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What's News

Business & Finance

Goldman is on the defensive in Venezuela after it bought \$2.8 billion in bonds that the opposition decried as a lifeline to the Maduro government. **A3**

◆ **Singapore fined** Credit Suisse and a local bank for widespread antimoney-laundering failures. **B1**

◆ **LSE agreed to buy** a portfolio of fixed-income indexes and related analytics services from Citigroup for \$685 million. **B6**

◆ **Fed officials are likely** to raise short-term rates at their June meeting and unveil a plan for shrinking a \$4.5 trillion portfolio. **A1**

◆ **Bats is simplifying fees** for one of its stock exchanges, charging the same rate to traders who post orders and traders who remove them. **B6**

◆ **The Permian Basin is** emerging as a major source of new natural gas, a development that could deepen an existing glut. **B1**

◆ **Elliott lost a legal battle** to oust Akzo's chairman, increasing pressure on PPG to make a hostile bid for the Dutch rival. **B3**

◆ **Ryanair posted a 6%** rise in net profit for the past financial year. **B3**

◆ **Bank of Nova Scotia** said revenue unexpectedly fell even as profit rose in its latest quarter. **B6**

◆ **U.S. home-price growth** continued to accelerate in March, posing a challenge to the market. **B9**

World-Wide

◆ **Trump's communications director,** Mike Dubke, resigned from his post, a White House official said, as the president seeks to reset his administration. **A1**

◆ **The U.S. and South Korea conducted a joint drill** involving U.S. B-1B bombers, a move North Korea called "a grave military provocation." **A3**

◆ **French president** Emmanuel Macron hosted Putin amid tensions over alleged Russia interference in French elections. **A5**

◆ **Merkel softened her** criticism of the U.S. that had sparked talk of a strategic realignment with Germany. **A5**

◆ **Two car bombings** in Baghdad killed at least two dozen people and injured 60 others. **A4**

◆ **Tropical storm Mora** lashed southern Bangladesh, destroying thousands of homes in remote islands in the Bay of Bengal. **A4**

◆ **A Catholic priest taken** hostage by militants linked to Islamic State said he is being held alongside 200 other captives in what appeared to be a southern Philippine city. **A4**

◆ **Americans ramped up** their spending in April at the fastest pace in four months. **A6**

◆ **Died:** Manuel Antonio Noriega, 83, former Panamanian dictator. **A3**

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White House Official Steps Down

Communications director resigns as Trump seeks a reboot amid Russia probes

By MICHAEL C. BENDER

WASHINGTON—President Donald Trump's communications director resigned from his post after three months on the job, a White House official said, a move that comes as the president seeks to reset his administration amid expand-

ing probes into his associates' ties to Russia.

Mike Dubke, the president's communications director, hasn't been involved in the Russia probe, and unlike many top officials in the White House, wasn't part of Mr. Trump's 2016 campaign. He joined the administration about a month after the president's inauguration and has struggled to jell with Mr. Trump, White House officials have said.

"The reasons for my departure are personal," Mr.

Dubke wrote in an email to friends Tuesday. "But it has been my great honor to serve President Trump and this administration."

The Wall Street Journal reported Friday that Mr. Dubke's dismissal was being considered by Mr. Trump. Axios reported Tuesday that Mr. Dubke's resignation was accepted.

Mr. Trump has been considering changes to his communications team for weeks. Mr. Dubke has been shouted at by Mr. Trump, and he was blamed

internally when the White House initially had no help on cable television to defend the president's May 9 firing of James Comey as director of the Federal Bureau of Investigation, officials said.

But some advisers believe that the communications and press-shop operations—the latter including press secretary Sean Spicer—have been a scapegoat for broader failings.

"Not every problem in the West Wing is a communications problem," one White House official said. "There's a

leadership problem and a decision-making problem."

Amid the Russia probe, top advisers to Mr. Trump have been considering requiring the president's tweets to undergo legal vetting before being posted, as part of an overhaul of how White House communications work. Mr. Trump posted two tweets on Tuesday related to the probe of his associates' ties to Russia, with

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◆ **Trump calls for change to Senate voting rules.....** A6

Bangladesh Takes Cover From Deadly Storm



ON THE MOVE: A villager evacuates to a shelter in the coastal district of Cox's Bazar in Bangladesh, where a tropical storm killed at least three. **A4**

Cohen Plots Hedge-Fund Comeback

By ROB COPELAND

Steven A. Cohen is working toward a return to hedge funds with a giant number in mind: \$20 billion.

The billionaire trader, whose former firm pleaded guilty to criminal insider trading charges less than four years ago, wants to amass that amount as part of a new operation that is likely to launch as soon as early 2018, he and his representatives have said in recent conversations with bankers, colleagues

and potential investors.

The \$20 billion would exceed the assets once managed by Mr. Cohen's SAC Capital Advisors LP, which at its height had \$16 billion under management and was long one of the U.S.'s most profitable hedge-fund firms. It also would represent the biggest U.S. hedge-fund launch in history, according to data from industry publisher Absolute Return.

Collecting billions more than he ever managed before would be a show of resilience

for the Wall Street veteran after years of legal fights.

SAC pleaded guilty to insider trading in 2013 and paid \$1.8 billion in penalties. Mr. Cohen was investigated extensively, but a criminal probe closed without any charges. He faced civil Securities and Exchange Commission allegations of failing to supervise employees involved in insider trading, and the SEC sought to have him barred for life from the industry, The Wall Street Journal previously reported. A civil

settlement he reached with regulators instead restricted him from serving as the supervisor of a registered fund until 2018. He didn't admit or deny wrongdoing as part of the civil settlement.

Mr. Cohen, 60 years old, has been overseeing his \$11 billion family fortune at Point72 Asset Management LP, a 1,000-employee operation in SAC's former Stamford, Conn., offices where Mr. Cohen's desk sits at the center of the trading floor. While Point72 has

Please see COHEN page A2

Fed Nears Rate Rise, Plan for Asset Sale

By NICK TIMIRAO

Federal Reserve officials are likely to raise short-term interest rates at their meeting in two weeks and announce their framework for shrinking a \$4.5 trillion portfolio of bonds and other assets later this year.

Clarity on these two matters has allowed them to focus on two other looming decisions this year—whether to raise rates again in September and when to start reducing the portfolio, or balance sheet.

One source of uncertainty emerging in recent weeks is the possibility that Congress and the White House might have trouble reaching agreement in September to raise the federal debt limit and approve government funding for the year beginning Oct. 1.

Until recently, many officials thought they would probably want to lift rates in September and start the balance-sheet process later in the year. But now some say they may want to rethink the timing of those plans if a rancorous budget fight threatens to roil markets.

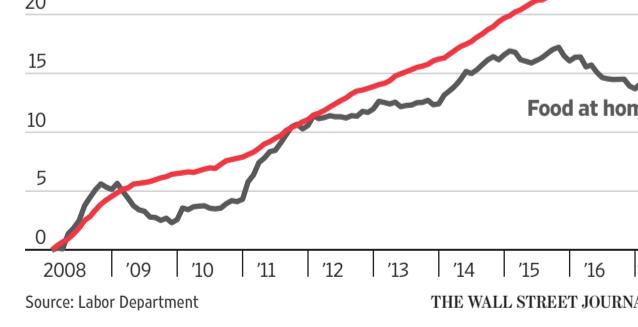
For now, though, Fed policy is on a smooth track. At their May meeting, officials forged consensus around a strategy for slowly and predictably reducing the balance sheet of Treasury securities and mortgages by allowing a small number of assets to mature every month without reinvesting any proceeds, according to interviews and their public statements.

Please see FED page A2

The Dying Tradition of Going Out for Lunch

Americans made 433 million fewer lunchtime trips to restaurants last year. One factor: Restaurants raised tabs to cope with labor costs. **B1**

Consumer price index, cumulative change



EUROPEAN PRESSPHOTO AGENCY



FITTING INTO BEIJING'S NEW WORLD ORDER

CHINA'S WORLD, A2



EX-DICTATOR NORIEGA DIES AT 83

WORLD NEWS, A3



THE YEAR OF THE BLOCKBUSTER

BOOKS, A9

Plundering Online Villages With Kids Has Its Challenges

* * *

Multiplayer games force adults, children to coordinate schedules

By SARAH E. NEEDLEMAN

Michael Ritter was leading a staff meeting in Los Angeles last fall when his phone buzzed with a group text from a teammate in the football videogame "Madden NFL Mobile." It was one of nearly a dozen messages that day pleading for Mr. Ritter to get his head in the game.

"Why aren't these people working?" Mr. Ritter, a 34-year-old technology executive, recalled thinking about his teammates.

The answer came when

one of them suggested Mr. Ritter play between classes like everybody else. "It definitely made me feel old," he said.

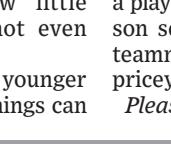
Videogame players join virtual teams often with people they don't know, just like in real-life pickup games. Unlike the park or playground, though, online teammates usually know little about each other, not even real names.

When older and younger gamers join forces, things can

get awkward. Micah Gantman, a 33-year-old mobile ad-tech executive in New York, said he spent \$200 to \$300 a month to upgrade his army in the game "Clash of Clans," where goblins and mustachioed barbarians raid enemy villages.

Mr. Gantman said he lost his cool with a player on his roughly 50-person squad who kept nagging teammates to share their pricey troops.

Please see GAMERS page A8



MOSUL, Iraq—French special forces here have for months enlisted Iraqi soldiers to hunt and kill French na-

tionals who have joined the senior ranks of Islamic State, according to Iraqi officers and current and former French officials.

Iraqi commanders leading the fight for Mosul said French special forces have provided to Iraqi counterterrorism troops the names and photographs of as many as 30 men identified as high-value targets. An undisclosed number of French citizens have been killed by Iraqi artillery and ground forces, the commanders said, using location coordinates and other intelligence supplied by the French.

The motive for the secret Please see MOSUL page A8

France Directs Kill Of French Militants

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The motive for the secret Please see MOSUL page A8

WORLD NEWS

Beijing's New World Order Has a Guest List



CHINA'S WORLD

By Andrew Browne

SHANGHAI—The VIP list at Beijing's glittering launch party for its massive Silk Road trade plan was worth scrutinizing not for the luminaries who were on it, but those who weren't.

Singapore Prime Minister Lee Hsien Loong, who irritates Beijing by standing up to

its bullying in the South China Sea, didn't get an invitation. European government heads

were welcome, but mostly stayed away, as did leaders from India and Japan.

The no-shows reflect a broad disquiet: To skeptics, what President Xi Jinping calls the "Project of the Century" is, at heart, an imperial venture.

Eventually, China expects that the sprawling networks of trading infrastructure Mr.

Xi proposes to install along ancient maritime and over-

land trails between Asia and Europe will tie together more

than 60% of the world's popula-

tion and one-third of its

gross domestic product.

Singapore and other na-

tions are meant to understand

that a new 21st-century order

is emerging—a China-centric

one. "Only vast lands can cra-

dle great powers," write Chi-

nese geographers Du Debin

and Ma Yahua.

Chinese propagandists hawk the "One Belt, One Road" plan as a cooperative enterprise—a "community of common destiny" is Mr. Xi's lofty mantra.

For all that, it's a power play. Beijing wants its neighbors, especially U.S. friends and allies, to know they have a with-us-or-

against-us choice to make. An envoy from South Korea, hit with punitive Chinese trade

sanctions over its deployment of a U.S. antimissile system,

popped up on the belt-and-

road guest list at the last minute,

after the country elected a president whom Beijing favors.

China's Communist leadership seems utterly con-

vinced that the axis of global

power is shifting from the

Atlantic to the vast Eurasian

landmass, and it's just a mat-

ter of time before Central

Asia will once again become

the crossroads of the world.

Mr. Xi is anxious to speed

history's turn. Donald Trump

has become an unlikely abet-

tor. If One Belt, One Road

signals that a confident

China is "changing from an

adapter to a driver of global-

ization," as the former Mor-



Honor guards prepared to welcome Hungarian Premier Viktor Orban to the Beijing forum this month.

globalization that would dra-

matically extend the Chinese

model of state capitalism.

The environmental impact of

the Chinese construction

projects is one concern.

Transparency is another.

In her book "China's Eur-

asian Century?," Nadège Rol-

land, a senior fellow at the

U.S.-based National Bureau

of Asian Research, writes

that One Belt, One Road is

"principally designed to

serve national interests."

She imagines what a con-

tinent dominated by China

might look like: Chinese-

built high-speed trains and

fiber-optic cables shrinking

its vast distances, but also,

not implausibly, an internet

firewall thrusting all the

way to Europe.

Independent-thinking coun-

tries on the Chinese periphery

find themselves in a jam, none

more so perhaps than Singa-

por. The bustling entrepôt

stands to gain disproportionately

from expanded trade under

One Belt, One Road, and it

has much to contribute.

Yet its uppityness toward

Beijing may end up limiting

its prospects. While Chinese

Foreign Minister Wang Yi in-

sists that One Belt, One Road

"is not China's solo, but a

symphony," the most enthusi-

astic players are the region's

like-minded authoritarians.

At Beijing's summit, it

was Vladimir Putin who

picked up the musical theme

with a rendition of "Moscow

Windows" on a grand piano.

FED

Continued from Page One

The Fed would start by al-

lowing a small amount of net

maturities a month, and allow

that amount to rise each quar-

ter. It hasn't yet outlined

those amounts. Officials are

unlikely to say how big the

portfolio will be at the end of

the process until it is further

along.

The agreement on this ap-

proach could be announced as

soon as June 14, after its two-day

policy meeting.

Officials are likely to vote

them to raise their benchmark

short-term rate by a quarter

percentage point to a range

between 1% and 1.25%.

They also will release new economic

and rate projections for the

rest of the year, which will

likely indicate they still expect

to raise rates again later this

year.

The Fed's path ahead is

"the most telegraphed monetary

policy of our lifetimes,"

San Francisco Fed President

John Williams said Monday.

Fed Chairwoman Janet Yel-

len is set to take questions

from reporters after the June

meeting, which would let her

explain the central bank's in-

tentions in detail.

After raising rates in

March, many officials thought

it likely they would move

again in June and September.

A tentative plan emerged to

pause rate increases at the

end of the year and start

shrinking the portfolio

then. Now, however, the loom-

ing debt-limit fight has some

officials pondering whether

they might delay the third

rate increase until after Sep-

tember or initiate the portfo-

lio wind-down sooner, perhaps

as early as September, if the

economy evolves as they ex-

pect.

Standoffs between Republi-

cans and the Obama adminis-

tration repeatedly pushed the

envelope on debt-ceiling

brinkmanship, unsettling mar-

kets. This is the first time the

Trump administration navi-

gates the issue with some-

times unruly GOP congressio-

nal majorities.

While the deadlines have

been well known for months,

it isn't yet clear how Congress

and the administration will re-

solve the issue. One sign of

the new administration's un-

predictability came this month

after President Donald Trump

agreed to a short-term fund-

ing bill. Mr. Trump said on

Twitter the U.S. might benefit

from a "good shutdown" this

fall to force a confrontation

over government spending.

Congress and the White House

have been unable to agree on

a deal to raise the debt limit

since October.

Analysts initially said those

steps might last into the fall,

but Treasury Secretary

Steven Mnuchin last week

asked Congress to raise the

borrowing limit before law-

makers head home for their

August recess. White House

budget director Mick Mulvan-

ney told lawmakers that was

necessary because federal re-

ceipts have been coming in "a

little bit slower than ex-

<

WORLD NEWS

Pyongyang Steps Up Hacks

Seoul alleges teams of cyberattackers use new techniques and have distinct targets

By TIMOTHY W. MARTIN

SEOUL—Between February and May, South Korean cybersecurity experts noticed intrusions at government-affiliated websites following a new pattern: They used a technique that doesn't require tainted email links or forceful server assaults.

The culprit, the experts concluded, was North Korea.

Pyongyang has been blamed for headline-grabbing cyberattacks dating back to 2014's Sony Pictures Entertainment hack and continuing with last year's daring cyberheist at Bangladesh's central bank and this month's WannaCry global ransomware attack. But cybersecurity experts in South Korea—where government agencies and groups are the target of some 1.4 million daily hacking attempts suspected to originate from North Korea—have a much longer familiarity with its work.

North Korea's capabilities, they say, are improving quickly.

The country's cyberattacking operation, South Korean officials believe, comprises six groups and 1,300 hackers, with a dozen supporting organizations of 5,000 more hackers.

South Korean officials sort them into three teams: The A



The Korea Internet and Security Agency monitors cyberattacks.

team—often called "Lazarus" by foreign research firms—attacks foreign banks and companies, they say, the B team focuses on South Korea, and the C team blasts out emails and collects information.

