clamp down on irregularities in the banking, insurance and securities sectors.

—Yifan Xie

R3 CEV

Bitcoin Tech Firm Raises $107 Million

R3 CEV, one of many firms trying to capitalize on the technology behind the digital currency bitcoin, said Tuesday that it had raised $107 million from a group of global banks including **Citigroup** Inc. of the U.S., **Société Générale** SA of France, and **Mitsubishi UFJ Financial Group** of Japan.

The fundraising is one of the largest rounds for a firm developing so-called blockchain technology and trails only the $116 million raised by 21 Inc. in 2015. It occurred amid a burst of new interest this spring in bitcoin, alternative cyrptocurrencies and the technology behind them. The price of bitcoin has more than doubled so far this year.

R3, based in New York, is looking to complete another round of fundraising later this year. The firm was launched with a consortium of nine banks in September 2015 and has steadily added consortium members since then, with the group now totaling 80 banks.

—Paul Vigna

MARIO TAMA/GETTY IMAGES

Petróleo Brasileiro issued debt on global markets, and locked in a favorable interest rate.

PETRÓLEO BRASILEIRO

Oil Company Issues $4 Billion in Debt

Brazilian state-controlled oil company **Petróleo Brasileiro** SA said Monday it issued $4 billion in debt on international markets at the lowest interest average interest rate since 2013.

The notes are due 2022, 2027 and 2044, and Petrobras said it intends to use their net proceeds to pay down bonds coming due next year.

Petrobras, the world's most indebted oil company, has nearly $30 billion in debt coming due in 2017 and 2018, including interest and principal.

Monday's bond sale was priced a week ago, which likely helped Petrobras to lock in the favorable interest rate. Since then, allegations of corruption against Brazilian President Michel Temer have called into question the leader's mandate as well as the future of his economic policies, which have aided Petrobras's deleveraging efforts.

—Paul Kiernan

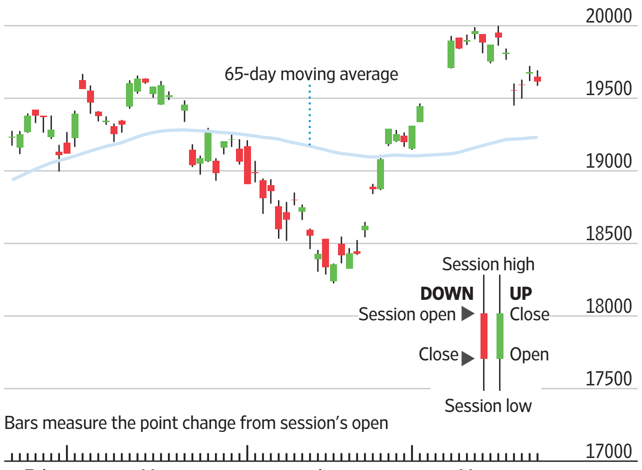
MARKETS DIGEST

Nikkei 225 Index

19613.28 ▼65.00, or 0.33%

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

Year-to-date		▲2.61%
52-wk high/low	19961.55	14952.02
All-time high	38915.87	12/29/89



STOXX 600 Index

392.02 ▲0.88, or 0.22%

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

Year-to-date		▲8.47%
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

2398.42 ▲4.40, or 0.18%

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

	Last	Year ago
Trailing P/E ratio	23.44	23.49
P/E estimate *	18.41	17.51
Dividend yield	1.98	2.20
All-time high:	2402.32, 05/15/17	

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

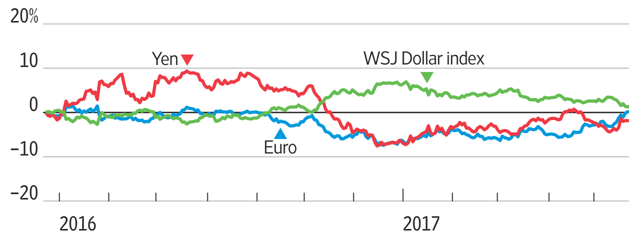
Region/Country	Index	Latest Close	Latest NetChg	Latest % chg	52-Week Range Low	52-Week Range High	YTD % chg
World	**The Global Dow**	2760.50	-0.48	**-0.02**	2193.75	2769.38	9.2
	MSCI EAFE	1885.35	-7.99	**-0.42**	1471.88	1956.39	9.9
	MSCI EM USD	1003.39	-0.27	**-0.03**	691.21	1044.05	26.3
Americas	**DJ Americas**	575.98	1.03	**0.18**	480.90	578.17	6.6
Brazil	**Sao Paulo Bovespa**	62753.31	1079.82	**1.75**	48066.67	69487.58	4.2
Canada	**S&P/TSX Comp**	15480.19	21.73	**0.14**	13609.58	15943.09	1.3
Mexico	**IPC All-Share**	49037.95	94.49	**0.19**	43902.25	50154.33	7.4
Chile	**Santiago IPSA**	3675.15	23.92	**0.66**	2998.64	3786.05	14.0
U.S.	**DJIA**	20937.91	43.08	**0.21**	17063.08	21169.11	5.9
	Nasdaq Composite	6138.71	5.09	**0.08**	4574.25	6170.16	14.0
	S&P 500	2398.42	4.40	**0.18**	1991.68	2405.77	7.1
	CBOE Volatility	10.77	-0.16	**-1.46**	9.56	26.72	-23.3
EMEA	**Stoxx Europe 600**	392.02	0.88	**0.22**	308.75	396.45	8.5
	Stoxx Europe 50	3237.09	4.80	**0.15**	2626.52	3279.71	7.5
Austria	**ATX**	3183.13	-10.45	**-0.33**	1981.93	3198.03	21.6
Belgium	**Bel-20**	3914.82	18.99	**0.49**	3127.94	4055.96	8.6
France	**CAC 40**	5348.16	25.28	**0.47**	3955.98	5442.10	10.0
Germany	**DAX**	12659.15	39.69	**0.31**	9214.10	12841.66	10.3
Greece	**ATG**	783.03	-5.50	**-0.70**	517.10	800.08	21.7
Hungary	**BUX**	34730.94	-144.81	**-0.42**	25126.36	34975.81	8.5
Israel	**Tel Aviv**	1419.18	-2.41	**-0.17**	1372.23	1490.23	-3.5
Italy	**FTSE MIB**	21415.74	97.16	**0.46**	15017.42	21828.77	11.3
Netherlands	**AEX**	528.17	0.32	**0.06**	409.23	537.84	9.3
Poland	**WIG**	60407.70	-617.16	**-1.01**	42812.99	62666.49	16.7
Russia	**RTS Index**	1096.83	13.25	**1.22**	874.88	1196.99	-4.8
Spain	**IBEX 35**	10916.30	122.90	**1.14**	7579.80	11184.40	16.7
Sweden	**SX All Share**	586.68	3.90	**0.67**	443.66	593.34	9.7
Switzerland	**Swiss Market**	9061.76	-23.02	**-0.25**	7475.54	9136.95	10.2
South Africa	**Johannesburg All Share**	54548.91	31.85	**0.06**	48935.90	54716.53	7.7
Turkey	**BIST 100**	97717.48	1317.45	**1.37**	70426.16	97776.33	25.1
U.K.	**FTSE 100**	7485.29	-11.05	**-0.15**	5788.74	7533.70	4.8
Asia-Pacific	**DJ Asia-Pacific TSM**	1591.44	-9.05	**-0.57**	1308.52	1603.06	11.9
Australia	**S&P/ASX 200**	5760.20	-11.00	**-0.19**	5103.30	5956.50	1.7
China	**Shanghai Composite**	3061.95	-13.73	**-0.45**	2815.09	3288.97	-1.3
Hong Kong	**Hang Seng**	25403.15	11.81	**0.05**	19830.43	25403.15	15.5
India	**S&P BSE Sensex**	30365.25	-205.72	**-0.67**	25305.47	30658.77	14.0
Japan	**Nikkei Stock Avg**	19613.28	-65.00	**-0.33**	14952.02	19961.55	2.6
Singapore	**Straits Times**	3222.69	9.12	**0.28**	2729.85	3271.11	11.9
South Korea	**Kospi**	2311.74	7.71	**0.33**	1925.24	2311.74	14.1
Taiwan	**Weighted**	10007.84	10.58	**0.11**	8300.66	10036.82	8.2