Pyongyang's involvement in several assaults is suspected from their carrying internet protocol addresses traceable to North Korea—some revealed for just a few seconds—security researchers say, though some say this could be an intentional misdirection.

"North Korean hackers are getting stronger and their skill is also improving," says Simon Choi, a director at Hauri Inc., a Seoul-based cybersecurity firm, who detailed fresh attacks by North Korea in a re-

port to be published this week by the Cyber Warfare Intelligence Center. The research group is made up of South Korea's top security experts, students of North Korea's cyberattacks for nearly a decade.

Mr. Choi, who has been a cybersecurity consultant to government groups since 2008, says he has conversed with people he believes to be North Korean operatives, swapping encrypted messages in Twitter's application-programming interface. One, he said, asked, "How do you know who I am?"

The suspected North Korean cyberattacks have mostly aimed to gather foreign intelligence, especially from South Korea, though recent bank assaults have sought financial

gains. Several security experts view the WannaCry attack as less a shakedown for money than a display of proficiency. Some doubt North Korea's involvement.

In the hacks of recent months detailed in the CWIC report—"Operation Golden Axe," the report calls it—North Korea has turned to a relatively new technique to indirectly undermine South Korean government institutions: the "watering-hole attack."

North Korea's B Team infected nine sites—belonging to trade associations, research institutes and industry groups—that are frequented by lawmakers, military officials and diplomats. Visitors unknowingly picked up viruses that planted malware onto their computers, bypassing the digital defenses erected by their battle-tested employers.

The evidence of North Korean culpability, the CWIC research say, is similarities in the logic of the code and protocols to prior North Korean assaults. It is unknown how many computers were infected or what data, if any, was stolen, CWIC said.

"They've found a way to go through the computer without being caught," said Mr. Choi, adding that GoldenAxe has no overlap with the WannaCry attack.

—Min Sun Lee in Seoul
and Robert McMillan
in San Francisco
contributed to this article.

U.S. Planes Drill Near North Korea

By JONATHAN CHENG

SEOUL—The U.S. and South Korea conducted a joint drill involving U.S. B-1B bombers, the second such exercise this month and a move North Korea called "a grave military provocation," after the North test-launched a short-range ballistic missile the same day.

The drill, which North Korea said took place on Monday over South Korea and near the Military Demarcation Line that divides the two Koreas, was confirmed by a spokesman for South Korea's South Korea's Ministry of National Defense.

The spokesman said the South Korean air force conducted the joint drill with the U.S. but declined to give further details or to say how many B-1B bombers were involved.

Lt. Col. Lori Hodge, a spokeswoman for the U.S. Pacific Air Force Command, wouldn't comment on the particulars of the mission, saying only that the U.S. has "maintained a rotational strategic bomber presence in the region for more than a decade."

She added that the aircraft "provide a significant capability that enables our readiness and commitment to deterrence" and reassured allies in the region.

On May 1, the U.S. sent a pair of B-1B bombers to an area around the Korean Peninsula.

sula to conduct exercises with the South Korean and Japanese air forces, following a failed North Korean missile test days earlier.

In that case, as with the most recent one, South Korea confirmed the joint exercise only after North Korea first publicized it in its state media.

North Korea accused the U.S. of staging a "nuclear-bomb-dropping drill" with the bombers, which it sees as a new provocation in addition to the presence of the USS Carl Vinson and the USS Ronald Reagan, two aircraft carriers that are operating near the Korean Peninsula.

"The U.S. imperialists' ever-more reckless military provocation clearly proves that their talk about 'dialogue' is nothing but hypocrisy to disarm the DPRK and their wild ambition to eliminate the DPRK with nukes remains unchanged even a bit," the statement said, using the acronym for North Korea's formal name, the Democratic People's Republic of Korea.

The Monday flyover came hours after North Korea test-launched a short-range missile that it said featured a speeded-up launch process and a precision-control guidance system that can zero in within 23 feet of a target.

—Gordon Lubold
contributed to this article.

Former Panamanian Dictator Dies at 83

By JOSÉ DE CÓRDOBA

Panama's former military strongman, Manuel Antonio Noriega, a once-valued U.S. spy asset who was later overthrown as an accused drug lord in a 1989 U.S. invasion, died at a Panama City hospital at the age of 83.

Gen. Noriega died of complications from a March surgery to remove a benign brain tumor. He had been in an induced coma since then, according to local media.

OBITUARY
MANUEL NORIEGA
1934-2017

The former dictator had been in prison in the U.S., France and Panama since surrendering to U.S. troops in 1990.

"The death of Manual A. Noriega closes a chapter in our history; his daughters and his relatives deserve to carry out his funeral in peace," Panamanian President Juan Carlos Varela said on Twitter.

Gen. Noriega was indicted on drug-trafficking charges in Florida in 1988 and in May 1989, he voided the result of national elections after his preferred presidential candidate appeared to lose. When U.S.-imposed economic sanctions failed to force the dictator from power, President George H.W. Bush ordered nearly 30,000 U.S. troops to invade Panama and depose Gen. Noriega, who had effectively ruled the country since 1983.

As his forces collapsed, the strongman took refuge in the Vatican Embassy in Panama City. U.S. soldiers blasted rock 'n' roll music from huge speakers to wear down his resistance. After 10 days, Gen. Noriega, popularly known as Cara de Piña, or Pineapple Face, for his acne scars, surrendered to U.S. soldiers.

Gen. Noriega was flown to Miami, where he stood trial on drug and money-laundering charges. A parade of 26 drug dealers testified how he turned Panama into a paradise for money laundering and a transit

hub for Colombian cocaine. He was convicted in 1992 and sentenced to 40 years in prison.

Coming at the end of a bloody decade of civil wars and U.S. Cold War confrontation with Soviet surrogates in Central America, the Panama invasion proved to be the last time U.S. troops were deployed in the region to overthrow a local强man.

"The U.S. knew Noriega was a drug trafficker for years, but didn't act against him because he was helpful in the Cold War," said Michael Shifter, president of the Washington-based Inter-American Dialogue. "When the Cold War ended, and the drug issue became more salient, Washington ousted him."

The invasion, dubbed "Operation Just Cause" by the Pentagon, was a traumatic incident for Panama. U.S. long-distance bombers attacked Panamanian military bases, while armored columns destroyed Panama's military headquarters, along with much of the crowded, poor neighborhood that surrounded it.

Panama's military suffered 234 deaths, while the U.S. military reported 23 casualties. Estimates of Panamanian civilian casualties range from 300 to 3,500. While most Panamanians were relieved to be liberated from Mr. Noriega's rule, many still consider the U.S. invasion a national tragedy.

By the time of his death, the once fearful figure of Mr. Noriega had been largely forgotten by many Panamanians, whose country had been transformed in the nearly three decades since his removal from a sleepy, roguish tropical city into a hypermodern metropolis with traffic-jammed streets and a skyline of skyscrapers.

For many Panamanians, Mr. Noriega remains a dark reminder of the country's worst period. "He was a dictator and history will always remember him like that," said Rita Vasquez, the deputy director of La Prensa, a newspaper that played a strong opposition role during the Noriega years.



Gen. Manuel Noriega, center, with supporters in 1987 in Panama.

Goldman Sachs Comes Under Fire For \$2.8 Billion Venezuela Bond Deal

Goldman Sachs Group Inc. is on the defensive in Venezuela after it bought bonds that had been held by the struggling country's central bank in a transaction the government's opposition decried as a lifeline to President Nicolás Maduro's embattled administration.

By Kajal Vyas and Anatoly Kurmanov in Caracas, Venezuela, and Julie Wernau in New York

Goldman's purchase of \$2.8 billion in bonds, first reported by The Wall Street Journal on Sunday, comes as Mr. Maduro's detractors have recently pleaded with international financial institutions to avoid any transactions that might help a government accused of human-rights abuses.

On Monday, they upped the ante, threatening that a successor government could forgive the debt.

"It is apparent Goldman Sachs decided to make a quick buck off the suffering of the Venezuelan people," Julio Borges, head of Venezuela's opposition-controlled congress, said in a public letter to the New York bank's chief executive, Lloyd Blankfein. "I also intend to recommend to any future democratic government of Venezuela not to recognize or pay on these bonds."

Goldman Sachs's asset-management division last week paid about \$865 million for \$2.8 billion worth of bonds—

or 31 cents on the dollar—that were issued by state oil company **Petróleos de Venezuela SA** in 2014 and mature in 2022, according to people familiar with the transaction.

The price represents a 31% discount to trading Venezuelan securities that mature the same year—and would imply an annual yield of more than 40%.

In a statement, Goldman said it bought the securities, which are held in funds and accounts it manages on behalf of clients, from a broker and didn't interact with the Venezuelan government. "We recognize that the situation is complex and evolving and that Venezuela is in crisis," the bank said. "We agree that life there has to get better, and we made the investment in part because we believe it will."

Goldman Sachs Asset Management manages \$750 billion of fixed-income investments for mutual funds, pension funds and other investors, about \$40 billion of which is dedicated to emerging markets. It bought the bonds from London-based brokerage Dinosaur Group, people familiar with the sale said. Dinosaur Chief Executive Glenn Grossman declined to comment.

Goldman has been steadily increasing its Venezuelan holdings in recent months, betting that a change in government could more than double the value of the debt if the country, which sits atop the world's largest oil reserves, reforms its economy, two of

those familiar with the transaction said.

The so-called PdVSA bonds that Goldman picked up last week had until recently been in the possession of Venezuela's central bank since they were issued in a private placement in late 2014. It is unclear whom Venezuela sold the bonds to or how many investors held them before reaching Goldman.

The Central Bank of Venezuela's international reserves jumped \$442 million to \$10.8 billion on Thursday, the day the bond deal was completed, according to official figures.

Two senior Venezuelan government officials confirmed the deal but declined to give more details. "There was a need for hard currency," one of them said.

Last week, Oil Minister Nelson Martinez said his government was looking at "all options" to raise money it owes to key allies like Russia and China.

Venezuela's government, faced with low oil prices and the effects of years of economic mismanagement, is so short of cash that it has reduced imports by about 70% in the past three years, leading to a growing humanitarian crisis and spawning two months of almost-daily street demonstrations that have cost at least 60 lives.

"This government is killing us," said Santa Ojeda, a 50-year-old homemaker who said she can't find drugs for her diabetic teenage son. At a recent rally here, she held up a sign

that read "Venezuela Without Insulin S.O.S."

Amid the malaise, which has made hunger a palpable concern for millions in the oil-rich nation, Mr. Maduro has committed to paying its financial debts, partly because Venezuela wants to avoid the risk of angry creditors trying to seize its international oil shipments in the case of default. That has led some economists to dub the country's securities "hunger bonds."

The situation also is reminiscent of Romania under dictator Nicolae Ceausescu, who forced strict food rationing in order to pay off loans. Generating widespread resentment at a time when Communist regimes were falling across Eastern Europe, Mr. Ceausescu eventually was overthrown and executed by firing squad in 1989.

Venezuela will spend nearly as much money this year servicing its foreign debt—about \$10 billion—as it will spend on all non-oil imports, including food and medicine, according to estimates by Nomura Securities.

Mr. Borges said the country's opposition-controlled National Assembly—which he heads—will launch an investigation into the Goldman transaction. He also warned that any future opposition government "would not forget where Goldman Sachs stood when it had to choose between supporting the Maduro dictatorship and democracy for our country."

WORLD NEWS

One Family's Toll in Egypt Attack: 7 Dead

BY DAHLIA KHOLAIF

CAIRO—Like Coptic Christian pilgrims over the centuries, Samia Markous was heading to the ancient St. Samuel Monastery south of Cairo when, she said, her "world flipped upside down."

Islamic State gunmen boarded the tour bus and opened fire on passengers, killing 30 people. Mrs. Markous, who lives in the Chicago area, said her husband and six other family members were among the dead.

The attack in Minya province, about 190 miles south of the Egyptian capital, was the deadliest terrorist attack ever on Egypt's Coptic Christian minority.

The couple had come from the U.S. on their first trip to Egypt in nearly two years for a pilgrimage of gratitude. Mrs. Markous's husband, Mohsen, had successfully recovered from lung surgery and recently became a naturalized American citizen.

"We came to get blessings and rejoice with our children," said Mrs. Markous, who was recovering from bullet wounds to her thighs in a Cairo hospital. She winced in pain as she spoke.

Friday's bus ambush marked the latest in a series of Islamic State attacks on Copts since December, including three bombings of Coptic churches that killed 70 people.

Egyptian President Abdel Fattah Al Sisi, facing increasing criticism from Copts who



Coptic priests walked through Egypt's St. Samuel Monastery on Saturday, a day after Islamic State gunmen attacked Coptic pilgrims.

ROGER ANIS/DPA/ZUMA PRESS

say he has failed to protect them, ordered rare cross-border airstrikes on militant camps in Libya in the wake of the attack.

The strikes were aimed at the Libyan city of Derna. Forces headed by a Sisi ally, Gen. Khalifa Haftar, say the city is home to armed groups linked to al Qaeda, but not Is-

amic State, which was driven out in 2015.

On Tuesday, the Libyan National Army said it had set up an operations room to coordinate airstrikes with Egypt. Spokesmen for both militaries declined to give more detail on the arrangement, including whether Egypt had launched any additional airstrikes after

the initial round.

A spokesman for Mr. Sisi also didn't respond to messages and calls seeking comment. Mr. Sisi, in a televised speech following the Friday attack, said the gunmen had trained in unspecified militant camps in Libya.

Mr. Markous, his two adult sons, a teenage grandson, a

four-year-old granddaughter and one other relative were killed in the attack.

Visitors to Mrs. Markous's hospital room kissed her hand, asking for her blessings and offering condolences. They told her that her family members were in a better place and marveled at an interview she gave to a local television

station in which she said she is praying for the murderers.

She recalled the attack in a low voice and short sentences punctuated by deep breaths. "It was like the world flipped upside down around us," she recalled. "There was heavy gunfire."

Mrs. Markous said she couldn't see well from where she was seated, but she recalled her son, Sameh, opening the door of the small bus. He recoiled and fell back from shots to his head.

"Then it was his brother-in-law, and the rest followed," she said, numbly recounting the sequence of shootings.

Several gunmen boarded the bus and demanded that the occupants recite the Muslim creed. Those who refused—or who answered with Christian hymns—were immediately killed, she said.

In an effort to save a relative who had a gun pointed at him, Mrs. Markous said she removed her gold jewelry and handed it to a gunman. He shot her family member anyway.

"May the Lord forgive them," she said.

A family friend, Samuel Mokhtar, said Mrs. Markous will return to the U.S. only if her daughters-in-law whose husbands were killed and her grandchildren who lost their fathers accompany her.

"She won't leave them behind," he said. "After all that has happened."

—Tamer El-Ghobashy contributed to this article.

Baghdad Car Bombings Hit Ramadan Celebrants

BY GHASSAN ADNAN AND BEN KESLING

BAGHDAD—Two car bombings in the Iraqi capital early Tuesday killed at least two dozen people and injured 60 others, Iraqi officials said, in attacks that targeted families during the holy month of Ramadan.

Islamic State claimed responsibility for a blast outside a popular ice-cream shop in Baghdad just after midnight that Iraqi officials said killed at least 14 people and injured 30 others. The Sunni extremist group said it sought to kill Shiites in the Karrada neighborhood, which has been targeted by major bombings in the past.

In a separate attack, hours after the ice-cream shop explosion, a car bomb was detonated outside the main pension office in Baghdad, killing at least 10 people and injuring around 30, Iraqi officials said. No group immediately claimed

responsibility for the bombing.

The attacks came days after the Iraqi military began another phase of the campaign against Islamic State militants in the northern Iraqi city of Mosul after months of brutal house-to-house combat.

"The Daesh terrorist group attacks people during Ramadan days, this is evidence of how evil this group is," Interior Minister Qassim al-Araji said, using another name for Islamic State. "Everything has a price and this is the price of freedom," he said.

The holy month of Ramadan is a time of prayer and spiritual reflection for many Muslims, who fast during daylight hours. Some extremist groups such as Islamic State, however, claim killing enemies is noble and more worthy during the period.

Iraqis usually spend time with family and friends during Ramadan, often crowding restaurants and cafes late into

the night after breaking their fasts.

The Faqma ice-cream shop is a popular destination for families and couples in the Iraqi capital.

Unconfirmed social-media posts in the aftermath of the bombing showed children weeping as they wandered through flaming rubble. Blood-stained sidewalks outside the shop were littered with pink ice-cream cups dropped in the melee.

"ISIS terrorists tonight in Baghdad target children & families enjoying time together at an ice cream shop," Brett McGurk, the U.S. envoy for the coalition fighting Islamic State said in a tweet soon after the bombing. "We stand w/Iraq against this evil."

High-profile bombings like the ice-cream parlor attack are interspersed with other, smaller blasts that happen almost daily in Baghdad. They are a reminder of Islamic

State's ability to terrorize people in enclaves of the nation's capital that were thought to be protected.

Last July, Islamic State claimed a truck bombing that killed more than 300 people in the Karrada neighborhood, many of them trapped by fire in a shopping mall as they prepared for celebrations marking the end of Ramadan. The huge blast, which took place before the launch of the offensive against Islamic State to push them from their Iraqi stronghold of Mosul, had raised questions about security inside the Iraqi capital.

Though they have all but

lost Mosul, Islamic State still controls pockets of territory in the country, including some smaller towns.

After Mosul is retaken, the Iraqi military and Kurdish Peshmerga fighters are expected to turn to those areas to drive the militant group from Iraq.

WORLD WATCH

BANGLADESH

Storm Lashes South, Destroying Homes

A tropical storm lashed southern Bangladesh, killing at least three people and destroying thousands of poorly built homes in remote islands in the Bay of Bengal, officials said.

Tropical Storm Mora started crossing the southern coastal region early Tuesday. Some 300,000 people were moved to safety or evacuated on Monday as the nation braced for its first strong storm of the year. More than 1,000 shelters were set up in several districts, including Cox's Bazar and Chittagong.

Cox's Bazar's chief government administrator, Ali Hossain, said two women and a man were killed by the storm. Some 20,000 homes were destroyed in the region, Mr. Hossain said.

A Saint Martins public representative said strong winds flattened many homes on the island. About 8,000 residents moved to shelters and hotels. Many of the 22,000 people on Cox's Bazar's Moheshkhali Island, where 10,000 died in a 1991 cyclone, moved to shelters.

—Associated Press

mained in relief camps Tuesday, as aid teams bolstered by Indian navy divers and doctors pushed forward with rescue efforts.

At least 194 people have been killed and nearly 100 are missing following the rains that began swamping the southern and western areas of the Indian Ocean island nation on Friday.

The weather has begun to clear, and many of the more

than 100,000 people who evacuated over the weekend had returned home to begin clearing debris and mud from their waterlogged homes. More than 80,000 others remained in relief camps because their homes were either destroyed or remain unreachable.

The tropical storm that had unleashed last week's downpours, meanwhile, moved farther north and destroyed thousands of coastal homes in Bangladesh.

—Associated Press

PHILIPPINES

Priest Says Militants Are Holding Hundreds

A Catholic priest who was taken hostage by militants linked to the Islamic State group

says he is being held alongside 200 other captives, including children, in what appeared to be a battle-scarred part of a southern Philippine city.

In a video apparently taken under duress by militants, Father Teresito Suganob said his captors wanted the military to withdraw its forces from Marawi, where Islamic militants still hold pockets of territory af-

ter a week of gunbattles with the army.

Marawi Bishop Edwin de la Pena confirmed that it was Father Suganob in the video.

Father Suganob said in the video that he was taken prisoner along with a professor from Mindanao State University, two female church workers and seven teachers. "Along with us are about 200 carpenters, household helpers, children and youth, and ordinary Christian settlers," he said.

The siege in Marawi followed an unsuccessful army raid a week ago that attempted to capture militant commander Isnilon Hapilon, who has been designated by the Islamic State group as its leader in the Philippines.

Marawi, a mosque-studded city about 500 miles southeast of Manila, is regarded as the heartland of Islam on southern Mindanao island.

Mr. Hapilon escaped and gunmen loyal to him swept through the city of 200,000 people, torching buildings and taking hostages.

Soldiers have now taken control of about 70% of Marawi, military chief of staff Gen. Eduardo Año said Tuesday. More than 100 militants, government forces and civilians have been killed.

Up to 90% of Marawi's people have fled to safety amid the intense fighting and military airstrikes, and rescuers in ambulance vans have crisscrossed the city in recent days to save hundreds of trapped residents.

—Associated Press

SRI LANKA

Thousands Remain Stranded by Floods

Tens of thousands of people marooned by severe flooding and mudslides in Sri Lanka re-



AGENCE FRANCE PRESSE/GETTY IMAGES

Bangladeshi villagers flee the storm near the district of Cox's Bazar, where three died and tens of thousands of homes were destroyed.

WORLD NEWS

May Cites Brexit Role As Polls Slip

By JASON DOUGLAS

LONDON—U.K. Prime Minister Theresa May sought to revitalize her election campaign Tuesday by arguing that only she can deliver the successful Brexit the country voted for last year.

In a speech in Wolverhampton, England, ahead of a national election June 8, Mrs. May said that the governing Conservative Party is “100% committed” to Brexit and has a clear plan to see it through.

Opposition parties, she said, wish to unravel the referendum result, which she described as a quiet revolution in British society.

“Everything depends on getting Brexit right. So the central question in this election is who has the will and, crucially, the plan, to make a success of Brexit,” Mrs. May said.

Her latest appeal to voters comes after a succession of opinion polls have signaled a steady erosion the center-right Conservatives’ lead over the main opposition Labour

Party, led by veteran left-winger Jeremy Corbyn.

A survey of more than 2,000 adults conducted May 25 and 26 by YouGov PLC put the Conservatives on 43% of the vote against Labour’s 36%, with the remainder planning on voting for smaller parties. The results exclude those who haven’t decided or plan to abstain.

Mrs. May’s 7-point lead in the latest YouGov survey compares with earlier polls that gave her a double-digit advantage over Mr. Corbyn and Labour, with some putting the gap in excess of 20 points. Pollsters say the narrowing has mostly been driven by steady Labour gains as previous supporters who had been wary of Mr. Corbyn have steadily come back to the fold.

Mrs. May in her speech reiterated the negotiating priorities for coming talks with Brussels that she first set out late in 2016.

She said the U.K. plans to relinquish its membership of



Prime Minister Theresa May makes a campaign appearance in Wolverhampton ahead of the June 8 general election.

the EU’s single market for goods and services and will instead negotiate a bold and ambitious new free-trade accord with the bloc. She said London wants to continue to cooperate with the EU on issues including crime and terrorism and is willing to guarantee the rights of EU citizens resident in Britain, provided British citizens elsewhere in the EU are granted

the same deal.

Mrs. May repeated a campaign mantra that a bigger majority for the Conservatives would strengthen her hand in exit talks, which she said are due to start 11 days after the June 8 vote.

“I am clear about the instruction I am given, clear about what needs to be done and ready to get on the job from day one,” Mrs. May said.

Her speech came a week after a suicide bombing in Manchester killed 22 concertgoers and temporarily brought election campaigning to a halt.

Mrs. May and Mr. Corbyn faced back-to-back interviews on British television Monday and took questions from an audience. Mrs. May reiterated that she is prepared to walk away from negotiations if she

can’t get a good deal on Brexit from the EU.

Mr. Corbyn’s campaign has focused much more heavily on domestic issues and public services such as health. His party has pledged to nationalize railways and water companies and raise taxes on the rich if it wins power.

Labour didn’t respond to a request to comment on Mrs. May’s speech.



Angela Merkel is trying to rally domestic support while preserving Atlantic institutions, allies say.

Merkel Softens Her Tone On Trans-Atlantic Relations

By ANTON TROIANOVSKI

BERLIN—A day after she referred to the U.S. as a not-always-reliable ally, German Chancellor Angela Merkel on Monday offered an addendum, saying the trans-Atlantic alliance is “of paramount importance.”

In doing so, Ms. Merkel modulated her earlier comments, which had sparked talk in the U.S. of a strategic realignment by Germany but which a person close to her said had been largely targeted at a domestic audience.

Ms. Merkel, speaking Monday at a conference on sustainable development in Berlin, repeated the implicit criticism of President Donald Trump that she delivered at a beer-tent campaign event in Munich on Sunday, but she leavened it with a more emphatic commitment to partnership with the U.S. The world leaders’ meetings of recent days, she said, had shown her that “the times in which we can completely rely on others are partly over.”

“We are and will remain convinced trans-Atlanticists,” she said, “but we also know that we Europeans must truly take our destiny into our own hands.”

Some U.S. analysts de-

scribed her Sunday comments as a paradigm shift in German

man of the parliament’s foreign affairs committee. “We must do all we can to make sure that they still exist and are in good shape even after the Trump presidency ends.”

Mr. Trump’s threats to exit from the Paris climate agreement and to punish German exports have rattled the public here, with faith in the U.S. as a reliable partner falling to 29% in April from 59% in early November.

After Mr. Trump failed to commit to the Paris agreement last weekend, Ms. Merkel referred to the discussion on climate at the summit as “very unsatisfactory.” Berlin has also been stung that Mr. Trump, on his European visit, left unmentioned the U.S. commitment to defending its North Atlantic Treaty Organization allies if one of them is attacked.

On Monday, leading German politicians took turns slamming the U.S. president.

Ms. Merkel’s conservative parliamentary group issued a statement saying Mr. Trump had “placed into question the U.S.’s claim to leadership, undisputed for decades.” Martin Schulz, the center-left challenger to Ms. Merkel in the September elections, in the Tagesspiegel newspaper described Mr. Trump’s approach as “political extortion rather than international diplomacy.”

And German Foreign Minister Sigmar Gabriel described U.S. policy on migration, climate, and arms sales as standing “against the interests of the European Union.”

“Those who don’t counter this U.S. policy make themselves complicit in it,” Mr. Gabriel said.

Still, Germany hopes that Mr. Trump’s policies represent “a temporary phenomenon” in U.S. foreign policy, said Volker Perthes, head of the German Institute for International and Security Affairs.

The U.S. State Department declined to comment Monday.

Ms. Merkel chose her words Sunday carefully and knew they would attract attention, a person close to Ms. Merkel said. Nevertheless, she was mainly addressing Germans, calling on them to stand together in the face of a new challenge. “The trans-Atlantic alliance and its institutions are not in themselves in question—only Trump is putting them into question,” said lawmaker Norbert Röttgen, an ally of Ms. Merkel and chair-

On the one hand, Ms. Merkel needs the votes of a domestic public in which Mr. Trump is unpopular. On the other, people close to her say, she continues to be persuaded that close ties with the U.S. are vital to European interests.

That is why allies of Ms. Merkel insisted Monday that the chancellor’s tough words

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U.S. NEWS

Eradicate Filibuster, Trump Recommends

President suggests changing longstanding rules in Senate; fellow Republicans disagree

President Donald Trump called Tuesday for a change to Senate rules to allow all bills to pass with a simple majority, elbowing aside Senate Republicans' current legislative strategy on taxes and health care that already rests on obtaining such a majority.

By Louise Radnofsky,
Richard Rubin
and Siobhan Hughes

"The U.S. Senate should switch to 51 votes, immediately, and get Healthcare and TAX CUTS approved, fast and easy. Dems would do it, no doubt!" Mr. Trump, a Republican, wrote on Twitter.

Mr. Trump's comments about his two top legislative priorities come as GOP leaders are already using a special procedure known as "reconciliation"—which requires only a simple majority of votes in the 100-member Senate—to consider health-care legislation. They are planning to use the

same rules for a later tax overhaul.

The president's request for a 51-vote majority would end the current 60-vote threshold on most bills, allowing the Republican majority to advance any legislation without being impeded by the Democratic minority. Republicans currently holds 52 seats in the Senate.

Senate Republicans, including Majority Leader Mitch McConnell (R., Ky.), have said they have no intention of ending the filibuster on legislation.

Democrats, when they were in power in the Senate in 2013, ended the filibuster on confirming executive branch appointments and most judges, while Republicans ended the filibuster for Supreme Court nominees earlier this year.

In reaction to the tweet, Republicans highlighted that they are already using a procedure that would allow the party to pass changes to health care and taxes on a simple-majority vote.

"Senator McConnell agrees that both health care and tax reform are essential, and that is why Republicans in Congress are using the reconcilia-

tion process to prevent a partisan filibuster of these two critical legislative agenda items," said Antonia Ferrier, a spokeswoman for Mr. McConnell, in a statement.

She also pointed to Mr. McConnell's statement last month that the Senate wasn't interested in ending filibusters for legislation, as it did when it changed its procedures to confirm nominees to the Supreme Court with a simple majority.

"There's not a single senator in the majority who thinks we ought to change the legislative filibuster—not one," Mr. McConnell said in April.

Mr. Trump also floated the idea of eliminating the filibuster in early May, which was also dismissed by lawmakers at the time.

Lawmakers refer to the idea that Mr. Trump backed as the "nuclear option" as a way of describing how much it would alter the upper chamber's cultural and procedural norms.

Health care and taxes are rare examples of efforts to move policy through the so-called reconciliation process. Other prized GOP goals are off limits without a full 60 votes.

Mr. Trump's tweets have



President Trump wants to change Senate rules, allowing all bills to pass by a simple majority.

kept his allies and opponents off balance during policy fights. His tweet Tuesday, and a previous one over the weekend, raised new questions about how he views the tax overhaul and the health-care plan.

Mr. Trump's reference to "TAX CUTS" stands in contrast to his own proposed budget, released last week. Mick Mulvaney, the president's budget director, said the budget assumes that there wouldn't be a net tax cut, though Treasury Secretary Steven Mnuchin appeared to contradict that in simultaneous congressional testimony,

by saying that tax cuts would be paid for partly with stronger economic growth.

On Sunday, Mr. Trump tweeted about the health-care legislation that has already passed the House after a tough fight, which his aides hope won't be tossed aside by the Senate in a bid to start from scratch.

"I suggest that we add more dollars to Healthcare and make it the best anywhere. ObamaCare is dead - the Republicans will do much better!" he wrote.

The GOP plan currently rests on a repeal of the 2010 Affordable Care Act, and

much of the spending associated with it, and a new set of provisions offering financial assistance and incentives for people to obtain health coverage. Throwing out the 2010 health law and enacting the Republican replacement would result in less federal spending, not more, according to the Congressional Budget Office.

Republicans have invested months of effort in using the reconciliation maneuver, which brings particular complications because it is tied to the budget process and limits the scope of what can be considered.

"After some softness in the details of the inflation data throughout March and April, driven by one-off factors in our view, we expect inflation to firm" in the coming months, Barclays economist Blerina Uruçi said in a note to clients.

Fed officials have signaled that they remain on track to continue raising short-term interest rates in the coming months. Investors and private economists expect the U.S. central bank will likely raise its benchmark federal-funds rate in mid-June by a quarter percentage point, to a range of 1% to 1.25%.

With respect to "the inflation side of our mandate, we're still on track," Federal Reserve Bank of Philadelphia President Patrick Harker said in a speech last week. "While numbers have retreated slightly...I'm looking at the trend. A month or two in the wrong direction isn't enough to make me lose faith."

—Josh Mitchell contributed to this article.



Economists had predicted consumption would pick up in the second quarter. Above, shoppers at a New York farmer's market.

The Fed has set a target of 2% annual inflation as consistent with its legal mandate to promote stable prices. Annual headline inflation as measured by the PCE index was

2.1% in February, the first time it had met or exceeded the Fed's target in nearly five years. But price pressures have diminished somewhat over the past two months.

Consumer Spending Rises, Signals Economic Rebound

By BEN LEUBSDORF

WASHINGTON—Americans ramped up their spending in April at the fastest pace in four months, offering fresh evidence the U.S. economy is rebounding this spring after a lackluster winter.

Personal-consumption expenditures, a measure of household spending on everything from groceries to medical care, increased a seasonally adjusted 0.4% in April from the prior month, the Commerce Department said Tuesday.

That matched economists' expectations and was the largest one-month rise since December.

"The fundamentals for consumer spending are still pretty good: income growth, inflation is low, low interest rates, rising household wealth," said Gus Faucher, chief economist at PNC Financial Services Group.

Incomes also grew last month.

Personal income, a broad measure that includes wages and government assistance, increased 0.4% from March. The personal-saving rate was steady in April at 5.3%.

Consumer spending and broader economic growth slowed over the winter

Personal income rose 0.4% in April, while the personal-saving rate was steady.

months. Multiple factors were at work, including mild winter weather that reduced the need for home heating and delayed income-tax refunds for many households.

Economists had predicted consumption would pick up in the second quarter with the support of low unemployment, continued job gains and rising incomes. That rebound, now in progress, is

set to boost the overall economy. The Federal Reserve Bank of Atlanta's GDPNow model on Tuesday predicted gross domestic product would expand at a 3.8% seasonally and inflation-adjusted annual rate in the second quarter, up from the first quarter's 1.2% growth rate.

Also Tuesday, the Commerce Department said the Federal Reserve's preferred measure of inflation, the price index for personal-consumption expenditures, largely rebounded in April. It rose 0.2% from the prior month after falling 0.2% in March. Excluding the often-volatile categories of food and energy, so-called core prices were up 0.2% in April after dipping 0.1% in March.