Source: SIX Financial Information; WSJ Market Data Group

Currencies

London close on May 23

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



Country/currency	Tue in US$	Tue per US$	US$ vs, YTD chg (%)
Americas			
Argentina peso-a	0.0621	16.1072	**1.5**
Brazil real	0.3052	3.2768	**0.7**
Canada dollar	0.7408	1.3499	**0.4**
Chile peso	0.001484	673.90	**0.6**
Colombia peso	0.0003445	2902.82	**–3.3**
Ecuador US dollar-f	1	1	**unch**
Mexico peso-a	0.0537	18.6293	**–10.2**
Peru sol	0.3046	3.2825	**–2.1**
Uruguay peso-e	0.0355	28.180	**–4.0**
Venezuela bolivar	0.099753	10.02	**0.3**
Asia-Pacific			
Australia dollar	0.7490	1.3351	**–3.8**
China yuan	0.1451	6.8899	**–0.8**
Hong Kong dollar	0.1284	7.7876	**0.4**
India rupee	0.0154	64.8520	**–4.6**
Indonesia rupiah	0.0000752	13303	**–1.6**
Japan yen	0.008955	111.67	**–4.6**
Kazakhstan tenge	0.003209	311.63	**–6.6**
Macau pataca	0.1248	8.0124	**1.2**
Malaysia ringgit-c	0.2329	4.2935	**–4.3**
New Zealand dollar	0.7015	1.4255	**–1.3**
Pakistan rupee	0.0095	104.825	**0.4**
Philippines peso	0.0200	49.883	**0.6**
Singapore dollar	0.7197	1.3894	**–4.0**
South Korea won	0.0008883	1125.80	**–6.8**
Sri Lanka rupee	0.0065445	152.80	**2.9**
Taiwan dollar	0.03318	30.135	**–7.1**
Thailand baht	0.02904	34.430	**–3.9**
Europe			
Bulgaria lev	0.5733	1.7443	**–6.1**
Croatia kuna	0.1507	6.637	**–7.5**
Euro zone euro	1.1208	0.8923	**–6.1**
Czech Rep. koruna-b	0.0424	23.612	**–8.1**
Denmark krone	0.1506	6.6413	**–6.1**
Hungary forint	0.003633	275.23	**–6.5**
Iceland krona	0.009976	100.24	**–11.3**
Norway krone	0.1195	8.3676	**–3.2**
Poland zloty	0.2666	3.7504	**–10.4**
Russia ruble-d	0.01775	56.352	**–8.0**
Sweden krona	0.1150	8.6955	**–4.5**
Switzerland franc	1.0270	0.9737	**–4.4**
Turkey lira	0.2801	3.5701	**1.3**
Ukraine hryvnia	0.0380	26.2887	**–2.9**
U.K. pound	1.2987	0.7700	**–4.9**
Middle East/Africa			
Bahrain dinar	2.6522	0.3771	**–0.03**
Egypt pound-a	0.0554	18.0435	**–0.5**
Israel shekel	0.2782	3.5950	**–6.6**
Kuwait dinar	3.2915	0.3038	**–0.6**
Oman sul rial	2.5972	0.3850	**0.02**
Qatar rial	0.2746	3.641	**0.04**
Saudi Arabia riyal	0.2666	3.7505	**–0.01**
South Africa rand	0.0763	13.0994	**–4.3**

	Close	Net Chg	% Chg	YTD % Chg
WSJ Dollar Index	88.75	0.15	0.17	**–4.51**

Sources: Tullett Prebon, WSJ Market Data Group

Global government bonds

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

Coupon	Country/ Maturity, in years	Yield	Spread Over Treasurys, in basis points Latest	Previous	Month Ago	Year ago	Yield Previous	Month ago	Year ago
5.250	**Australia** 2	**1.614**	**30.7**	33.8	47.8	**74.4**	**1.624**	1.666	**1.645**
4.750	10	**2.456**	**17.4**	24.0	30.1	**46.5**	**2.496**	2.549	**2.301**
3.000	**Belgium** 2	**-0.509**	**-181.7**	-179.5	-171.4	**-138.6**	**-0.508**	-0.525	**-0.485**
0.800	10	**0.773**	**-151.0**	-148.0	-143.8	**-142.2**	**0.775**	0.811	**0.414**
0.000	**France** 2	**-0.443**	**-175.0**	-170.5	-149.1	**-130.1**	**-0.419**	-0.303	**-0.400**
1.000	10	**0.838**	**-144.4**	-140.8	-130.9	**-131.5**	**0.847**	0.939	**0.521**
0.000	**Germany** 2	**-0.671**	**-197.9**	-195.5	-197.9	**-139.6**	**-0.668**	-0.790	**-0.495**
0.250	10	**0.415**	**-186.8**	-185.8	-199.3	**-165.7**	**0.398**	0.255	**0.179**
0.300	**Italy** 2	**-0.240**	**-154.7**	-152.2	-120.0	**-93.4**	**-0.235**	-0.012	**-0.033**
2.200	10	**2.118**	**-16.5**	-12.3	3.2	**-34.2**	**2.133**	2.280	**1.494**
0.100	**Japan** 2	**-0.165**	**-147.2**	-145.1	-140.8	**-113.8**	**-0.164**	-0.220	**-0.237**
0.100	10	**0.045**	**-223.7**	-220.6	-223.2	**-193.5**	**0.050**	0.016	**-0.099**
4.000	**Netherlands** 2	**-0.587**	**-189.4**	-188.6	-186.8	**-141.1**	**-0.599**	-0.679	**-0.510**
0.750	10	**0.610**	**-167.2**	-164.9	-173.8	**-156.8**	**0.606**	0.510	**0.268**
4.750	**Portugal** 2	**0.281**	**-102.7**	-103.8	-79.1	**-67.2**	**0.249**	0.398	**0.229**
4.125	10	**3.155**	**87.2**	87.8	148.4	**124.3**	**3.133**	3.732	**3.079**
2.750	**Spain** 2	**-0.271**	**-157.9**	-156.4	-136.9	**-99.7**	**-0.278**	-0.180	**-0.096**
1.500	10	**1.599**	**-68.3**	-65.1	-55.3	**-24.5**	**1.605**	1.695	**1.591**
4.250	**Sweden** 2	**-0.710**	**-201.7**	-199.3	-186.6	**-134.1**	**-0.707**	-0.677	**-0.440**
1.000	10	**0.530**	**-175.3**	-173.8	-170.2	**-105.1**	**0.518**	0.546	**0.785**
1.750	**U.K.** 2	**0.123**	**-118.5**	-117.1	-108.9	**-44.5**	**0.116**	0.099	**0.456**
4.250	10	**1.085**	**-119.8**	-116.6	-121.3	**-38.4**	**1.090**	1.036	**1.452**
1.250	**U.S.** 2	**1.307**	**...**	...	...	**...**	**1.287**	1.188	**0.901**
2.375	10	**2.283**	**...**	...	...	**...**	**2.256**	2.248	**1.836**