Still, inflation continued to weaken on a year-over-year basis. Overall prices rose 1.7% in April from a year earlier, down from 1.9% in March. Core prices were up 1.5% on the year in April, their weakest annual gain since December 2015.



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Enforcement Push Targets Violence

By SHIBANI MAHTANI

CHICAGO—A concerted effort here to reduce violent crime during the Memorial Day weekend appears to have led to a drop in shootings.

Increased police presence across the nation's third-largest city and raids targeting gangs helped drive a reduction in violent crime, authorities said, with about half as many people shot than during the holiday weekend last year.

As of 11:59 p.m. Monday, 44 people had been shot in 33 incidents since Friday evening, compared with 61 people shot in 47 incidents over the year-earlier period.

Last year's violence over the Memorial Day weekend was the start of a bloody summer in the city. The year ended with more than 4,000 shootings and 762 homicides, the largest single-year increase in violent crime that any of the five largest American cities had experienced in at least 25 years.

The drop this holiday weekend suggests police are having initial success in bringing down violent crime through stepped-up enforcement and cooperation with federal agencies.

Speaking on Friday, Police Superintendent Eddie Johnson said the main difference is seeing police on the streets.



Chicago had 21 shooting incidents over the holiday weekend, compared with 35 during the year-earlier period. Above, police at the scene of one of the weekend shootings.

ing they are prepared.

"We have a small subsection of individuals that refuse to play by society's rules," said Superintendent Johnson on Friday.

We've put everything in place to ensure public safety...If they [commit] a violent act we'll be there to hold them accountable for it," he said.

The holiday weekend began with several gang raids, a culmination of cooperation between Chicago police and federal authorities. Parallel anti-violence and gang raids resulted in 77 arrests, the seizure of 10 illegal guns, more than 176 traffic citations and the confiscation of illegal drugs

as of Saturday night, largely concentrated in the south and west side.

All of the raids and arrests were timed to remove some of the most violent individuals from our streets during the Memorial Day weekend," said Anthony Riccio, chief of the bureau of organized crime.

Still, two people were fatally shot, compared with five last year.

Among the several wounded were two who had been shot early Monday along Interstate 55, which runs through the city, police said.

Police continued to remain

visible and proactive through Monday, patrolling the lake-

front on bicycles and doing so on foot in downtown and central areas of the city amid the many outdoor barbecues being held on a warm day.

Illinois State Police, in addition, have been leading traffic-safety initiatives on Chicago area expressways.

Chicago police have invested heavily in high-tech tools for predictive policing, which they say will help them head off violence before it happens in specific neighborhoods.

Academics have expressed skepticism of such tools, saying the data are too imprecise for researchers to know if the strategy is having the intended impact on violent crime.

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RESIGN

Continued from Page One
one of the tweets related to his son-in-law and adviser Jared Kushner.

"Russian officials must be laughing at the U.S. & how a lame excuse for why the Dems lost the election has taken over the Fake News," Mr. Trump, a Republican, wrote.

In the other, he retweeted a "Fox & Friends" tweet that said, "Jared Kushner didn't suggest Russian communications channel in meeting, source says." The tweet links to a Fox News article that cites a source saying the Russians broached the idea of Mr. Kushner's December meeting with Russian Ambassador Sergei Kislyak, not Mr. Kushner.

During the transition, Mr. Kushner considered setting up a secret communications line with Russia to discuss the country's military operations, a person familiar with the matter previously told the Journal.

The idea was discussed in the December meeting with Mr. Kislyak, this person said. As part of its larger probe, the FBI is scrutinizing Mr. Kushner's contacts with Russians.

Earlier this month, the Justice Department appointed Robert Mueller, a former FBI director, as a special counsel charged with investigating Russia's alleged interference in the 2016 presidential election and whether associates of Mr. Trump colluded with Moscow.

Russian officials have denied meddling in the election, and Mr. Trump has denied any collusion.

Also on Tuesday morning, Mr. Trump criticized Germany over military spending and trade.

"We have a MASSIVE trade deficit with Germany, plus they pay FAR LESS than they should on NATO & military," Mr. Trump wrote. "Very bad for U.S. This will change."

On Sunday, Chancellor Angela Merkel of Germany, who spent two days negotiating with Mr. Trump on trade and climate policy during Mr. Trump's recent trip overseas, urged Europeans to unify in response to uncertainty from the U.S. on key issues.

"The times in which we could rely on others completely—they are partly past...we Europeans must truly take our destiny in our own hands," she said.

Ms. Merkel said Tuesday that Europe needed to play a more assertive international role—including on foreign policy, trade, and migration.

"I consider this tremendously important," Ms. Merkel said.

—Peter Nicholas, Anton Troianovski and Rebecca Ballhaus contributed to this article.

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Mike Dubke

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U.S. NEWS

New Mine Marks Bright Spot in Coal Industry

A plant under construction in Pennsylvania will help meet rising global demand for metallurgical coal, which is used to make steel

BY KRIS MAHER

ACOSTA, Pa.—An 80-foot-deep pit being dug in the rolling farmland here is inspiring hope in a community where coal has been mined since the 1800s.

The new Acosta Deep Mine, which will begin producing coal in June from a 40-inch-thick seam, is one of the rare bright spots in an industry that otherwise remains in a downward spiral. In the past six years, hundreds of coal mines have shut nationwide, putting thousands of miners out of work. The main reason is that coal used by power plants has come under intense competition from cheap natural gas.

But the Acosta mine will produce metallurgical coal, a higher grade used to make steel that is found only in Appalachia in the U.S. After prices fell sharply for several years, demand for metallurgical coal has rebounded globally and much of it mined in the U.S. this year will be shipped to Europe, South America and Asia.

"The demand is there. We're selling more coal and producing more coal than we have been," said Robert Bottega, a general manager of engineering for **Corsa Coal Corp.**

In recent months, companies have started or expanded production at other metallurgical coal mines in Pennsylvania, West Virginia and Alabama to take advantage of improving market conditions. The price of metallurgical coal hit an average of \$161 a ton in March, up roughly 150% from a year ago. Thermal coal in the region meanwhile sells for \$53 a ton, and was under \$50 for much of the past two years.

In rural communities, a single mine opening can energize the local economy.

The U.S. is the No. 2 metallurgical coal exporter, behind Australia, and prices shot up after Chinese production cuts last year led to increased reliance on imported coal among steelmakers there. More recently a cyclone in Australia further tightened supplies.

"We have this important role in the international metallurgical coal markets and the ability to respond quickly to bring additional volumes to the market when it needs it," said Paul Forward, an analyst with Stifel, a St. Louis-based brokerage firm.

Less than 10% of the roughly 800 million tons of coal expected to be mined this year in the U.S. is metallurgical, so the trend won't reverse the rest of the industry's slide. But in rural communities like those near the Acosta mine, a single mine opening can energize the local economy.



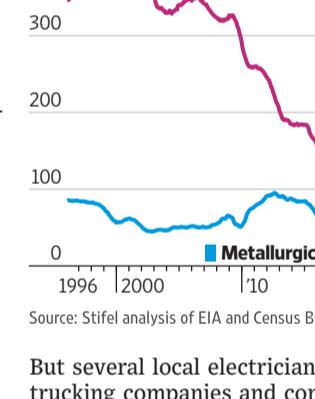
Workers stand in the pit as construction continues on the Acosta Deep Mine. Betty Rhoads, below, left, who owns the Coal Miner's Cafe in Jennerstown, Pa., with her husband, John. At right, George Critchfield, 59, owner of Critchfield Lumber, standing at his mill, which is not far from the Acosta Deep Mine.

JUSTIN MERRIMAN FOR THE WALL STREET JOURNAL (3)

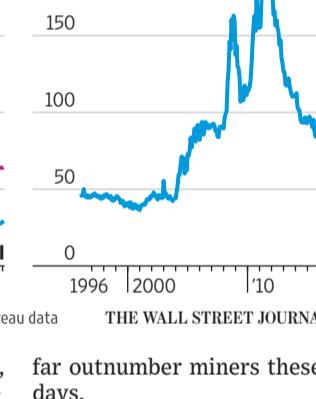
Hot Commodity

While output of coal used in power plants has tumbled amid falling demand, metallurgical-grade coal for steelmaking has seen a recent surge in prices.

Appalachian coal output, rolling 12-month total



Average U.S. export price for metallurgical coal



But several local electricians, trucking companies and construction companies say they are getting additional business from the Acosta mine and others that have ramped up metallurgical coal production.

George Critchfield, 59, who owns a lumber company that borders the Acosta mine, said orders from mining companies are up at least 300% from last year and saved his business from going under.

He is busy filling an order from another mine for 20,000 5-foot-long hardwood timbers used as underground supports. "That's a heck of an order for mine props," he said. "It makes a huge difference."

At the Coal Miner's Café in Jennerstown, Pa., tourists

far outnumber miners these days.

Buses loaded with students or seniors stop on their way to two nearby monuments: a museum commemorating the 2002 Quecreek Mine rescue, where nine coal miners were pulled to the surface after being trapped in a flooded mine for 77 hours, and the Flight 93 National Memorial.

Betty Rhoads, 68, whose father and grandfather once dug coal with picks in small mines that dotted the hills where she grew up, said anywhere between eight and 20 miners, compared with three or four last year, show up for breakfast today at the cafe she owns with her husband.

Ms. Rhoads said she expects the coal industry to keep shrinking, but that

she's glad to see the recent surge in activity. "I'm very positive about any of these guys that get a job," she said. "They're bringing a good income for their family."

Somerset County in southwestern Pennsylvania, on the border with Maryland, has long supplied coal to steelmakers. Like other coalfields in Appalachia, it fell on hard times when steel and manufacturing in the region collapsed in the 1980s. The county's unemployment rate was 7.1% in March, the sixth highest of the state's 67 counties, and above the national rate of 4.4% in April.

Last year, coal-mining employment in the county fell to just 214 miners employed at 12 mines, according to the federal Mine Safety and

Health Administration. That was down from a recent peak of 1,114 miners in 2011.

Employment edged up to 330 miners in the first quarter of this year in preliminary data from the agency. The latest data don't reflect the Acosta mine and others that have recently increased production but have yet to report data.

John Matkoskey, 91, of Acosta, also said he was happy to see the new mine open. Mr. Matkoskey said he started loading coal by hand in 1947 for **Bethlehem Steel**, worked in mines as low as 2 feet and held just about every possible job in underground mines in the county before he retired in 1988.

"It's going to give them some work," he said approvingly of the Acosta mine.

Indianapolis 500 Winner



BRENDAN McDERMID/REUTERS
PHOTO OP: Indianapolis 500 winner Takuma Sato poses during a visit to the Empire State Building in New York City on Tuesday.

Lobstermen Wary of New Measures

BY JOSEPH DE AVILA

The lobstermen of the Long Island Sound are feeling defiant. After years of adhering to the restrictions put in place by a multistate fishing commission to preserve the dwindling numbers of the crustacean, the fisherman of New York and Connecticut say a new round of measures to boost the lobster population may be too much.

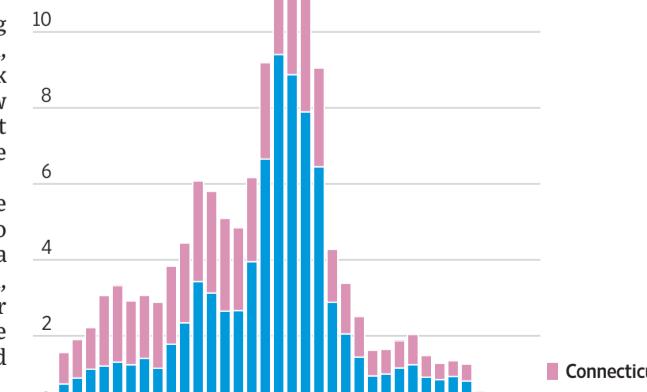
"We are at the point where we don't have anything left to give," said Michael Theiler, a lobsterman from Waterford, Conn., who has fished for nearly three decades in the waters. "We've been regulated to death out here."

New York and Connecticut's commercial lobster industry brought in about \$42 million worth of lobster in 1997, according to the National Oceanic and Atmospheric Administration. In 2015, that figure had fallen to less than \$2 million.

Several hundred lobstermen

Dwindling Crustaceans

Lobsters caught by the location of commercial fisherman*



*Includes some lobsters caught in New York waters outside of the Long Island Sound

Source: National Oceanic and Atmospheric Administration

THE WALL STREET JOURNAL

used to fish out of the Long Island Sound during the industry's heyday in the 1990s when it hauled in more than 10 mil-

lion pounds of lobster annually, according to NOAA.

Now, only about two or

three dozen lobstermen are

left, according to lobstermen from Connecticut and Long Island. In 2015, New York and Connecticut fishermen caught just 352,000 pounds of lobster, according to NOAA. That year also marked a record low for New York, which brought in only 147,000 pounds.

Officials with the Atlantic States Marine Fisheries Commission, which oversees lobster fishing on the East Coast, say warmer water, more aquatic predators and fishing have contributed to the decline in the number of lobsters in the region. The commission established regulations aimed at increasing the number of lobsters, which fisherman say has resulted in steep job losses in their industry. The new measures could result in more seasonal fishing closures.

Earlier this month, a board of the commission approved a goal to help boost production of lobster eggs by 5% for a region stretching from south of Cape Cod, Mass., to Virginia.

IN DEPTH



AHMED JALIL/EUROPEAN PRESSPHOTO AGENCY

French special forces have enlisted Iraqi soldiers to hunt and kill French nationals in ISIS. Above, Iraqi federal police in Mosul, where the battle against ISIS is continuing.

MOSUL

Continued from Page One

operation is to ensure that French nationals with allegiance to Islamic State never return home to threaten France with a terror attack, said a current and a former foreign-affairs adviser to the French government. France has been the target of several deadly attacks either inspired by Islamic State or orchestrated from the militants' Middle East strongholds, including the November 2015 Paris strikes.

A French Ministry of Defense spokeswoman declined to comment on the operation.

"French forces work in close cooperation with their Iraqi and international partners," she said, to fight jihadists, "regardless of national origin," referring to the 1,200 French troops assisting Iraqi forces to retake Mosul.

An estimated 1,700 Frenchmen have joined the militants in Iraq and Syria.

The French special forces maintain their distance from the killings—France has no death penalty—by directing Iraqi fighters to target French Islamic State fighters, according to the current and former French government advisers.

A senior Iraqi police official showed The Wall Street Journal a list of names of 27 suspected Islamic State members sought by France, accompa-

nied by photos of five of the men. French special forces began circulating the document at the start of the Mosul offensive last year. It is updated as men are killed, the police official said.

One man was identified on the list as "Badush," and the document described him as last seen in July driving a white Kia in northern Mosul, wearing traditional Iraqi clothing. Several of the names included aliases that linked the men to France—Abu Ismael al-Fransi and Abu Souleyman al-Fransi—or to Belgium, where some of the Paris attackers were from. Belgium's Defense Ministry declined to comment.

France doesn't have armed drones, so government officials sent its elite forces into Mosul to locate French militants, a Western security official said.

About 40 French special forces operate state-of-the-art intelligence-gathering tools, such as surveillance drones and radio interception devices, to help locate militants, said senior Iraqi counterterrorism officers and former and current French government officials.

"They are dealing with them here, because they don't want to deal with them at home," said a senior Iraqi counterterrorism officer directly involved in coordinating with the French special forces. "It's their duty. It's common sense. The most lethal attacks overseas were in France."

Iraqi government officials said their military doesn't participate in systematic extrajudicial killing of Islamic State fighters, and any such cases would be investigated for possible prosecution.

A spokesman for Iraq's Just-

The French Fight Against Terror

- ◆ September 2014: French jets begin airstrikes in Iraq, targeting Islamic State facilities in Mosul.
- ◆ November 2014: Islamic State releases a video calling for attacks inside France.
- ◆ January 2015: France announces deployment of its aircraft carrier to the Persian Gulf to step up airstrikes in Iraq. The carrier, Charles de Gaulle, and its strike group arrive 11 months later.
- ◆ September 2015: France begins airstrikes against Islamic State in Syria.
- ◆ Nov. 13, 2015: Islamic State gunmen and bombers launch the largest single terror attack in French history, killing 130 people in Paris.
- ◆ November 2015: Two days after the Paris attacks, French jets strike Islamic State targets in the Syrian city of Raqqa, the group's de facto capital, marking the start of a sustained air campaign by France in Syria.
- ◆ July 2016: A man driving a cargo truck kills 86 people celebrating Bastille Day in Nice, France. Islamic State claims it directed the attack.
- ◆ September 2016: France deploys hundreds of soldiers to Iraq to train and advise Iraqi troops in advance of the battle for Mosul.
- ◆ October 2016: Tens of thousands of Iraqi forces begin the operation to clear Mosul of Islamic State, supported by U.S., U.K., French and Australian air power and advisers.

tice Ministry declined to say whether the government has any foreign Islamic State fighters in custody. Iraqi commanders have said most militants fight to the death.

"If anyone is alive, in jail, because they surrendered, they will be executed in Iraq for joining Islamic State. And France won't intervene," said a current French official familiar with the matter. "It's a convenient solution."

An estimated 1,700 Frenchmen have joined the militants in Iraq and Syria, according to the Soufan Group, a New York-based organization that researches extremism. French government officials have estimated that hundreds of those men have either died in battle or returned home.

Other Western countries have lists of their nationals in league with Islamic State. But only France is engaged in hunting them in Mosul, Iraqi officers said.

France debated the legality of targeting its citizens when it joined the U.S. bombing campaign in Syria in the fall of 2015. An October airstrike that year apparently killed French militants near Raqqa, and the government sought to tamp down criticism at home by citing a provision in the United Nations charter that allows member states to use any means of "legitimate defense" if under attack.

France's laws and constitution offer little protection to citizens who take up arms with militant groups to fight the

government, said Michel Verpeaux, a professor of constitutional law at the Université Panthéon-Sorbonne in Paris.

"The French are fighting not a state but an armed group," Mr. Verpeaux said. "It's a highly uncertain situation with few legal rules."

France has talked about stripping nationals of citizenship for joining terror groups to bar their return home, as the U.K. has, a proposal that met stiff resistance in parliament.

Dozens of French nationals fighting with Islamic State have been killed in the battle for Mosul, two Iraqi officers said. The seven-month offensive by Iraqi forces and international allies is close to driving the remaining Islamic State fighters from the western part of Mosul, the militants' last major holding in Iraq.

French special forces often move through Mosul without Iraqi military partners. They search homes abandoned by foreign militants, as well as command centers in search of physical evidence or documents that link their citizens to Islamic State, two senior Iraqi counterterrorism officers said.

In April, French special forces swept through a medical clinic near the Mosul University campus, checking the identities of the wounded against their list of French nationals working for Islamic State. The French forces, often wearing Iraqi uniforms and driving vehicles with Iraqi military logos, are particularly concerned about any chemical-weapons specialists working on the campus, according to a senior Iraqi commander who coordinated

with French forces.

Mosul University was used by Islamic State as a command center until Iraqi forces recaptured the campus in January, the Iraqi commander said.

The French special forces have a forensics team that collects physical evidence—tissue and bone from the dead and wounded, as well as discarded drinking cups and utensils—to find DNA matches with the men on their wanted list, Iraqi and French officials said.

The team in one instance collected bone samples from a dead fighter and ran the DNA collected through a database to compare with the DNA of French nationals suspected of joining Islamic State, according to the former foreign-affairs adviser to the French government.

A team of four French special forces went door to door in the neighborhood in January. Two of the soldiers checked the identities of residents while the other two men stood guard. "They have their own targets," an Iraqi counterterrorism officer said as he passed the scene.

French special forces have recently focused on Republic Hospital, a large complex in Mosul's Old City, according to two Iraqi Army officers who worked with them. The Old City, a warren of densely populated streets and alleys, is a commercial center and the last district in Mosul controlled by militants.

The French forces suspect that the remaining high-level Islamic State commanders, including some Frenchmen, are holed up at the hospital.

—Matthew Dalton and Valentina Pop contributed to this article.

GAMERS

Continued from Page One

The freeloader turned out to be a 10-year-old boy on his dad's phone. Mr. Gantman successfully lobbied teammates to oust the youngster. "This isn't child's play," he said.

Kristina Holland, a 45-year-old manager at a software company in Memphis, Tenn., regretted trying to help out a teammate last month in "War Dragons," where players breed dragons for fighting.

Minutes after Ms. Holland donated a valuable shipment of virtual lumber and food, her teammate disappeared offline. Opponents quickly snapped up the unclaimed booty.

That night, Ms. Holland's ungrateful ally confessed to unplugging after getting caught playing in class. "If you're in school, you should be focusing on school," Ms. Holland said in an interview before lapsing into gamer mode. "You shouldn't lead your teammates on to think you're available when there's any chance you could be interrupted."

To weed out immature players, some squad leaders conduct interviews like a crafty human-resources manager. Daniel Acosta, a 47-year-old health-care professional, is a gatekeeper for his guild in "Summoners War." He asks team applicants, by text, about their strategies for collecting the crystals used to acquire monsters and defeat opponents.

He figured he has rejected

dozens of aspiring teammates over the past 2½ years. Commonly, he said, rejections follow those who repeatedly punctuate their responses with either "dude" or "wtf."

"We don't want to bring in any riffraff," said Mr. Acosta, whose gamer handle is Wolverhulk.

Sara Hall, age 30, asks those on her "DomiNations" team to state their ages. She was thrown off guard the first time a player in the empire-building game told her he was old enough to be her father.



Left, Kristina Holland's avatar from 'War Dragons.' Right, the 'Clash of Clans' videogame.

She had figured senior citizens would be intimidated by the complexities of competitive mobile games.

Ms. Hall, who lives in Grand Rapids, Mich., and cares full-time for her disabled mother, prefers teams with grown-ups. She said she assumes the people who quit when their armies lose—so-called rage quitters—are children, although, "you really don't know."

Mr. Ritter, the "Madden NFL"-playing executive, found that his student teammates

were more committed than he was about participating. He told them he had a job, but they still nudged during the workday.

"There was literally no empathy," Mr. Ritter said. He has joined a new team, Pigskin Warfare League, and since the players communicate using Facebook Messenger, he can see ages on their Facebook profiles.

The "Clash of Clans" squad EvilNapkins BMF prohibits players younger than 21. One of its leaders, 49-year-old

project manager Tony Tober of Denver, said he recently suspected a violator in the ranks. A player had skipped out on two wars in a row, hurting the team's chances at victory.

When Mr. Tober demanded an explanation, the AWOL warrior texted that his phone had been taken away.

"You let your wife take your phone?" Mr. Tober, who plays under the name Pen the Maniac, recalls texting back. The team ended up booting the player, he said.

Terry Pearson, 45, said he changed "Madden NFL Mobile" teams last year after getting his fill of schoolyard bickering among teammates in group texts. He was relieved to jump to a more adult team, he said, with people as committed to the game as he is.

Earlier this year, Mr. Pearson spent about a month at an aunt's farm in Wisconsin that had poor internet service. To play online, he drove 40 miles each night to a truck stop with Wi-Fi.

"We wanted to improve our ranks, so I needed to be there," said Mr. Pearson, of Springfield, Mo. "I'm not bragging, but I'm pretty good."



ROCKET GEMS (LEFT), SUPERCELL

LIFE & ARTS

BOOKS

The Year of the Blockbuster

As book sales continue to contract, publishers rely more than ever on marquee names like King, Grisham, Brown and Hawkins

BY ELLEN GAMERMAN

FOR FANS OF blockbuster authors, this year's calendar is turning out to be a page-turner.

Stephen King, Paula Hawkins and other best-selling writers who don't publish on regular schedules all have new books out in 2017. John Grisham is releasing a novel next month, the first time in five years he will publish multiple titles in one year. For his new thriller, Dan Brown is going on his first book tour since 2003's "The Da Vinci Code," an event some booksellers are treating like a visit by the pope himself.

"Every week there is a new brand-name best seller hitting the market," says David Gernert, Mr. Grisham's literary agent. "In a way the rich get richer and everybody else goes about their business."

Sales of adult hardcover and paperback books have stagnated in recent years and adult e-book sales are at their lowest point since 2010, according to the Association of American Publishers. As the book world continues to contract, major publishers are relying more than ever on marquee names to boost sales.

Best-selling authors benefit from digital presales, which turn their books into front-runners well before they're released, elevating them on sites like Amazon and shaping promotional plans by brick-and-mortar retailers. Writers and publishers build momentum on social media, engineering keywords in their online marketing so their chosen books will pop up in searches months ahead of their competitors.

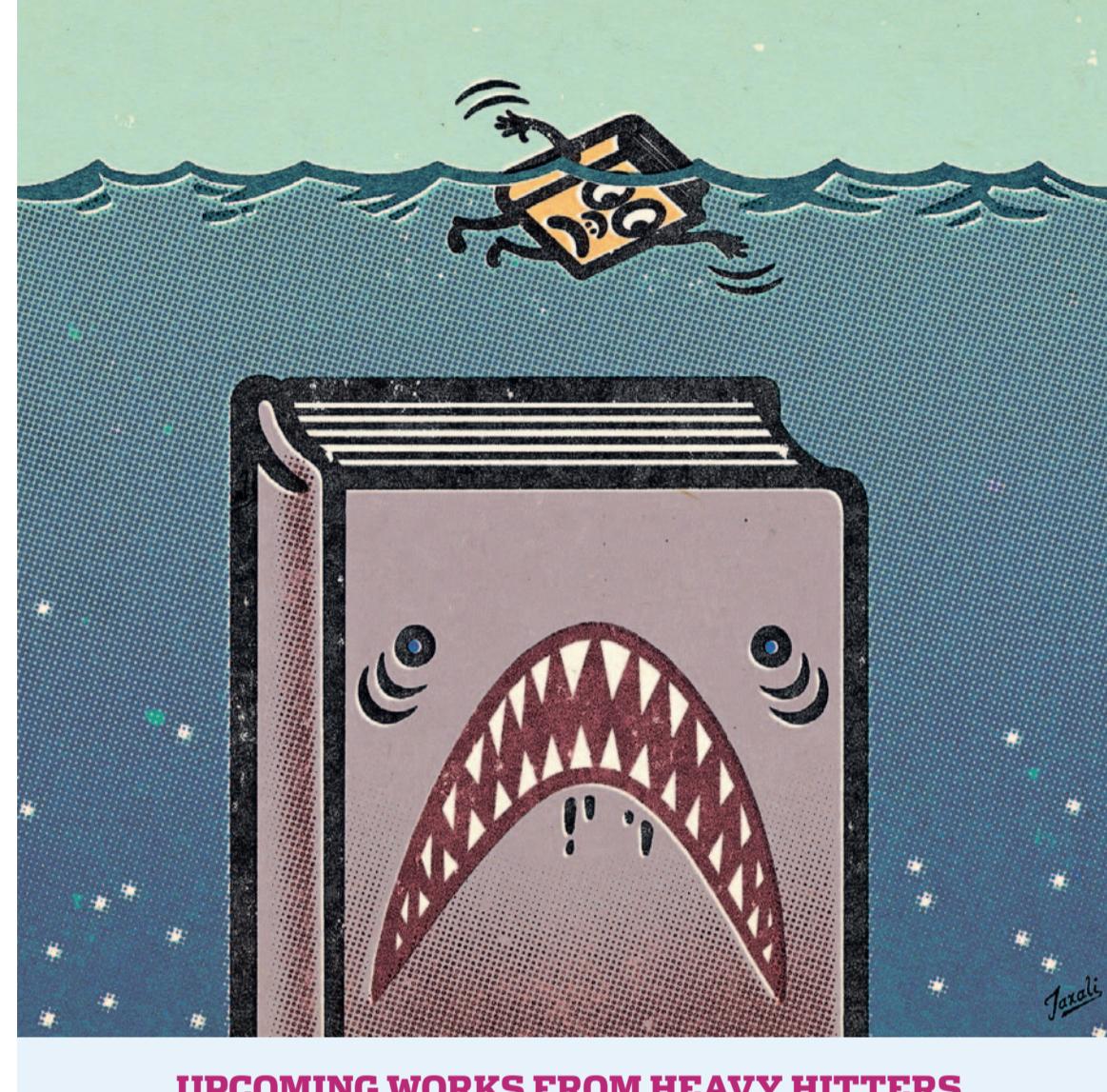
Top-selling authors speed up their writing schedules to stay in the mix. Even dead writers are keeping up a healthy pace: The late Tom Clancy has two books out this year, his name towering over those of the actual writers on the covers.

Much as Hollywood has come to depend on its tentpole action and superhero franchises to drive the box office, some publishing experts say the book world is increasingly turning to its best-known names to cut through the clutter.

"Publishers absolutely rely on them—if a big author at a publishing house decides to skip a year or two, it has a big impact on the publisher's bottom line," says literary agent Robert Gottlieb.

Bestselling suspense novelist Joseph Finder says he has been pushing himself to write a book a year for the past three years, up from one book every other year. He was prompted partly by the example set by writer James Patterson, credited as the author or co-author of 10 adult titles last year. "I think that Jim Patterson has trained the market," he says. "There is a cycle now and people really tend to expect a book from their favorite author to come out at the same time of the year each year."

The business still allows for breakout best sellers by unknowns



thors are bumping into each other's release dates. In February, news broke that John Grisham's new novel, "Camino Island," would come out in the U.S. on June 6. A few days earlier, best-selling thriller writer Brad Thor's publisher switched the U.S. on-sale date for his book "Use of Force" from June 6 to June 27.

"When we looked at dates this summer, we certainly saw there's a lot of activity," says Emily Bestler, Mr. Thor's editor at Emily Bestler Books/Atria. "It's a very, very competitive market and it has only been getting more so." She says the date wasn't changed because of Mr. Grisham, but to take advantage of a large retailer's promotion in late June.

This September, Mr. King delivers "Sleeping Beauties," a book he co-wrote with his younger son, Owen King. It arrives amid rereleases of Mr. King's "The Dark Tower I: The Gunslinger" and "IT" pegged to two 2017 movie adaptations. Mr. Brown returns this October with "Origin," a Robert Langdon book.

Familiar characters are coming back, too, like the girl with the dragon tattoo. In September, Lisbeth Salander returns to the U.S. in David Lagercrantz's "The Girl Who Takes an Eye for an Eye," the fifth book in the series created by the late Stieg Larsson. New installments in long-running series are hitting shelves as well, like Sue Grafton's "Y is for Yesterday," coming this August, and Jan Karon's Mitford novel "To Be Where You Are," landing in September.

Publishers also are attempting to awaken hits from decades ago. This September, John le Carré publishes "A Legacy of Spies," the 85-year-old author's first George Smiley novel in over 25 years. The same month, Ken Follett returns with "A Column of Fire," reviving the fictional town of Kingsbridge in the trilogy that started with his 1989 all-time best seller "The Pillars of the Earth."

This summer, best-selling author Michael Connelly debuts his first original series in more than a decade. Mr. Connelly, whose long-running thrillers about Los Angeles crime solver Harry Bosch inspired an Amazon original series, is launching a new novel with a female protagonist, "The Late Show," due out July 18 in the U.S.

"If you have been writing about the same character for 25 years, that can be tough. But if you have something new, then you have a point of discussion—how does Michael Connelly's new female detective compare to Harry Bosch?—and you have at least a shot at grabbing lightning in a bottle," Mr. Connelly wrote in an email.

Mr. Connelly's next Bosch novel, "Two Kinds of Truth," lands in October. With recent releases, he has been traveling to a warehouse in Lebanon, Ind., to sign several thousand copies of his novels. The time-honored practice still sells books. He says: "Let's stack 'em high and watch 'em fly."

UPCOMING WORKS FROM HEAVY HITTERS



CAMINO ISLAND
(June 6)



THE SWITCH
(June 13)



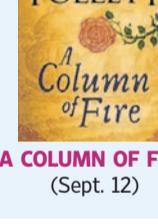
USE OF FORCE
(June 27)



THE LATE SHOW
(July 18)



A LEGACY OF SPIES
(Sept. 5)



A COLUMN OF FIRE
(Sept. 12)



SLEEPING BEAUTIES
(Sept. 26)



ORIGIN
(Oct. 3)

*U.S. release dates

like Ms. Hawkins and her 2015 phenomenon "The Girl on the Train," but those surprise hits also tend to overpower other books in a way they didn't used to, says Brian Tart, president and publisher of Viking. "It's gotten more concentrated," he says, crediting social media for creating buzz around a single title. "You're not wondering as much as

you used to about, 'What's the big book?' People know now."

Ms. Hawkins's latest novel, "Into the Water," released in early May in the U.S., has soared onto the best-seller lists.

The 100 best-selling books account for roughly 6% of all print book sales, up slightly from a decade ago, according to NPD Books.

But blockbusters can have a broader impact because they can jump-start sales of other books. "A tentpole title causes people to think about reading the book, but if they don't want to buy that particular book, they will find something comparable," says industry analyst Lorraine Shanley.