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 5/22/2017

Commodity	Exchange	Last price	One-Day Change Net	One-Day Change Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	370.00	-5.00	-1.33%	393.75	360.75
Soybeans (cents/bu.)	CBOT	949.50	-7.00	-0.73	1,092.50	941.25
Wheat (cents/bu.)	CBOT	429.75	-4.50	-1.04	488.75	416.00
Live cattle (cents/lb.)	CME	121.100	-0.925	-0.76	127.500	99.400
Cocoa ($/ton)	ICE-US	1,996	-39	-1.92	2,270	1,756
Coffee (cents/lb.)	ICE-US	130.25	-0.35	-0.27	161.55	128.65
Sugar (cents/lb.)	ICE-US	15.86	-0.65	-3.94	20.81	15.24
Cotton (cents/lb.)	ICE-US	72.32	-0.69	-0.95	75.72	69.81
Robusta coffee ($/ton)	ICE-EU	1939.00	14.00	0.73%	2,283.00	1,871.00
Copper ($/lb.)	COMEX	2.5980	0.0025	0.10	2.8400	2.4725
Gold ($/troy oz.)	COMEX	1251.60	-9.80	-0.78	1,297.40	1,152.20
Silver ($/troy oz.)	COMEX	17.055	-0.136	-0.79	18.725	16.060
Aluminum ($/mt)*	LME	1,941.50	3.50	0.18	1,972.00	1,688.50
Tin ($/mt)*	LME	20,600.00	265.00	1.30	21,225.00	18,760.00
Copper ($/mt)*	LME	5,695.50	78.00	1.39	6,156.00	5,491.00
Lead ($/mt)*	LME	2,122.00	20.00	0.95	2,445.00	2,022.00
Zinc ($/mt)*	LME	2,645.00	66.00	2.56	2,958.50	2,470.00
Nickel ($/mt)*	LME	9,450.00	245.00	2.66	11,095.00	8,980.00
Rubber (Y.01/ton)	TCE	233.10	5.40	2.37	n.a.	n.a.
Palm oil (MYR/mt)	MDEX	2,617.00	-45.00	-1.69	2,790.00	2,421.00
Crude oil ($/bbl.)	NYMEX	51.47	0.34	0.66	58.15	44.13
NY Harbor ULSD ($/gal.)	NYMEX	1.6133	0.0051	0.32	1.7901	1.3846
RBOB gasoline ($/gal.)	NYMEX	1.6567	-0.0016	-0.10	1.8859	1.4543
Natural gas ($/mmBtu)	NYMEX	3.314	-0.110	-3.21	3.5770	2.8880
Brent crude ($/bbl.)	ICE-EU	54.41	0.30	0.55	60.21	46.98
Gas oil ($/ton)	ICE-EU	479.25	0.75	0.16	529.00	415.75

Sources: SIX Financial Information; WSJ Market Data Group

Cross rates

London close on May 23

	USD	GBP	CHF	JPY	HKD	EUR	CDN	AUD
Australia	1.3351	1.7340	1.3714	0.0120	0.1714	1.4964	0.9891	...
Canada	1.3499	1.7528	1.3864	0.0121	0.1733	1.5125	...	1.0110
Euro	0.8923	1.1588	0.9165	0.0080	0.1146	...	0.6611	0.6684
Hong Kong	7.7876	10.1137	7.9979	0.0697	...	8.7271	5.7692	5.8329
Japan	111.6680	145.0200	114.6400	...	14.3390	125.1300	82.7300	83.6400
Switzerland	0.9737	1.2643	...	0.0087	0.1250	1.0911	0.7213	0.7292
U.K.	0.7700	...	0.7910	0.0069	0.0989	0.8630	0.5704	0.5767
U.S.	...	1.2987	1.0270	0.0090	0.1284	1.1208	0.7408	0.7490

Source: Tullett Prebon

Key Rates

	Latest	52 wks ago
Libor		
One month	**1.02356%**	0.44420%
Three month	**1.18867**	0.66530
Six month	**1.41350**	0.96815
One year	**1.71956**	1.31235
Euro Libor		
One month	**-0.40286%**	-0.35357%
Three month	**-0.36929**	-0.27957
Six month	**-0.27786**	-0.15929
One year	**-0.14600**	-0.02957
Euribor		
One month	**-0.37400%**	-0.35100%
Three month	**-0.33000**	-0.25800
Six month	**-0.25100**	-0.14400
One year	**-0.12900**	-0.01200
Yen Libor		
One month	**-0.01171%**	-0.03814%
Three month	**-0.01279**	-0.02414
Six month	**0.02329**	0.00179
One year	**0.12571**	0.09429
	Offer	Bid
Eurodollars		
One month	**1.1000%**	1.0000%
Three month	**1.2000**	1.1000
Six month	**1.3500**	1.2500
One year	**1.6000**	1.5000
	Latest	52 wks ago
Prime rates		
U.S.	**4.00%**	3.50%
Canada	**2.70**	2.70
Japan	**1.475**	1.475
Hong Kong	**5.00**	5.00
Policy rates		
ECB	**0.00%**	0.00%
Britain	**0.25**	0.50
Switzerland	**0.50**	0.50
Australia	**1.50**	1.75
U.S. discount	**1.50**	1.00
Fed-funds target	**0.75-1.00**	0.25-0.50
Call money	**2.75**	2.25
Overnight repurchase rates		
U.S.	**0.76%**	0.39%
Euro zone	**n.a.**	n.a.

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

Top Stock Listings

4 p.m. New York time

Asia Titans

Cur	Stock	Sym	Last	% Chg	YTD% Chg
HK$	AIAGroup	**1299**	54.80	0.18	25.26
¥	AstellasPharma	**4503**	1414.00	-0.14	-12.90
AU$	AustNZBk	**ANZ**	28.31	-0.28	-6.94
AU$	BHP	**BHP**	24.34	-1.18	-2.87
HK$	BankofChina	**3988**	3.86	-0.52	12.21
HK$	CKHutchison	**0001**	100.30	0.65	14.11
HK$	CNOOC	**0883**	9.14	-0.33	-5.77
AU$	CSL	**CSL**	131.10	0.64	30.56
¥	Canon	**7751**	3777.00	-0.26	14.63
¥	CentralJapanRwy	**9022**	18285	-0.22	-4.91
HK$	ChinaConstructnBk	**0939**	6.32	-0.16	5.86
HK$	ChinaLifeInsurance	**2628**	25.05	0.80	24.01
HK$	ChinaMobile	**0941**	86.25	-0.23	4.93
HK$	ChinaPetro&Chem	**0386**	6.28	-0.16	14.18
AU$	CmwlthBkAust	**CBA**	80.94	-0.41	-1.78
¥	EastJapanRailway	**9020**	10660	0.38	5.54
¥	Fanuc	**6954**	21840	-0.46	10.22
¥	Hitachi	**6501**	667.90	-0.93	5.68
TW$	Hon Hai Precisn	**2317**	104.00	1.46	23.52
¥	HondaMotor	**7267**	3069.00	-0.52	-10.13
KRW	HyundaiMtr	**005380**	170000	...	16.44
HK$	Ind&Comml	**1398**	5.12	0.20	10.11
¥	JapanTobacco	**2914**	4177.00	1.53	8.66
¥	KDDI	**9433**	3066.00	-0.03	3.60
¥	Mitsubishi	**8058**	2249.00	-0.64	-9.68
¥	MitsubishiElectric	**6503**	1564.50	-1.36	-3.99
¥	MitsubishiUFJFin	**8306**	691.30	-0.62	-4.01
¥	Mitsui	**8031**	1505.50	-0.13	-6.32
¥	Mizuho Fin	**8411**	197.10	0.05	-6.05
¥	NTTDoCoMo	**9437**	2735.50	0.04	2.72
AU$	NatAustBnk	**NAB**	30.15	-0.82	-1.70
¥	NipponTeleg	**9432**	5236.00	0.19	6.60
¥	NissanMotor	**7201**	1074.00	-1.47	-8.63
¥	Panasonic	**6752**	1368.50	...	15.05
HK$	PingAnInsofChina	**2318**	48.50	0.62	25.00
$	RelianceIndsGDR	**RIGD**	40.35	-0.98	27.89
KRW	SamsungElectronics	**005930**	2246000	-0.40	24.64
¥	Seven&I Hldgs	**3382**	4777.00	-0.21	7.28
¥	SoftBankGroup	**9984**	8508.00	-0.32	9.57
¥	Sony	**6758**	3957.00	0.36	20.82
¥	Sumitomo Mitsui	**8316**	4045.00	-0.52	-9.30
HK$	SunHngKaiPrp	**0016**	113.10	-0.62	15.41
TW$	TaiwanSemiMfg	**2330**	205.00	...	12.95
¥	TakedaPharm	**4502**	5787.00	0.94	19.69
HK$	TencentHoldings	**0700**	275.20	-0.07	45.07
¥	TokioMarineHldg	**8766**	4718.00	-1.67	-1.63
¥	ToyotaMtr	**7203**	6000.00	0.05	-12.77
AU$	Wesfarmers	**WES**	42.53	-0.61	0.93
AU$	WestpacBanking	**WBC**	30.77	-1.03	-5.61
AU$	Woolworths	**WOW**	25.94	0.15	7.63

Stoxx 50

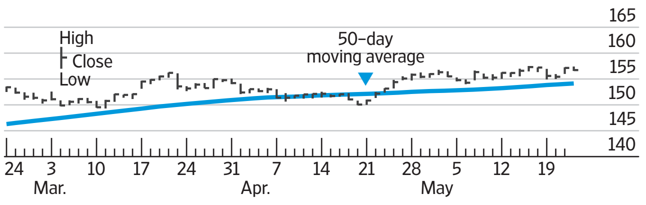
Cur	Stock	Sym	Last	% Chg	YTD% Chg
CHF	ABB	**ABBN**	24.25	-0.49	12.90
€	ASMLHolding	**ASML**	119.60	0.38	12.14
€	AXA	**CS**	24.03	0.90	0.19
€	AirLiquide	**AI**	111.40	0.72	5.44
€	Allianz	**ALV**	171.05	-0.03	8.95
€	AB InBev	**ABI**	105.60	0.28	5.02
£	AstraZeneca	**AZN**	5141.00	0.21	15.85
€	BASF	**BAS**	85.49	0.36	-3.19
€	BNP Paribas	**BNP**	66.18	1.10	9.30
£	BT Group	**BT.A**	315.65	0.25	-13.97
€	BancoBilVizAr	**BBVA**	7.48	2.06	17.77
€	BancoSantander	**SAN**	5.84	2.30	17.75
£	Barclays	**BARC**	214.25	0.28	-4.12
€	Bayer	**BAYN**	118.05	1.24	19.09
£	BP	**BP.**	474.25	0.06	-6.94
£	BritishAmTob	**BATS**	5420.00	-0.86	17.28
€	Daimler	**DAI**	67.19	-0.81	-4.99
€	DeutscheTelekom	**DTE**	18.00	-0.25	10.06
£	Diageo	**DGE**	2320.50	0.63	9.98
€	ENI	**ENI**	14.99	-0.20	-3.10
£	GlaxoSmithKline	**GSK**	1629.50	-0.76	4.32
£	HSBC Hldgs	**HSBA**	666.90	0.05	1.52
€	INGGroep	**INGA**	15.18	0.83	13.50
£	ImperialBrands	**IMB**	3649.50	-1.36	3.02
€	IntesaSanpaolo	**ISP**	2.69	0.30	10.96
€	LVMHMoetHennessy	**MC**	227.30	-0.42	25.30
£	LloydsBankingGroup	**LLOY**	72.16	0.52	15.44
€	LOreal	**OR**	188.70	0.64	8.82
£	NationalGrid	**NG.**	1076.50	1.22	3.70
CHF	Nestle	**NESN**	82.65	-0.90	13.14
CHF	Novartis	**NOVN**	79.05	-0.44	6.68
DKK	NovoNordiskB	**NOVO-B**	277.30	0.07	8.87
£	Prudential	**PRU**	1738.50	0.17	6.82
£	ReckittBenckiser	**RB.**	7630.00	-0.07	10.80
£	RioTinto	**RIO**	3192.50	-0.58	1.08
CHF	RocheHldgctf	**ROG**	267.90	...	15.18
£	RoyDtchShell A	**RDSA**	2112.00	0.12	-5.82
€	SAP	**SAP**	94.68	0.72	14.33
€	Sanofi	**SAN**	87.82	0.08	14.20
€	SchneiderElectric	**SU**	69.38	1.49	4.95
€	Siemens	**SIE**	126.85	0.24	8.60
CHF	Syngenta	**SYNN**	463.00	0.06	15.03
€	Telefonica	**TEF**	10.01	0.74	13.49
€	Total	**FP**	48.20	-0.38	-0.08
CHF	UBSGroup	**UBSG**	16.06	0.82	0.69
€	Unilever	**UNA**	49.71	0.09	27.09
£	Unilever	**ULVR**	4190.00	-0.11	27.26
€	Vinci	**DG**	76.83	0.43	18.75
£	VodafoneGroup	**VOD**	224.25	-0.04	12.21
CHF	ZurichInsurance	**ZURN**	287.00	0.17	2.35

DJIA

Cur	Stock	Sym	Last	% Chg	YTD% Chg
$	AmericanExpress	**AXP**	77.21	0.30	4.23
$	Apple	**AAPL**	153.71	-0.18	32.71
$	Boeing	**BA**	183.57	-0.05	17.91
$	Caterpillar	**CAT**	103.63	1.31	11.74
$	Chevron	**CVX**	106.25	0.12	-9.73
$	CiscoSystems	**CSCO**	31.76	0.54	5.10
$	Coca-Cola	**KO**	44.39	0.48	7.07
$	Disney	**DIS**	107.07	-0.52	2.73
$	DuPont	**DD**	77.35	-0.04	5.38
$	ExxonMobil	**XOM**	82.60	0.38	-8.49
$	GeneralElec	**GE**	28.28	0.35	-10.51
$	GoldmanSachs	**GS**	219.45	1.59	-8.35
$	HomeDepot	**HD**	154.89	-0.69	15.52
$	Intel	**INTC**	35.86	0.25	-1.13
$	IBM	**IBM**	152.06	-0.38	-8.39
$	JPMorganChase	**JPM**	85.76	1.25	-0.61
$	J&J	**JNJ**	127.53	0.21	10.69
$	McDonalds	**MCD**	147.83	-0.24	21.45
$	Merck	**MRK**	64.56	0.81	9.67
$	Microsoft	**MSFT**	68.64	0.28	10.47
$	Nike	**NKE**	52.20	1.22	2.70
$	Pfizer	**PFE**	32.14	0.06	-1.05
$	Procter&Gamble	**PG**	86.08	-0.15	2.38
$	3M	**MMM**	197.72	-0.40	10.72
$	Travelers	**TRV**	121.66	0.01	-0.62
$	UnitedTech	**UTX**	122.03	0.30	11.32
$	UnitedHealth	**UNH**	175.22	0.30	9.49
$	Visa	**V**	93.89	0.62	20.34
$	Verizon	**VZ**	45.48	...	-14.80
$	Wal-Mart	**WMT**	78.48	-0.09	13.54