The crowded market means au-

MY RIDE | By A.J. Baime

CAN'T AFFORD A SHELBY? BUILD YOUR OWN



DAVID WALTER BANKS FOR THE WALL STREET JOURNAL

Paul Martin, 48, a commercial set designer from Los Angeles, on his 1964 Shelby Cobra Daytona Coupe recreation, as told to A.J. Baime.

In the early 1960s, a car designer named Peter Brock, working for Carroll Shelby's **Shelby American** racing team, designed the Shelby Cobra Daytona Coupe. It became the first car from an American team to win the 24 Hours of Le Mans, in its class, and a year later, it was part of the Shelby American team that won the FIA world championship. Only six were built. Today, they are among the most sought-after collector cars in the world.

Since I did not have the millions it would take to buy one, I decided to build my own. My wife and my friends thought I was mad, which is probably true. Three-and-a-half years ago, I set out to build an exact recreation of the 1964 car.

For the chassis and body, I hired craftsmen in Poland who work at a former MiG jet fighter factory there. They spent some 3,000 hours on the project, working from original drawings and photographs. Meanwhile, I found parts all over the U.S. and Europe. If I could not find the exact part I needed, I had it fabricated.

I had a period-correct 289 Ford racing en-

gine built. The brake cooling ducts, the four-speed transmission, Weber carburetors—everything had to match the original car, down to the dashboard switches and even the style of lettering above them. The major difference between the old and new car? Mine is street legal.

Part of the fun was documenting this on Facebook. Throughout, I posted photographs of the progress. By the end, I had tons of people following the journey.

When I completed the car in 2016, members of a Shelby club threw an unveiling party in Beverly Hills. Special guests included the Cobra Daytona Coupe's original designer Peter Brock, who signed the dashboard, and Allen Grant, a racing driver who competed in the original car in the 1960s. It was truly incredible.

The vehicle probably cost me a half-million dollars. I drive it to events, to the beach and through the mountains. It's a raw race car for the street, capable of 200 mph. Sitting in it with the engine revving, you feel like you're inside a snare drum. It's that loud. My wife calls it noisy, scary, dirty and frightening. I call it a work of art.

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

Paul Martin, a commercial set designer from Los Angeles, with his recreation of a 1964 Shelby Cobra Daytona Coupe. Only six originals were built.

OPINION

REVIEW & OUTLOOK

Angela Merkel's Lament

Angela Merkel's declaration on the weekend that Germany and continental Europe will have to depend more on themselves is being portrayed as the Donald Trump-inspired end of American leadership in Europe. But if that's true, and we have heard this dirge before, the erosion of U.S. leadership

hardly began with Mr. Trump. It started under Barack Obama, whose failure to lead was too often reinforced by his main partner in Europe, Mrs. Merkel.

"All I can say is that we Europeans must really take our destiny into our own hands," the German leader told a crowd during a re-election campaign event at a beer tent in Bavaria. "The times in which we can fully count on others are somewhat over, as I have experienced in the past few days."

That was widely perceived as the German Chancellor's reaction to last week's NATO and G-7 summits, when the new U.S. President challenged NATO members to spend more on defense and refused to sign on to the climate-change policies of the other six leaders.

Mrs. Merkel seemed especially miffed about Mr. Trump's decision not to embrace the Paris climate accord that Mr. Obama signed in his final year as President. "The whole discussion about climate has been difficult, or rather very unsatisfactory," Mrs. Merkel told reporters. "Here we have the situation that six members, or even seven if you want to add the [European Union], stand against one."

But wait. Since when is a difference of opinion on climate policy a signal of U.S. retreat from Europe? And why is Mr. Trump's reluctance to sign on to Paris—he says he'll decide whether to leave the accord this week—a failure of leadership? Mrs. Merkel's comments suggest that she is most upset because Mr. Trump declined to follow her lead on climate.

Mr. Trump should decline if he wants to fulfill his campaign promises to lift the U.S. economy. Mrs. Merkel's embrace of green-energy dogmas has done enormous harm to the German economy. She reacted to the Fukushima meltdown by phasing out nuclear power, and her government has force-fed hundreds of billions of dollars into solar and wind power that have raised energy costs. As *Der Spiegel* once put it, electricity is now a "luxury good" in Germany.

About That 'Gutting the Safety Net'

Critics in America are accusing President Trump's 2018 budget of "gutting the safety net" with cuts to food stamps and disability insurance. In reality,

the White House is proposing long-needed reforms that would fix a dysfunctional disability system that traps Americans in dependency.

The Trump budget proposes to reduce spending by \$72 billion over 10 years on federal disability programs, the largest of which is Social Security Disability Insurance (SSDI). The cuts would be achieved by testing and adopting incentives for individuals to return to the workforce; reducing retroactive payments; tweaking the appeals process for denied claims; holding swindlers liable for overpayments; and other measures to make sure applicants are genuinely disabled.

The 1956 disability-insurance program offers payments to those who become disabled before retiring, and the cash transfer is financed by payroll taxes. Disability insurance pays out about \$150 billion a year to nearly nine million Americans, who after two years of benefits are also eligible for Medicare. That runs another \$80 billion.

The number of disability-insurance recipients has tripled since the 1980s, when Congress relaxed requirements. (See nearby.) A worker can cite several smaller ailments, such as back pain, to illustrate an inability to work, as opposed to one debilitating condition. An applicant can appeal a denial up to four times, and most cases reach administrative-law judges, who are slammed with hearings and have an incentive to award benefits and move on.

Mark Warshawsky and Ross Marchand of the Mercatus Center report that administrative-law judges approved 70% of appeals on average in 2008. About 9% of judges approved more than 90%. The authors estimate that a decade of judicial failures will lead to lifetime mispayments of \$72 billion. As it happens, that is the ballpark for Mr. Trump's supposedly shocking 10-year cut. The budget proposes a probationary period on judges who currently enjoy lifetime appointments.

The disability program is among the most susceptible to fraud in the federal government, which is an achievement. In 2015 more than 100 New York City police officers were charged with defrauding the program by faking anxiety attacks and other maladies to receive up to 75%

A difference on climate doesn't mean a U.S. retreat from Europe.

It's not surprising that Mrs. Merkel and the Europeans should want to shackle the U.S. with similarly high energy costs, and Mr.

Obama was happy to oblige. But Mr. Trump was elected on a promise to raise middle-class incomes, and domestic energy production is essential to that effort. Mrs. Merkel doesn't care if Mr.

Obama committed the U.S. to Paris without any Congressional approval, but Mr. Trump has to take that into account.

The U.S. natural-gas fracking revolution also has the benefit of reducing fossil-fuel emissions by reducing reliance on coal. To the extent that U.S. energy production can supplant Russian natural-gas supplies to Europe and keep the price of oil low, it also undermines Vladimir Putin's influence at home and abroad.

As for fading U.S. leadership in Europe, we wish the German Chancellor had prodded Mr. Obama to do more after Russia snatched Crimea from Ukraine. We're still waiting for the Germans to support arming Ukraine to impose higher costs on Russia's military incursions. Then there's the failure of the U.S. and Europe to stop the Syrian civil war, which contributed to Brexit by sending millions of refugees into Europe without border controls.

Mr. Trump is undiplomatic, and sometimes rude, as he showed when he shoved aside Montenegro's prime minister at the NATO summit. This behavior is embarrassing for most Americans, and Mr. Trump's lack of basic knowledge about the economics of trade is dangerous.

But then Mr. Trump has abandoned his campaign bluster that NATO is obsolete, and he signed on to the G-7 communiqué language vowing to resist protectionism. The President's challenge to Europe to spend more on its own defense may be precisely the leadership the alliance needs. That's especially true for Germany, which spends a mere 1.2% of GDP on the military and whose public takes an increasingly pacifist view of global conflict, in contrast to the British and French.

Mrs. Merkel's German opponents claim she is too accommodating to Mr. Trump, and her weekend remarks are in part a bow to that domestic politics. She is generally pro-American and an admirable leader. Mr. Trump shouldn't overreact to her weekend comments any more than Europe should overreact to some of his. The Atlantic alliance might even benefit from more such candid talk on both sides.

Runaway disability payments invite fraud and punish work.

of their salary. A Senate report from 2013 detailed how trial lawyers in Kentucky colluded with doctors and steered appeals to one munificent judge.

The less-noticed harm is that a mere 1% of beneficiaries return to work every year. Most benefits are terminated only when a person dies or is transferred to a retiree program. But by one study's estimate, half of applicants age 30 to 44 will find a job again if they aren't approved for benefits.

One reason so few return to the labor force is that payments are essentially a tax on work. A 55-year-old who previously earned about \$30,000 a year at work could receive more than \$15,000 a year in disability payments, plus health-care benefits and perhaps other cash transfers such as food stamps. That means any job would have to pay more than what he loses in subsidies, which typically phase out as income rises. These "inframarginal" tax rates that trap people in poverty are never mentioned in moralizing about the necessity of helping the disabled and the poor.

A dark irony is that disability insurance has expanded to cover mental-health issues, which may aggravate the ailments. The literature on mental health suggests that anxiety and depression can be alleviated in part by healthy routines like work and maintaining social connections. Members of Congress like to fret about mental-health policy, but permanent

disability payments contribute to cultural problems like the opioid crisis.

By the way, if you think the Trump budget cuts are heartless, wait until the fund becomes insolvent and can't pay anyone, which will happen sooner than you might think. The disability trust fund was set to go bankrupt in 2016, but Congress raided another pot to delay the reckoning for a few more years. That gimmick won't last, and Mr. Trump deserves credit for noticing that \$1 trillion in automatic entitlement spending is bankrupting the federal fisc.

One idea in vogue among intellectuals on the right and left is a guaranteed universal basic income for Americans. But if Mr. Trump's modest improvements to disability insurance are politically unacceptable, then perhaps it's time to acknowledge that the U.S. already offers a universal income in the form of the disability-welfare state, not that anyone in politics would dare admit it.

Don't Blame Hillary



MAIN
STREET
By William
McGurn

"Show me a good loser and I'll show you a loser." The words are often attributed to the famed Notre Dame football coach Knute Rockne. Judging from the ungraciousness that has characterized Hillary Clinton's every public appearance since the November election, she has taken them to heart.

Friday's commencement address at Wellesley—an attack on the man who defeated her—is only the latest outburst from a failed candidate, who has now vowed to take a leading position in the anti-Trump "resistance."

On the right these things provoke new headlines about sore loserhood. Far more interesting is the irritation Mrs. Clinton's refusal to fade away is causing among fellow Democrats who blame her for the loss against what should have been an easily defeatable Republican nominee.

This is supremely unfair to Mrs. Clinton. As flawed a candidate as she might have been, the truth is almost certainly the reverse. It is today's Democratic Party that gave us Mrs. Clinton, as well as the thumping in November.

Yes, the Clintons have always been flexible about principles, a big reason for the appeal of the more purist Bernie Sanders. Back when her husband was running for president as a "New Democrat" in 1992, the idea was that the party had shed its McGovernite past and moved to the center, so that it could now be trusted on values, the economy and national security.

Once they got in, Mrs. Clinton reverted to type by pushing, unsuccessfully, for universal health care. But after that belly-flop and the 1994 GOP takeover of Congress, they dialed it back, and by 1996 her husband was telling the American people "the era of big government is over."

As New York's junior senator, Mrs. Clinton was firmly ensconced within her party. "On the 1,390 votes she cast in which most senators from one party voted differently from most senators across the aisle," notes an April 2016 piece from *Roll Call*, "Clinton went against the Democratic grain only 49 times."

Even on the single issue that came to be used against her in last year's Democratic presidential primary—her 2002 vote to authorize the use of force in Iraq—Mrs. Clinton was squarely with her party.

We've forgotten it today, but more Democrats voted with Mrs. Clinton on that one than against, including Harry Reid, John Edwards, Chuck Schumer, Joe Biden and John Kerry. Only a few

years later she, again like them, opposed the surge.

So which is she, hawk or dove? The truth is that she is both—and neither. In a notable section in the memoirs of fellow Obama cabinet member Bob Gates, he relates a conversation in which she admits her opposition to the surge in Iraq "had been political because she was facing [Barack Obama] in the Iowa primary." Again this only puts her within the mainstream of her party: Most of the other Democrats who had voted for the war in 2002 would also oppose the surge in 2007.

It has been a consistent pattern for Mrs. Clinton. On almost any issue that energizes her party—from same-sex marriage to the Trans-Pacific Partnership trade deal—Mrs. Clinton has gone where the party has pulled her even if it

Mrs. Clinton was a flawed messenger, but her party has a message problem.

meant going against where she had been. This is what Hollywood actress Rosario Dawson meant last summer when she asked a group of Sanders delegates at the convention to understand that Mrs. Clinton "is not a leader, she's a follower."

But on what became the single overriding theme of her campaign, Mrs. Clinton was truly in sync with her party. This is the idea that she should be elected because she's a woman, and that a coalition of millennials, minorities and women would come together to make it happen. So where Donald Trump had "Make America Great Again," Mrs. Clinton had the identity project par excellence: "I'm with her."

After all, who could be more deserving to succeed the first African-American president than the first woman president?

It didn't turn out that way. And if you take the Trump blinders off for some perspective, there's another dynamic that had little to do with Mrs. Clinton: the hemorrhaging of Democratic seats over the Obama years—from the governorships to state legislatures to Capitol Hill—to the point where the Democratic Party is now at its lowest levels in a century.

By the time Mrs. Clinton had secured the nomination for president, she had embraced everything a far more progressive party wanted her to embrace. But she also inherited a party that was losing elections all across the country.

So maybe it wasn't only a flawed messenger that led Democrats to defeat in 2016. Maybe there's a problem with the message, too.

Write to mcgurn@wsj.com.

LETTERS TO THE EDITOR

The VOA Follows Good Journalistic Practice

Regarding Sasha Gong's "How China Managed to Muffle the Voice of America" (op-ed, May 25): The Voice of America's (VOA) charter, as written in law, requires that we adhere to the highest professional standards of journalism and maintain editorial independence, free from political interference. That practice held true in this case as well.

VOA is a leading global network providing U.S. news and information to millions around the world. We broadcast in 47 languages each week on radio, television, mobile and the internet. VOA has a 75-year history of producing comprehensive, independent and objective news in the face of even the most extreme pressures. Asserting anything less is an insult to the hundreds of VOA journalists who fled re-

pressive regimes to escape similar practices—including in China.

The management decision regarding Ms. Gong's interview was provided to her in advance of the broadcast in question and was based on the journalistic principles of verification, balance

and fairness that are standard industry practice and apply universally to all VOA services. We regret if Ms. Gong doesn't agree with these universally accepted journalistic principles. Ms.

Gong is currently on administrative leave pending a full independent investigation, and until that is complete we will not further publicly discuss this or any other personnel issues.

AMANDA BENNETT

Director, Voice of America

Washington

Sure-Fire Way to Protect Data From Hackers

The "WannaCry" world-wide cyber attack caused 45% of Britain's National Health Service to be put out of service for lack of access to electronic medical records ("The WannaCry Cyber Warning," Review & Outlook, May 17). The U.S. Centers for Medicare and Medicaid Services (CMS) will soon require that every hospital and every doctor's office be equipped with a very expensive computerized

medical-record system, and that every computer be continuously left on and accessible to CMS so that it can rummage through patients' medical records 24 hours a day, 365 days a year to verify that a doctor is providing "quality care." Rest confidently that Americans' records are secure, however, because CMS assures us that it has really smart computer guys. And if, by chance, patients' private records are compromised, rest assured that it will be the doctors' liability and not CMS's.

WILLIAM D. STRINDEB, M.D.

Lufkin, Texas

While the malicious will hack hospital computers, my office medical records are absolutely unhackable. The reason? I use old technology. They are kept on paper, typed or handwritten, despite the penalties Medicare will impose for my failure to implement an electronic medical record. I will continue to keep paper charts until I am convinced that the electronic medical record improves my efficiency and the quality of care.

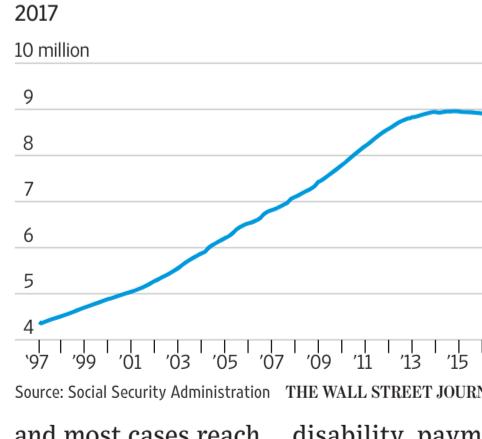
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The Disability Boom

The number of disabled workers in current-payment status at the end of the month, January 1997–April 2017



Source: Social Security Administration

THE WALL STREET JOURNAL

10 million

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OPINION

Another Court Joins the ‘Resistance’

By David B. Rivkin Jr.
And Lee A. Casey

Another court has weighed in against President Trump's executive order temporarily limiting entry to the U.S. of aliens from six terrorist hotspot countries in Africa and the Middle East. In ruling against the order last week, the Fourth U.S. Circuit Court of Appeals defied Supreme Court precedent and engaged the judicial branch in areas of policy that the U.S. Constitution plainly reserves to the president and Congress. The high court should reverse the decision.