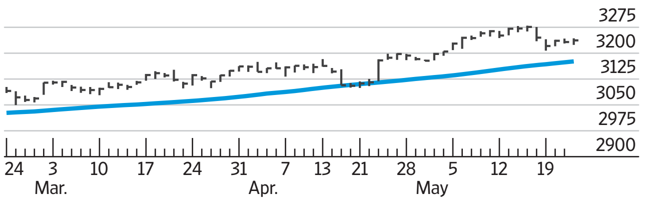
Asia Titans 50

Last: 156.72 ▼0.42, or 0.27% YTD ▲11.2%



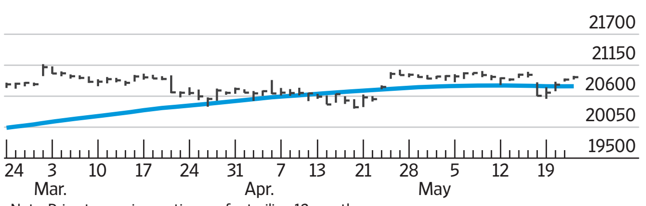
Stoxx 50

Last: 3237.09 ▲4.80, or 0.15% YTD ▲7.5%



Dow Jones Industrial Average

Last: 20937.91 ▲43.08, or 0.21% P/E: 20 YTD ▲5.9%

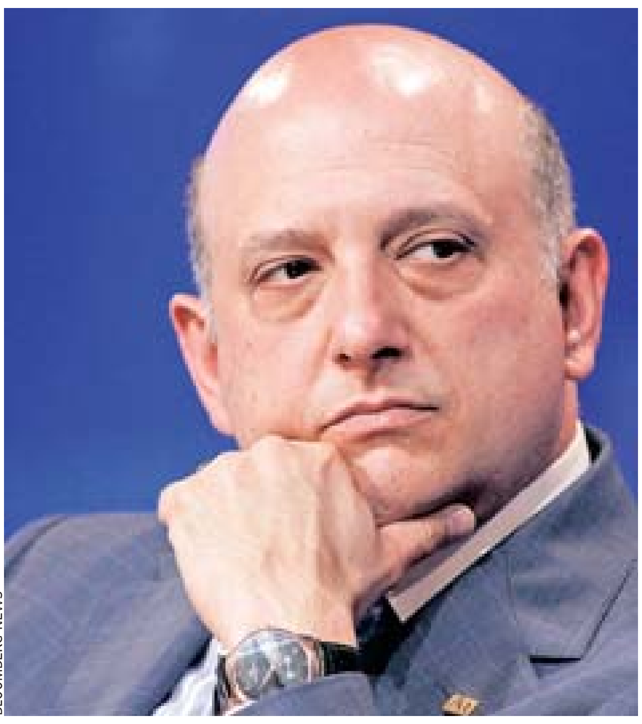


Note: Price-to-earnings ratios are for trailing 12 months.
Sources: WSJ Market Data Group; Birinyi Associates

Blackstone Cozies Up to Mom and Pop

Asset manager is raking in the cash as it markets nontraded REIT to small investors

By Peter Grant



BLOOMBERG NEWS

The nontraded REIT industry came under fire after Nicholas Schorsch's empire collapsed in 2014 over falsified accounting.

Blackstone Group LP amassed one of the world's largest real-estate portfolios by pulling in much more capital than competitors from big institutions such as pension funds, insurers and university endowments.

Now, it is taking its show to mom-and-pop investors and again blowing away its competition.

Blackstone in January launched its first nontraded real-estate investment trust, or REIT, a vehicle marketed to small investors as a way to participate in the commercial real-estate industry without the volatility of a traded REIT. Such vehicles have faced mounting criticism in recent years over high fees, poor disclosure and other problems.

Yet as of April, Blackstone Real Estate Income Trust Inc. had raised $755.4 million, about 41% of all the funds the entire industry raised in 2017, far more than any competitor, according to Robert A. Stanger & Co., an investment bank that specializes in nontraded REITs.

"Blackstone burst out of the gate," said Kevin Gannon, a managing director at Stanger. "They became No. 1 in the space in short order."

Blackstone also has become a closely watched agent for change in an industry that is trying to move away from a past that is tangled up in scandal and regulatory criticism. Like many of the new breed of nontraded REITs, Blackstone's vehicle is structured to align the interests of investors and management better than those of the past.

"This product...is about the right fees and structure and alignment," Jonathan Gray, Blackstone's head of real estate, said on a video on the REIT's website. He declined to comment because the REIT is in fundraising mode.

The alignment between REIT managers and investors is crucial today as the eight-year bull market in the commercial real-estate industry shows signs of slowing, critics say. Mistakes on reading markets could trigger losses, especially if values start to decline.

Some traditional nontraded REITs were excoriated because managers wouldn't be penalized for making bad investment decisions. That isn't the case with the Blackstone REIT.

"If things don't go well, Blackstone won't make as much," said Phil Owens, managing director of **Green Street Advisors'** consulting unit. "If things go really well, they make more."

Green Street has been a critic of nontraded REITs for their high fees, weak disclosure and lack of alignment. Mr. Owens said the Blackstone structure represents a big shift.

But Mr. Owens stopped short of backing away from Green Street's longstanding position that investors are better off buying traded REITs, which are listed on public stock exchanges, than nontraded ones. Green Street has calculated the overhead of the Blackstone REIT will be about twice as much as a "large, blue-chip publicly traded REIT" if it performs as expected.

Until recently, nontraded REITs were popular because of the high dividends they paid when interest rates were near historic lows.

Mostly sold by financial advisers, the vehicles raised $19.6 billion in 2013 and $15.6 billion in 2014, according to Stanger.

But the industry was assailed for upfront fees that could run as high as 15%.

Negative headlines mounted in 2014, when the real-estate empire of Nicholas Schorsch, the largest promoter of nontraded REITs at the time, collapsed after his **American Realty Capital Partners** Inc. disclosed it had falsified financial results to cover up accounting errors.

Some investors also suffered big losses of the principal amounts they invested. This added to the condemnation because many nontraded REITs typically were marketed as safe investments.

New rules by the Financial Industry Regulatory Authority forced most industry players to change their fee structures, decreasing the incentive among financial advisers to sell them. A rule by the Labor Department, parts of which are set to take effect next month, would make financial advisers legally bound to act in the best interests of their clients.

In all, the entire nontraded REIT industry has raised only $1.8 billion in 2017 as of the end of April, about the same as the first four months of 2016, the worst fundraising year since 2002, when the industry was in its early stages, according to Stanger.

Nontraded REITs: How They Work

Nontraded real-estate investment trusts are investment products targeted at small investors that have had a roller-coaster history in recent years.

Here is a summary of how they work, why they have been controversial and the changes taking place in response to criticism.

What are nontraded REITs?
They are investment vehicles that raise money from small investors and use those funds to buy office buildings, stores, hotels, warehouses and other commercial real estate.

If all goes well, investors receive dividends from the income of those properties and would profit when the REIT is liquidated, usually after a few years.

How are nontraded REITs different from traded REITs?
The main difference is that the shares of traded REITs are bought and sold on stock exchanges, as those of other public companies. Some investors like being insulated from stock-market volatility.

When did nontraded REITs become popular?
They attracted tens of billions of dollars of investments in the early years of the economic recovery, partly because they offered high dividends in a low-interest-rate environment.
But fundraising efforts have been hampered more recently by criticism and regulatory investigations.

Why the criticism?
More than five years ago, the Securities and Exchange Commission and the Financial Industry Regulatory Authority increased scrutiny of the industry because they believed nontraded REITs might not be adequately disclosing risks and costs. Some small investors weren't aware they were paying as much as 15% in upfront fees and that there was a chance they might not get all their principal back.

What was the upshot of that scrutiny?
Finra has adopted new rules designed to improve disclosure, and most new nontraded REITs have adopted new structures.

How have nontraded REITs performed?
Some have returned only a fraction of investors' principal when they liquidated. But most of the returns have been respectable. The average nontraded REIT has returned to investors 10.5% annually, including dividends, according to Green Street Advisors. But the average traded REIT has returned 13.7% during that same period, Green Street says.

REIT Stocks' Rally Fizzles

By Esther Fung

Shares of real-estate investment trusts have slumped this year as a postelection sugar rush wears off.

The S&P U.S. REIT Index has fallen 1.3% this year. It rose 4.2% last year. Meanwhile, the S&P 500 stock index has risen 6.9% this year, after a 9.5% increase in 2016.

REITs have had a tough time for most of the past two years as investors worried about rising interest rates, which make it more expensive for REITs to borrow.

After the election, the sector bounced higher over the prospects of a looser regulatory environment and fiscal stimulus. But the rally fizzled amid worries about rising interest rates. What's more, concerns are increasing that the commercial real-estate market might have peaked, given that the sector had been a beneficiary of easy monetary policy for the past several years.

Concerns about a potential "border tax," meanwhile, are weighing on sectors that are more exposed to trade and the U.S. dollar's strength to other currencies, such as retail and lodging REITs.

"While corporate profit growth recently turned positive again, hotel fundamentals haven't yet seen a boost in business demand," said Lukas Hartwich, an analyst at real-estate research firm Green Street Advisors. He noted, however, that a pickup in demand could be seen in the summer as corporate profits continue to rise. Business travel accounts for three-quarters of demand of higher quality hotels that REITs own.

To be sure, employment, inflation and wage growth in the U.S. have remained at healthy levels, supporting demand for commercial and residential real estate and keeping mortgage delinquency rates low.

And rising interest rates are usually followed by positive returns for REITs, said Brad Case, senior vice president of Research and Industry at the National Association of Real Estate Investment Trusts. "It's because the macroeconomy is strengthening, conditions are improving and that's a good thing for REITs," he said.

Yet within REITs, the prospects of some sectors are showing signs of fading. Retail REITs have been pressured by thousands of store closings as retailers that overexpanded two decades ago suffer from the move toward online shopping.

Industrial REITs haven't fared as well as the 31% total return the group recorded last year. Higher levels of construction activity could point to the end of an earnings boom driven by scarcity of available warehouse space.

"E-commerce sales have skyrocketed and appear to have pushed demand for warehouse space over the edge, as construction spending on warehouse assets has escalated considerably since early 2014," said Karina Estrella, an analyst at real-estate data provider Trepp Inc.

In all, more than 200 million square feet of industrial space was delivered last year, and additional supply could stunt rent and occupancy growth in the future, she said.

On the other hand, data-center landlords have outperformed other real-estate investment trusts this year, as investors eye higher earnings from tenants beefing up capacity to host online traffic and mobile transactions.

KEVIN HAGEN FOR THE WALL STREET JOURNAL

Concern is increasing that the commercial real-estate market in the U.S. might have peaked.

Ratings Firms Scrutinize Mall Debt

By Esther Fung

Bond rating companies are looking closer at securities tied to shopping mall debt as concerns intensify about mall owners' ability to repay their mortgages amid closures of anchor stores.

The ratings firms in some cases are issuing downgrades on securities backed by malls suffering from an anchor store closure and putting on watch malls with large stores such as **Macy's** Inc., **J.C. Penney** Co. and **Sears Holdings** Corp., even if the places remain open.

While anchor stores might not be part of the collateral of the mall loan or contribute much rent to the property owner, fluctuations in occupancy rates raise the probability of losses. Ratings firms also look at clauses that allow tenants to renegotiate for concessions such as early lease termination or rent relief from the landlord.

The moves come amid a rapid pace of store closures this year, more than 3,000 to date. The overbuilt retail real-estate market and the rising popularity of e-commerce have clouded prospects for many middling malls.

Cottonwood Mall based in Albuquerque, N.M., is losing its Macy's anchor store. Fitch Ratings applied a 50% haircut to the most recent reported property cash flow to account for co-tenancy clauses and predicted a 29% loss on the $101 million loan.

The loan, which was earlier bundled into a commercial mortgage-backed security deal, is still performing, but Fitch recently issued negative ratings outlooks on two parts of the deal.

"Retail is back in the crosshairs of many market participants," said Fitch in a research note, adding the concerns about retail property, especially malls, aren't new.

During the last recession, retail landlords struggled as people curbed spending and unemployment rates shot up. Now, while consumer spending is much stronger, e-commerce and the oversupply of retail space are disrupting retail real estate, analysts said.

Since last August, Macy's, J.C. Penney and Sears have said they are closing as many as 390 stores in all, with Sears recently saying that it would shut pharmacies and auto centers.

Apart from metrics such as sales a square foot, the mix of anchor stores, and its co-tenancy clauses, credit analysts also scrutinize a mall's performance compared with its competition, whether it is dominant mall in the market, and tenants' occupancy costs as a percentage of sales.

Kroll Bond Rating Agency recently revised the performance outlook of the loan of Oglethorpe Mall in Savannah, Ga., to underperform from perform.

While the mall is 97% occupied and the loan remains above water, the lowered performance outlook has more to do with its exposure to the three department stores owned by J.C. Penney, Sears and Macy's.

"We are being proactive given the current volatility in the retail sector as well as the fact that there is a possibility of additional store closures in the future," said Keith Kockenmeister, managing director in the CMBS Group of Kroll.

Not all mall loans will be slammed with losses. E-commerce has weakened electronics and household goods retailers, resulting in the bankruptcies of HHGregg Inc. and RadioShack Corp. But while Best Buy Co. was under pressure for a while, it has been relieved by the demise of its competition.

As the retail shakeout continues, "weaker malls will disappear and the remaining malls, offering a solid mix of retail, restaurants and entertainment, will be stronger as a result," Fitch said.

ALBUQUERQUE JOURNAL/ZUMA PRESS

Mall anchor stores such as Macy's are closing at a rapid clip.

China Life to Acquire Sprawling U.S. Portfolio

By Peter Grant

China Life Insurance Group is buying a 95% stake in 48 commercial properties scattered throughout the U.S. in a deal that values the portfolio at $950 million and highlights the increasing appetite among foreign investors for real estate in markets they mostly have ignored until now.

The company, one of China's largest insurers, is buying the majority stake in the 5.5-million-square-foot portfolio from **ElmTree Funds** LLC, a private-equity firm based in St. Louis, ElmTree said.

ElmTree said it would keep a 5% stake and continue to manage the properties.

Foreign investors used to focus almost exclusively on trophy properties in major cities such as New York and San Francisco. But lately, prices in those markets have gotten so high that foreign investors have started scouting less-popular locations.

"We're seeing more and more foreign capital coming into secondary and tertiary markets all across the country," said Jim Koman, managing principal at ElmTree Funds.

China Life was prohibited by the Chinese government from making investments in foreign property, but that lifted in 2012. Three years later, in its first U.S. deal, the company joined **Ping An Insurance (Group)** Co. in buying a majority stake in a Boston development in the city's Seaport District.

China Life couldn't be reached for comment.

Last year, China Life teamed up with New York developer Scott Rechler to purchase a 1.8-million-square-foot Manhattan office tower for $1.65 billion.