In *International Refugee Assistance Project v. Trump*, the Fourth Circuit affirmed a Maryland district judge's nationwide injunction halting enforcement of the president's order. Chief Judge Roger Gregory, writing for the 10-3 majority, acknowledged that the “stated national security interest is,

In taking a stand against Trump’s travel ban, judges are also defying Supreme Court precedent.

on its face, a valid reason” for the order. But he went on to conclude that the administration acted in bad faith based on, among other things, “then-candidate Trump’s numerous campaign statements expressing animus towards the Islamic faith.”

Whatever one may think of that conclusion as a political matter, as a legal matter the judges overstepped their bounds. The controlling case is *Kleindienst v. Mandel* (1972), in which the Supreme Court rejected a petition from American scholars seeking admission to the country on behalf of a foreign colleague who had been kept out because he advocated communism. The plaintiffs argued that the government’s refusal to admit their



Protesters at Reagan National Airport in Arlington, Va., on Feb. 1.

president is forbidden to impose temporary limitations on immigration from any Muslim-majority nations, it would follow that he is prohibited from taking any hostile or unfavorable actions, including the use of economic sanctions or military force, toward any Muslim-majority nation.

Making foreign policy isn’t the judiciary’s job, and the court’s decision in this case is in direct conflict with the Supreme Court’s admonition in *Mandel* that courts may not review the president’s exercise of discretion on foreign affairs—or balance it against asserted constitutional interests—once a facially legitimate and bona fide reason has been articulated. Further, the executive order is clearly authorized by Congress under the Immigration and Nationality Act. As Justice Robert Jackson famously observed in *Youngstown v. Sawyer* (1952), the president’s authority is most formidable when he is acting with Congress’s consent.

It is difficult to avoid the conclusion that the Fourth Circuit and the other courts that have stayed Mr. Trump’s executive orders on immigration are engaged in the judicial equivalent of the “resistance” to his presidency. Judges are, in effect, punishing the American electorate for having chosen the wrong president. That isn’t the judiciary’s role. Every federal judge has an obligation to accept the limitations imposed by the Constitution on his power—to exercise “neither force nor will, but merely judgment,” as Hamilton put it in Federalist No. 78.

The government is likely to seek an emergency Supreme Court stay of the Fourth Circuit’s decision. That may be difficult, because it requires a showing of “irreparable harm.” But even without a stay, there is little doubt the Supreme Court will remain faithful to its precedents and reverse the Fourth Circuit’s wrongheaded decision.

Messrs. Rivkin and Casey practice appellate and constitutional law in Washington.

colleague on account of his views violated their First Amendment rights. The justices upheld his exclusion and made three things clear: aliens have no constitutional right to enter the U.S.; American citizens have no constitutional right to demand entry for aliens; and the decision to deny admission to an alien must be upheld if it is based on “a facially legitimate and bona fide reason.”

The high court has repeatedly reaffirmed and followed *Mandel*. *Fiallo v. Bell* (1977) rejected a challenge to immigration preferences that openly favored legitimate over illegitimate children and female U.S. nationals over male—distinctions that almost certainly would have been found unconstitutional in a domestic-policy context. In *Kerry v. Din* (2015), the justices upheld visa denial for the complainant’s husband, who had been a member of the Taliban. When the executive branch makes a decision “on the basis of a facially legitimate and bona fide reason,” Justice Anthony Kennedy wrote, quoting *Mandel*, the judiciary can “neither look behind the exercise of that discretion, nor test it by balancing its justification against the constitutional interests of the citizens the visa denial might implicate.”

In holding that Mr. Trump acted in bad faith, the Fourth Circuit fundamentally misconstrued Justice Kennedy’s opinion in *Din*, which nowhere suggested that, once the government had articulated a facially legitimate purpose, the courts could weigh whether there might have been an additional, improper purpose. As the Fourth Circuit dissenters explained, *Mandel* requires only a facially legitimate and facially bona fide reason.

Any other standard would constitute an invitation to the judiciary to direct the nation’s foreign and defense policies. Having misapplied *Din*, the Fourth Circuit went on to apply a standard *domestic* case-law analysis, under which the existence of a discriminatory purpose essentially dooms the exercise of governmental authority irrespective of other justifications. Under that approach, the government would have lost in *Mandel*, *Fiallo* and *Din*.

If the Fourth Circuit’s reasoning were to stand, it could cripple the president’s ability to defend the country. The judges claim Mr. Trump’s campaign statements, supposedly hostile to Islam rather than Islamist terror, transform his order into an “establishment” of religion in violation of the First Amendment. If the

government is likely to seek an emergency Supreme Court stay of the Fourth Circuit’s decision. That may be difficult, because it requires a showing of “irreparable harm.” But even without a stay, there is little doubt the Supreme Court will remain faithful to its precedents and reverse the Fourth Circuit’s wrongheaded decision.

Messrs. Rivkin and Casey practice appellate and constitutional law in Washington.

How to Give Capital Punishment in the U.S. a Reprieve

By John Steele Gordon

On Thursday Alabama put Tommy Arthur to death by lethal injection after no fewer than seven stays of execution. He had been convicted of a 1982 murder for hire and had spent more than a quarter-century on death row. The history of the death penalty is one of ever-decreasing cruelty, spectacle and frequency, and ever-increasing legal delay. Is capital punishment now on death row itself?

The Romans put criminals to death often, and even for petty offenses. Many of the condemned were dispatched by wild animals in the arena for the entertainment of the populace. Others were crucified, an agonizing and very protracted way to die. Crucifixion was so brutal Roman citizens were spared it, which is why St. Paul was beheaded.

In the Middle Ages the means of execution depended both on the crime and the criminal’s social status. Hanging was usual for everyday offenses, but the nobility were never prosecuted for them. Burning at the stake was typical for heresy, a terrible act in the deeply religious era. Beheading was the punishment for traitorous nobles, but ordinary people were often hanged, drawn and quartered.

While execution was less brutal than in Roman days, it was still astonishingly frequent. In the early 17th century, a man journeying from Dresden to Prague, a distance of only 75 miles, counted “above seven score gallowses and wheels” where thieves hanged from gibbets and murderers had been broken and left to rot.

But things were beginning to change. In 1615 the Earl and Countess of Somerset were arrested for the murder of Sir Thomas Overbury. Although they were convicted and several of their accomplices hanged, they were released from jail after a short term.

There was no such mercy a century later for Laurence Shirley, 4th

Earl Ferrers, convicted in 1760 of murdering his steward. The crowd that came to see a nobleman hanged was immense, but he was allowed to arrive in a carriage instead of in an open cart, the usual conveyance for the condemned.

Toward the end of the 18th century, the idea arose that death was punishment enough and that it should be both quick and as painless as possible. An ax man had often needed several blows before the head was severed, but the guillotine did the job instantly. The hangman’s noose, if placed in front of the ear, caused death by a broken neck instead of by slow strangulation.

Legal reform in the early 19th century greatly reduced the number of crimes punishable by death, and executions increasingly were performed out of public view. The last public one in Britain was in 1868, the last in the U.S. in 1936. Toward the end of the 19th century some countries stopped executing criminals altogether, as public debate on capital punishment’s morality and efficacy grew.

Opponents of the death penalty (and, of course, lawyers for the condemned) also learned how to game the system. Giuseppe Zangara, who had attempted to assassinate Franklin Roosevelt on Feb. 15, 1933, was exe-

cuted on March 20, little more than a month later. But thanks to numerous appeals Caryl Chessman, who had committed robbery, rape and kidnapping in January 1948, was executed only in May 1960.

At that time the 12-year gap was a sensational national story, but today such delays are routine. A group of

Execution must be speedy after a high burden of proof is met. No more 25-year appeals.

men recently executed in Arkansas had all been on death row for more than 20 years. Timothy McVeigh, who bombed the federal building in Oklahoma City in 1995, killing hundreds, was executed six years after the crime, but only because he ordered his attorneys to stop appealing.

Under these circumstances, can the death penalty still function as an effective deterrent?

The first thing to ask is whether it is possible for someone to commit a crime of such enormity as to justify the taking of his life. The answer, I think, is yes. Had Hitler been cap-

tured alive, would anyone have suggested life without parole? Does anyone weep that Saddam Hussein was hanged?

But if the death penalty is to be effective and just, America needs a new system to deliver it. The first step is to create courts solely dedicated to death-penalty cases and appeals, so that they can move through the legal system as fast as possible rather than waiting years in a queue. Second, defendants ought to be guaranteed first-class legal representation, at public expense if they can’t afford it. Third, application of the death penalty should require a higher standard of proof: There should be no doubt whatever of guilt, as established by a confession in open court, DNA or video evidence. Eyewitness accounts and circumstantial evidence should not be enough. Fourth, appeals should be strictly limited. Only new evidence that would throw doubt on the correctness of the conviction should be admitted.

The fear of death is a uniquely powerful deterrent, but only if the punishment is both certain and swift.

Mr. Gordon’s most recent book is “Washington’s Monument: And the Fascinating History of the Obelisk” (Bloomsbury, 2016).

The ‘Business Case’ for Paris Is Bunk

By Cliff Forrest

As President Trump weighs whether to withdraw from the Paris Agreement on climate change, some have tried to present a “business case” for why the U.S. should stay in. The Paris Agreement’s backers tell a very incomplete story and reached the wrong conclusion.

Climate-change advocates’ bizarre premise is that economic gains will come from restricting access to the

most abundant, reliable and affordable fuel sources. Never mind that this defies the experience of many European nations that have invested heavily in renewable energy. After Germany’s aggressive and reckless expansion of wind and solar, for example, the magazine *Der Spiegel* declared in 2013 that electricity had become “a luxury good.” Apparently this time will be different.

There are a few interesting hypocrisies to consider as well. The commercial interests that strongly support the Paris Agreement typically have created programs to exploit, game or merely pass through the costs of the climate-change agenda. Many also maintain a green pose for marketing purposes.

The classic example of this rent-seeking behavior was Enron, which in 1996 purchased Zond Energy Systems (now GE Wind) to complement its gas pipeline. Enron then set about lobbying its way to green-energy riches. It seems that Paris backers hope for a sudden public amnesia about the many businesses that use government to push out smaller competitors.

Green companies also argue that, beyond economic benefits, their ability to slow climate change helps contribute to the public good. To my knowledge, none declare a measurable impact on climate from their businesses or their desired policies.

Mr. Trump should keep in mind that the people calling for him to

stick with the Paris Agreement largely didn’t support him during the campaign. Few would like to see him succeed now. As for his strongest supporters, they’re the ones who will take the hit if he breaks his promise to withdraw.

Some countries have threatened to punish the U.S. if it pulls out of the accord. Rodolfo Lacy Tamayo, Mexico’s undersecretary for environmental policy and planning, said in an interview with the New York Times: “A carbon tariff against the United States is an option for us.”

Countries imposing costs on their own industries through the Paris Agreement complain that they are at a disadvantage if the U.S. doesn’t do the same. Apparently they didn’t receive the talking points describing green energy as an economic boon for everyone involved.

So which is it? Does the Paris Agreement spur a U.S. economy otherwise unprepared to succeed in the 21st century? Or is the U.S. maintaining economic advantage by not subjecting itself to the accord’s arduous requirements?

Mr. Trump’s obligation is to do what is in America’s best interest. Rejecting a confused and costly international agreement, with questionable benefits to climate, should be a slam dunk. Don’t take my word for it: Just study the other side’s arguments.

Mr. Forrest is CEO of Rosebud Mining.

Averting War In Lebanon

By Ron Prosor

Donald Trump called out Hezbollah at both stops on his Middle East trip last week. In Saudi Arabia he praised the Gulf Cooperation Council for designating the Iranian-backed Lebanese Shiites militia a terrorist organization and noted that Riyadh had placed sanctions on a senior Hezbollah figure. In Jerusalem he scored Hezbollah for launching rockets “into Israeli communities where schoolchildren have to be trained to hear the sirens and run to the bomb shelters.”

Lebanon is at a crossroads. Decisions the president makes now could help prevent a war between Israel and Hezbollah. Such a war would damage Lebanon and could drag the U.S. into another complex and costly entanglement in the Middle East. Engagement today can prevent risks to American lives tomorrow.

Hezbollah is sponsored by Iran and has become increasingly brazen in the past decade. It is now more powerful militarily than most North Atlantic Treaty Organization mem-

Hezbollah’s strength has multiplied, and conflict is inevitable unless the world acts.

bers. It has 150,000 missiles and could launch 1,500 of them a day. From the ground, air or sea, it can strike anywhere in Israel.

Lebanon’s president, Michel Aoun, hasn’t distanced the Lebanese army from Iran’s proxy. Rather, he has embraced it. “Hezbollah’s weapons do not contradict the national project,” he said in February, but are “a principal element of Lebanon’s defense.”

Yet when Hezbollah acts, it does so with Iran’s interests in mind. Iran would have no qualms spilling Lebanese blood in a war with Israel. Just look at Syria, where under Iranian direction the Assad regime has unleashed genocide against the Sunni Arab population using Hezbollah as its storm troops.

War between Israel and Lebanon is avoidable, but only if the world acts now—with American leadership. Hezbollah’s ability to destabilize the region stems from the abject failure of United Nations Security Council Resolution 1701 and the peacekeeping force tasked with enforcing it, the U.N. Interim Force in Lebanon, or Unifil.

Resolution 1701 was adopted unanimously after Israel was forced to fight a defensive war against Hezbollah in 2006. It mandated that Unifil keep southern Lebanon “free of any armed personnel, assets and weapons” and prevent the area from being used “for hostile activities of any kind.”

Like many U.N. resolutions, 1701 has been thoroughly ineffective. Hezbollah is 10 times as strong now as it was in 2006, and its military infrastructure permeates Lebanon. Yet Unifil claims ignorance of the terror organization’s arms buildup. Its March 2017 report reaches new heights of absurdity: “To date, Unifil has neither been provided with, nor found, evidence of an unauthorized transfer of arms into its area of operations.”

Hezbollah mustn’t be allowed to impose war on the region and tragedy on Lebanon while the Iranian regime rubs its hands. What can Mr. Trump do?

The U.S. should seek a U.N. Security Council resolution amending 1701 and providing Unifil with explicit powers to disarm Hezbollah and demilitarize South Lebanon under Chapter 7 of the U.N. charter, the section that deals with peace enforcement. Currently Unifil derives its legal mandate from Chapter 6, which deals with peacekeeping. Peacekeeping helps local restaurants stay in business but does little to enforce peace.

As usual, the tab for U.N. failure in Lebanon is being paid for by American taxpayers. The U.S. picks up 43% of Unifil’s \$488 million annual budget. Congress should make that funding conditional on performance.

War between Lebanon and Israel would be detrimental to Russian interests in Syria, so Vladimir Putin could be convinced to help rein in Hezbollah. For the Arab states, led by Saudi Arabia and Egypt, containing Hezbollah and Iran is a priority. Western Europe should be eager to avoid a war that would worsen its refugee crisis. Finding common ground over Lebanon and Syria could strengthen cooperation between Israel and the Sunni Arab states searching for a solution to the Israeli-Palestinian problem.

Mr. Trump and Secretary of State Rex Tillerson have a historic opportunity to do the right thing: to show that U.S. diplomatic intervention today can prevent the need to make terrible decisions about U.S. military intervention tomorrow.

Mr. Prosor, a former Israeli ambassador to the U.N., is chairman of the Interdisciplinary Center’s International Diplomacy Institute and an executive-in-residence at LioniTree.

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THE WALL STREET JOURNAL.

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Yen vs. Dollar 110.7730 ▼ 0.44%

Hang Seng (25701.63) Closed

Gold 1263.20 ▼ 0.39%

WTI crude 49.21 ▼ 1.18%

10-Year JGB yield 0.040%

10-Year Treasury yield 2.230%

Banks Fined Over 1MDB

BY JAKE MAXWELL WATTS
AND P.R. VENKAT

SINGAPORE—Singapore's financial regulator imposed fines on two large banks including **Credit Suisse Group AG** as it concluded a two-year investigation into widespread antimoney-laundering failures throughout its financial system related to alleged misappropriations from Malaysian state fund **1MDB**.

The Monetary Authority of Singapore said Tuesday it had fined the Swiss bank 700,000 Singapore dollars (US\$504,613) and Singapore's

United Overseas Bank Ltd. S\$900,000 after it found several breaches of regulations and inadequate scrutiny of customers' transactions and activities.