'Leveraged' ETF Amplifies Brazil's Swings

A 48% one-day slide because of country's scandal shows risk of such investments

By Ben Eisen

Markets' reaction to the political tumult that rattled Brazil last week underscores the risks facing investors who use so-called leveraged exchange-traded funds in highly volatile areas in a bid to turbocharge their returns.

Even in the high-octane world of leveraged ETFs, the 48% drop in the **Direxion Daily MSCI Brazil Bull 3X Shares** on Thursday stood out. Its one-day fall was bigger than the drop in leveraged products tracking financial stocks during the 2007-09 recession, and it outpaced the wildest plunges in products that hold perpetually volatile gold-mining-company stocks, according to Charlie Bilello, director of research at Pension Partners. The ETF subsequently rebounded 18% on Friday, but dropped 7.9% on Monday.

By comparison, the **iShares MSCI Brazil Capped ETF**, which tracks the same index but doesn't have leverage, fell 16% on Thursday after reports that Brazilian President Michel Temer was allegedly involved in bribery. Mr. Temer said he was innocent.

The concept of using an exchange-traded product to multiply the returns of a single asset increasingly has been applied to riskier investments. In recent years, fund firms have created leveraged products tied to emerging markets like Russia and commodities such as crude oil. The Securities and Exchange Commission has increased its scrutiny of these types of products.

"High volatility and leverage don't mix very well," Mr. Bilello said. "It's interesting because the most popular ETFs are the most volatile."

Leveraged ETFs deliver amplified price moves on a single day. Holding these products for days or weeks, especially when markets are volatile, can result in price swings that are exaggerated well beyond the stated two or three times leverage. For instance, the unleveraged iShares ETF is up 2% this year while its triple-leveraged ETF counterpart is down 17%.

In the case of this Brazil ETF, investors face another risk: currency fluctuations. U.S. investors who buy international-focused ETFs trade their dollars for the local currency, effectively making them long both stocks and the real in this case. That means that even if Brazil's stocks rise, a falling real would erode the ETF's gains. The value of the Brazilian real fell 7.1% against the dollar Thursday and 0.3% Monday, though it rebounded 3.8% Friday.

Sylvia Jablonski, managing director of capital markets for Direxion, the company that offers the ETF, said that while she wouldn't advise the product as a long-term investment, it can be a good trading tool.

After the size of the ETF roughly halved Thursday, investors put more than $60 million of new money into the product Friday. When the ETF's share price rebounded that day, the size of the ETF ballooned to more than $118 million, its largest ever, Direxion said.

"Someone is betting largely that Brazil is going to rebound after falling almost 50%," said Mohit Bajaj, director of ETF trading solutions at brokerage WallachBeth Capital.

Investors may have also piled in as part of a larger trade, according to Ms. Jablonski. Some may have bet against the unleveraged Brazil ETF or the stocks it holds, and then bought the leveraged version as a hedge.

Day traders, who often like to make bets around big market moves, buzzed about the leveraged ETF as the news unfolded.

On StockTwits, a popular forum for traders to discuss investment ideas, there were more than 900 messages on Thursday about the product and nearly 700 on Friday, up from virtually none the week before.

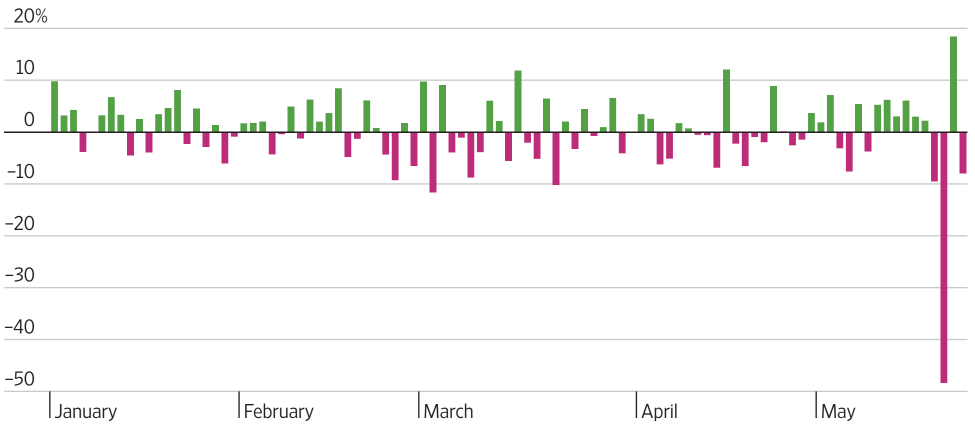
—Chris Dieterich contributed to this article.

Battered

Investors who used a triple-levered exchange-traded fund to bet on a stock-market rally in Brazil last week suffered one of the largest-ever declines in an ETF, highlighting the risks of such wagers on volatile emerging-market economies. The appeal of the bet remains intact, as shown by the spike in the Brazil ETF's assets following last Thursday's price decline.

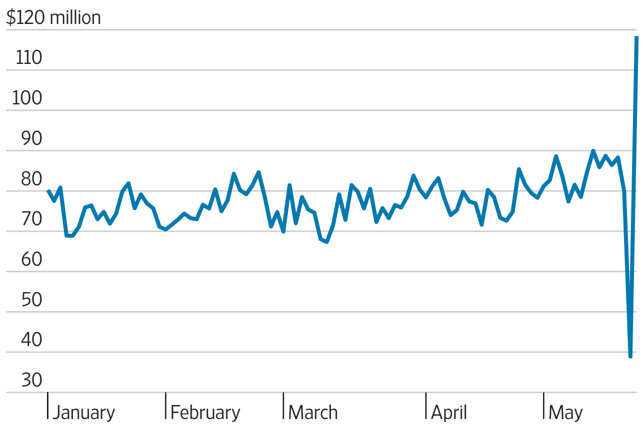
The percentage drop in the Direxion Daily MSCI Brazil Bull 3x Shares on Thursday was by far the largest drop ever for the ETF.

Daily percentage change in ETF price



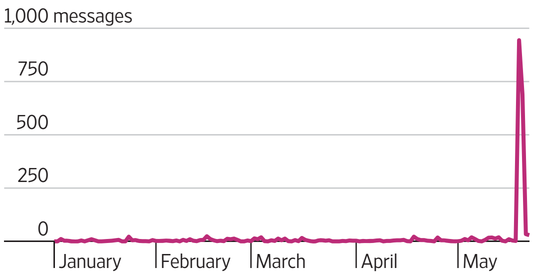
The assets in the ETF jumped to the highest ever Friday, boosted by inflows and a rebound in the underlying stocks.

Assets in the ETF*



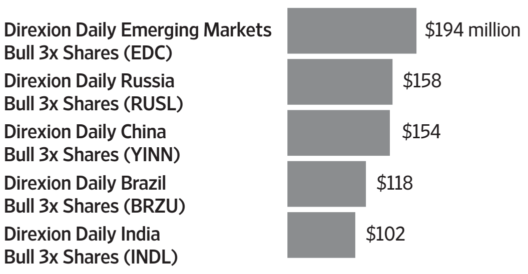
Day traders started buzzing about the ETF last week.

Number of daily messages on StockTwits about the ETF



Brazil isn't alone in drawing the interest of leveraged investors.

Assets in largest leveraged emerging-market ETFs*



The ETF isn't currency hedged, potentially exposing investors to further swings.

How many Brazilian reais one dollar buys

*Data through Friday
Sources: FactSet (price); Direxion (assets); StockTwits (messages); XTF, FactSet (emerging-market ETF assets); Tullett Prebon (real)

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Europe Still Runs With The Bulls

If the reflation theme has taken a knock in recent months, nobody told Europe. A rush of eurozone data released Tuesday points to an economy that hasn't stopped surprising to the upside.

The clearest sign of that came from the eurozone's biggest economy, as Germany's widely followed Ifo Business Climate Index rose to 114.6 in May, the highest figure since 1991. The flash IHS Markit composite purchasing managers' indexes for France and Germany also rose; the eurozone indicator came in at 56.8, unchanged from April but holding its highest level since 2011.

The good news is that there are some homegrown reasons for continued solid growth. The PMI surveys noted strong job creation, supporting consumption, and rising backlogs of work in both services and manufacturing. Consumer confidence is at a 10-year high.

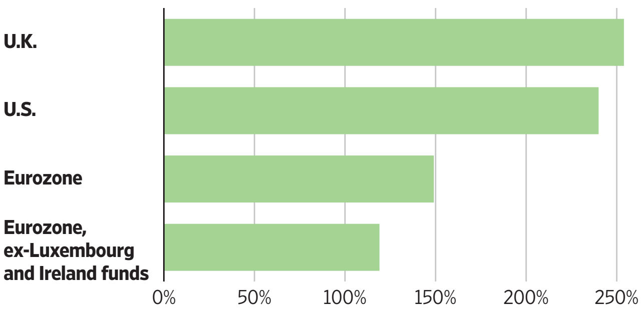
Despite stronger growth, underlying inflation has yet to show convincing signs of life, which happily for investors means the European Central Bank will move very gradually. There are risks, of course. The euro has risen nearly 5% against the dollar in the past month, a sharp move that might raise concerns about the currency becoming a headwind. The eurozone has still to find a lasting solution to Greece's problems, with ministers postponing a decision regarding debt relief at a meeting Monday. External risks remain a threat: The eurozone is a rider on global growth, not its engine.

But then there are always longer-term reasons to worry about the eurozone—as for any economy. It might be unusual, but Europe is a source of surprising stability.

—Richard Barley

Rich Resources

Pensions, insurance and investment-fund assets as a percentage of gross domestic product



Sources: Financial Stability Board, Investment Company Institute, European Central Bank, OECD; European Pressphoto Agency (photo)

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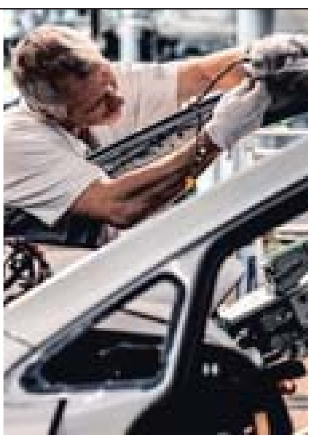


A worker at a factory in Dresden, Germany

EU Could Miss London

Most industries need access to raw materials. In finance and markets, that raw material is savings.

This simple observation is often overlooked, but it is a major reason why the U.S. has the biggest and most active capital market in the world, and why Brexit could make it harder for eurozone companies to get financing.

European policy makers are well aware they need more financial integration as they prepare to wave goodbye to the U.K. as a member of the European Union. The eurozone still doesn't have a seamless banking union or single capital market.

But this is only half the story: Europe needs to change its savings habits, too. The total amount of the most readily available savings for companies and governments to tap in eurozone capital markets amounts to less than 150% of the bloc's annual economic output. That counts all the money in eurozone pensions, insurance companies and investment funds. The total drops to less than 120% of gross domestic product if you exclude most assets of funds in Ireland and Luxembourg, which are popular places to register international investment funds that take money from the rest of the world and invest it outside Europe.

For comparison, this same institutional money pool in the U.S. amounts to about 240% of annual GDP and in the U.K. more than 250%.

European finance relies more on traditional banking than capital markets, but total household deposits in the eurozone aren't greater as a proportion of GDP than those in the U.K. either.

A big reason for the differences is that eurozone countries haven't encouraged as much private savings as the U.K. and U.S. More Europeans rely on public pensions funded by current taxation.

This raw material is important in the arguments over Brexit and the location of banks and things such as clearing trades in euros. Yes, losing access to the EU will hurt Britain through lost finance export revenue, but European companies will still have to find investors for funding.

The biggest EU companies that most regularly need capital markets might find it cheaper and easier to raise funding outside the EU, even when that means setting up new overseas subsidiaries and meeting foreign reporting standards.

London works because companies looking outside the eurozone for funding and investors can meet and deal under a single set of laws, standards and regulations.

The trouble within the EU is that the pools of capital and the rules governing them are still national, not European. Vítor Constâncio, vice president of the European Central Bank, said in a speech Friday that national supervision of securities markets fragmented the application of EU laws.

Other issues that perpetuate financial borders within the EU include the different national bankruptcy rules and procedures.

These financial borders are what make it expensive and difficult for a company to raise equity or debt in, say, Germany and Italy at the same time, whereas now such deals are done where the money is in London.

The biggest globally active EU companies might find it simplest to go straight to the U.S. capital markets, while smaller firms will be stuck with more expensive local markets or old-fashioned borrowing from banks.

The eurozone needs more savings that companies can access more efficiently if it is going to cut London off.

—Paul J. Davies

Nokia Uses a Suit To Befriend Apple

Nokia's deal with **Apple** follows a highly unusual playbook: using a lawsuit to win business from your adversary.

When the first iPhone was unveiled a decade ago, Apple became a major competitor to the Finnish group, which was then the world's leading mobile-phone maker. As Nokia's business dwindled, the companies became legal antagonists.

Now, they are set to become business partners.

The settlement announced Tuesday involves Apple paying Nokia a lump sum plus royalties for each device it sells using Nokia's technology. This is broadly the same kind of agreement the two sides reached in 2011 following a two-year lawsuit. The previous deal expired last year, which is why both sides launched fresh suits in December. Nokia didn't provide any financial details of the agreement.

The more significant difference with 2011 is that Nokia is becoming an Apple supplier. The key plank of a new "collaboration agreement" involves the Finnish group selling the U.S. technology giant network-infrastructure gear.

The company remains tight-lipped about the specifics, but the deal probably anticipates the launch of Nokia cloud computing products, which brokerage UBS expects this summer.

This fits with Nokia's broader strategy. As the company's core telephony clients—network builders such as Verizon and Vodafone—reduce capital spending, Nokia is trying to sell more internet-plumbing equipment to companies in other sectors. Notably, these might include Silicon Valley giants, such as **Amazon.com** and Google, that are building vast data centers. Nokia bought French group Alcatel-Lucent in 2015 to improve its position against U.S. leaders Cisco and Juniper Networks in the rapidly growing industry, but the acquisition hasn't performed well so far. A deal with Apple's iCloud business could help Nokia get its foot in the door.

The other plank of the collaboration agreement between the two companies is designed to boost the prospects of another, much smaller Nokia acquisition: Fitbit rival **Withings**. The startup's health-focused gadgets will be sold in Apple's retail network.

Nokia might have accepted a lower royalty fee for its patents in exchange for a signficant client for its products.

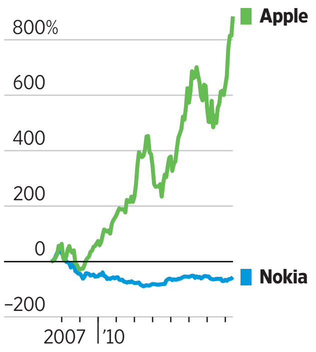
Whether this calculation pays off depends on whether it can become a long-term supplier to the world's most valuable company.

Litigation has helped win the business, but Nokia will retain it only through the strength of its products.

—Stephen Wilmot

Mobile Value

Total return



Source: FactSet

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