The fines were imposed after two years of investigations into the role of Singapore's financial institutions and their interactions with 1MDB, or **1Malaysia Development Bhd.**

The MAS's review of Singapore's financial sector has exposed dozens of failures within banks large and small, sulllying the city-state's reputation as a trusted financial center in a sensitive case in-

volving large alleged misappropriations from a neighboring country.

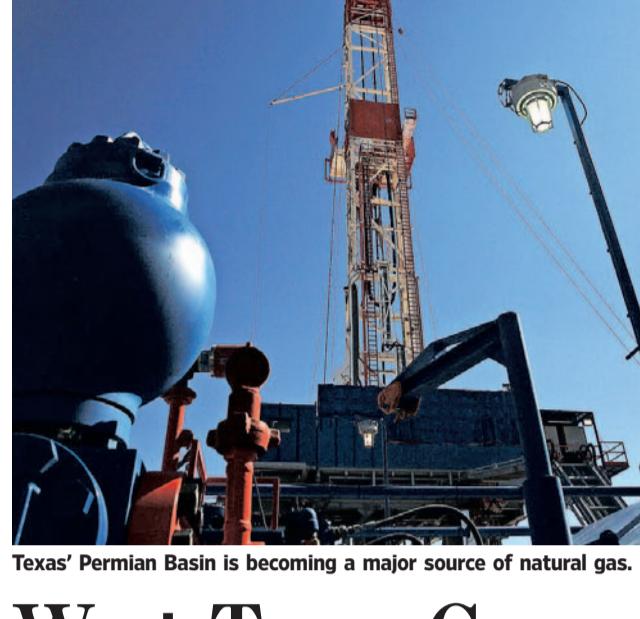
During its extensive review, MAS shut two foreign private banks and fined six others in addition to UOB and Credit Suisse for various breaches of antimoney-laundering regulations. It has fined banks operating in Singapore a combined S\$29.1 million for their roles in handling 1MDB-related fund flows.

Since its investigations began two years ago, MAS has issued prohibition notices against four former or current employees of financial

institutions and said it intended to issue notices against three more, including the new ones mentioned Tuesday. In its statement Tuesday, MAS said it had made three new bans and served notices on three more.

Its managing director, Ravi Menon, said in a statement Tuesday that the regulator's extensive review "holds key lessons" for both the MAS and financial institutions in Singapore. He said the country's financial system "is in a better position today" than when 1MDB-related abuses took

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Texas' Permian Basin is becoming a major source of natural gas. SPENCER PLATT/GETTY IMAGES

West Texas Gas Seen Pressuring Prices for Years

BY TIM PUOKO
AND CHRISTOPHER M. MATTHEWS

The oil-rich Permian Basin is emerging as a major source of new natural gas, a development that could deepen an existing glut and pressure gas prices for years.

The West Texas region has become the most prolific spot for horizontal oil drilling and fracking. The new oil wells also produce natural gas, making it a nearly free byproduct that energy companies can then sell on top of the more-sought-after crude.

Gas production in the Permian Basin is likely to triple by 2020 from its 2010 levels, analysts say. The region is poised to rival new gas output from the Appalachian Marcellus, the U.S.'s biggest gas-producing region.

Businesses and investment firms are earmarking billions of dollars for new pipeline connections to take away gas so that drillers can keep pumping oil.

Blackstone Group LP last month agreed to pay \$2 billion for EagleClaw Midstream Ventures LLC, a gas-focused pipeline company in the region. **Kinder Morgan Inc.** and at least two others have announced plans to spend billions of dollars on new pipelines.

The rapid growth among oil drillers and the support for pipeline projects both in Texas and from President Donald Trump's administration are helping make those investment decisions easier.

Gas prices are down 13% year to date, with near-record production and modest winter-heating demand leaving

storage levels 11% higher than the five-year average.

Gas production in the Permian is expected to increase by 5.5 billion cubic feet a day from the end of last year to reach 12.5 billion cubic feet by the end of 2020, according to energy investment bank **Tudor Pickering Holt & Co.** in Houston.

The Marcellus, which has long been the fastest-growing gas field, is likely to add 6.1 billion cubic feet during the same period, not much more than the Permian, though its total production will be two times that of Permian by 2020.

Because Permian drillers are after oil, gas prices could hit historic lows.

All that fresh output could send gas prices back down to historic lows next year, said Brandon Blossman, an analyst at Tudor Pickering. Permian "producers are concerned they can't get rid of it," he said. "They're not really concerned what they're going to get for it."

Six months ago, many analysts and executives thought a slowdown in drilling nationwide and increasing export demand could reverse the oversupply of natural gas. Some producers expected a shortage of pipelines to ship gas out of the oil patch might slow their move into the Permian.

Please see **GAS** page B2



Americans made 433 million fewer trips to restaurants at lunchtime last year, resulting in roughly \$3.2 billion in lost business. MARK KAUZLARICH/BLOOMBERG NEWS

Lunch Business Serves Up Less

U.S. restaurants feel bite of changing habits, as harried customers have less time to sit around

BY JULIE JARGON

The U.S. restaurant industry is in a funk. Blame it on lunch.

Americans made 433 million fewer trips to restaurants at lunchtime last year, resulting in roughly \$3.2 billion in lost business for restaurants, according to market-research firm NPD Group Inc. It was the lowest level of lunch traffic in at least four decades.

While that loss in traffic is a 2% decline from 2015, it is a significant one-year drop for an industry that has traditionally relied on lunch and

has had little or no growth for a decade.

"I put [restaurant] lunch right up there with fax machines and pay phones," said Jim Parks, a 55-year-old sales director who used to dine out for lunch nearly every day but found in recent years that he no longer had room for it in his schedule.

Like Mr. Parks, many U.S. workers now see stealing away for an hour at the neighborhood diner in the middle of the day as a luxury. Even the classic "power lunch" is falling out of favor among power brokers.

When he isn't on the road for a Detroit-based building products company, Mr. Parks works from his home in Carlisle, Ohio, and eats there. When he meets clients at their offices, they have food delivered and work during what they call a "lunch and learn."

Even some restaurant-company executives don't go out for lunch. Employees at Texas Roadhouse Inc.'s Louisville, Ky., headquarters order in so often that they know the delivery drivers by name.

"A lot of our folks are trying to be more efficient," company

President Scott Colosi said.

Cost is another factor working against eating out for lunch. While restaurants have raised their tabs over the past few years to cope with rising labor costs, the price of food at supermarkets has continued to drop, widening the cost gap between bringing in lunch and eating out.

Restaurants are adapting by offering delivery, faster service and smaller portions. But the shift signals trouble for the industry, which makes more money serving meals inside

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That isn't as big a problem for biotech stocks as one might expect.

After new offerings hit the market on an almost daily basis in 2014 and 2015, about 30 have gone public in the U.S. since the start of 2016, according to Dealogic. At first glance, that would seem to be a problem for smaller biotechs, which usually don't have products on the market and depend in part on strong sentiment to make for a winning investment.

However, investor demand for biotech hasn't cooled nearly as much as that trend might suggest. The equal-weighted S&P Biotechnology Select Industry Index is up nearly 18% so far this year and up nearly 50% from its lows in February 2016.

One reason that IPOs have slipped: Company finance chiefs, set to assemble this

week for the annual Association of Bioscience Financial Officers meeting, have plenty of options besides the public markets to access capital.

Private sources of financing, such as venture capital and even nonprofit groups, are readily available. And the bank of big pharma remains wide open.

The relationship between large and small drug companies is somewhat symbiotic. Bigger drugmakers need to generate growth and generally have loads of cash. Offering a smaller startup a large upfront payment could buy sales access to a future breakthrough. Meanwhile, smaller companies need money to pay for trials.

Further, if a drug can be brought to market, smaller companies can't match big pharma's selling ability.

Meanwhile, the lighter supply of companies has helped keep demand for public biotechs stronger as well. That is working well for all industry actors—including investors.

Two former **Theranos Inc.** directors said they didn't follow up on public allegations that the Silicon Valley blood-testing company was relying on standard technology rather than its much-hyped proprietary device for most tests, according to newly released court documents.

In depositions, the highly decorated former directors—former U.S. Navy Adm. Gary Roughead and former U.S. Secretary of State George Shultz, who were board members when concerns of employees and regulators became public—said they didn't question Theranos founder Elizabeth Holmes about the matter.

Both former directors said in the depositions that they thought Theranos could do all its patient tests on its proprietary device. Regulators said last year that Theranos only did a dozen types of patient tests on its own system.

"I don't have the information that would tell me that it's true or not true," Mr.

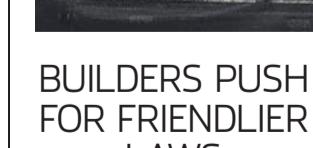


BUILDERS PUSH FOR FRIENDLIER LAWS

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WHY SOME TOXIC BOSSSES THRIVE

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By CHRISTOPHER WEAVER

Two former **Theranos Inc.** directors said they didn't follow up on public allegations that the Silicon Valley blood-testing company was relying on standard technology rather than its much-hyped proprietary device for most tests, according to newly released court documents.

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"I don't have the information that would tell me that it's true or not true," Mr.

Roughead testified on March 24, referring to reports that Theranos relied on standard devices. Asked whether he ever asked Ms. Holmes about the matter, Mr. Roughead said: "I did not ask her directly, no."

Asked whether he questioned anyone else at the company, Mr. Roughead said: "I did not."

Mr. Shultz separately testified that he "didn't probe into" whether the company's technology was working, adding:

"It didn't occur to me." He added: "Since I didn't know, I didn't have anything to look into."

Representatives of Mr. Roughead didn't respond to requests for comment. An aide to Mr. Shultz said he was unavailable.

Both men left the Theranos board shortly after a Wall Street Journal article first raised employee's concerns.

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Former board members Gary Roughead, left, and George Shultz.

MARK SCHIEFELBEIN/AP (LEFT); ANDREW HARRER/BLOOMBERG NEWS

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Singapore is one of several countries around the world, including the U.S., probing IMDB's activities. Swiss investigators said last year they believe US\$4 billion may have disappeared from the fund, while the U.S. Justice Department has said it believes that some US\$1 billion originating with IMDB was plowed into hotels, luxury real estate, fine art, a private jet, and the 2013 film "The Wolf of Wall Street."

At least five individuals have been sentenced for various crimes.

IMDB has denied wrongdoing and hasn't been charged with any crimes.

While the MAS didn't find pervasive control weaknesses at Credit Suisse and UOB, it said the two banks had breached regulations several times.

Credit Suisse said that it acknowledges the outcome of the review and regrets that it has fallen short of MAS and the bank's own high standards.

Switzerland's financial regulator, which had already concluded its own investigation of Credit Suisse, said later Tuesday it hadn't found any systematic breaches of supervisory law, but had sent the bank a written reprimand for antimoney-laundering shortcomings.

—Brian Blackstone

contributed to this article.

GAS

Continued from the prior page

But that picture has changed with the wave of new, cheap gas from the Permian and pipeline companies willing to spend on new connections.

New long-haul pipelines also are slated to unlock Marcellus supply for the Midwest and Southeast. Resurgent Haynesville-shale drilling is likely to boost output from Louisiana. All that potential supply is helping keep prices in the futures market at the lower end of their range from the last two decades.

Oil wells nationwide are expected to generate another 9 billion cubic feet a day of natural gas over the next several years, nearly covering all new demand, according to estimates from Tudor Pickering and Macquarie Group.

Many analysts expect the growing supply to keep international prices low, too, as the U.S. becomes more of a global supplier. U.S. producers are shipping vast new amounts of gas to Mexico and

several export terminals are set to open that will ship gas by sea.

Because Permian drillers are after oil, gas prices could hit historic lows—probably as little as \$1.50 per million British thermal units—before it would stop them from drilling, according to energy consulting firm Wood Mackenzie.

From a fifth to a half of what comes up from a Permian oil well is actually natural gas or ethane, propane and other fuels called natural-gas liquids. Producers in the region are starting to concentrate in a part of the Permian called the Delaware, where volumes of everything are higher.

Oil companies want to move gas as quickly as possible so they can produce more oil, said Duane Kokinda, Kinder Morgan president. His firm held talks with customers this year and received bids in excess of the capacity on Kinder's natural-gas pipeline, Mr. Kokinda said. "Based on the demand we got," he said. "We're looking at making it bigger."

BUSINESS & FINANCE

The New World of Lunch

A sampling of lunchtime around the globe from Wall Street Journal reporters.

Shanghai and Beijing

For office workers in China, the noontime meal was once a relaxed, civilized break. A short nap afterward wasn't uncommon. Now, the tradition has come under pressure in an ever faster-paced workday and the rise of smartphone apps offering cheap delivery for around 70 U.S. cents.

In China's biggest cities, squads of helmeted, scooter-riding delivery people barrel through business districts ferrying bowls of beef noodles and plates of spicy chicken rice to hungry office workers.

Lily Sun, a 43-year-old civil servant working in Beijing, misses the days when she could dine with her colleagues at the office cafeteria. Now, she often eats alone while her younger colleagues opt to order food from apps, drawn by discounts and more meal options.

—Liza Lin

Washington, D.C.

Lobbying restrictions, generational attitudes about drinking, and changing work habits have led to the decline of the classic power lunch in Washington.

"Power lunches have gone the way of all flesh," said Tom Korologos, a veteran Republican operative and former ambassador to Belgium under George W. Bush.

In 2007 following the Jack Abramoff lobbying scandal, Congress barred lobbyists from giving gifts to members of Congress or their staffs. That has curtailed their ability to



Food deliverymen in Beijing. In China's biggest cities, leisurely dining with colleagues is less common.

wine-and-dine lawmakers. "You can't buy anybody a hamburger anymore without getting in trouble," said Mr. Korologos.

Ashok Bajaj, owner of Knightsbridge Restaurant Group, which owns and operates a suite of fine-dining restaurants in D.C., said diners don't drink at lunch the way they used to.

"It's no longer a three-martini lunch or two-martini lunch," he said. "The younger generation comes in and they don't want to drink for lunch."

The proliferation of food trucks has given lunch-goers far more options than in the past. In 2013, the District of Columbia eased parking restrictions on food trucks, enabling them to set up in certain high-traffic areas.

Mr. Korologos, who used to buy lunch—a cheeseburger and can of Miller Lite—for late Chief Justice William Rehnquist every few weeks at The Monocle Restaurant on Capitol Hill, said he doesn't miss the old-school lunches. "It took too long and you drank too much and you didn't really get much accomplished," he said with a laugh.

—Daniel Nasaw

Berlin and Frankfurt

The school-style lunchroom is king in Germany. About 20% of workers eat lunch at office canteens—a higher number than in restaurants, bakeries or delis combined, according to a recent government nutrition report.

Often open to the public though generally unadvertised, the semi-secret network of office cafeterias serves warm, retro-style meals at affordable prices, usually under €10 (\$11).

The Berlin branch of David Chipperfield's architecture firm, for example, has an upscale lunchroom in a raw concrete space, serving a daily made-from-scratch menu. In Frankfurt, Germany's biggest trade union, IG Metall, hosts a cafeteria with a varied menu for members and nonmembers alike. Three blocks away, Frankfurt's labor court serves pea stew, plates of fried white fish and ham with beans to workers and walk-ins. The price is right: A hot lunch is €7.

—Zeke Turner in Berlin and Monica Houston-Waesch in Frankfurt

London

The once-stalwart tradition of a long, liquid lunch is drying up in London.

At Michelin-starred restaurant Club Gascon, manager Thomas Rabuel said alcohol consumption has "decreased a lot," particularly after big companies like Lloyds Banking Group PLC earlier this year instituted a workday alcohol ban.

Like their peers in the U.S., officegoers in London are increasingly ordering in or picking up healthier grab-and-go options. Delivery service Deliveroo says the company has seen a 163% rise in corporate lunchtime orders in London over the past year, with Italian, Japanese and Thai being the three most popular cuisines.

Club Gascon is having fewer visitors at lunch. "More are going to Pret A Manger and take-away restaurants except for the big managers and head of office types who have more time and budget," said Mr. Rabuel. London-based Pret A Manger last year opened 31 new shops in the U.K..

—Saabira Chaudhuri

Burrito vs. Burrito

What is the cost of ingredients for making a burrito at home compared with buying one prepared from Chipotle Mexican Grill? To keep the calculation simple, the ingredients were limited to the basics.

The cost to do it yourself*

1 tortilla
56¢
4 oz. organic chicken breast – \$2
Quarter cup long-grain, white rice – 12¢

Half cup of organic black beans – 40¢

Quarter cup of Kraft Natural Cheese – 74¢



Total costs†: \$3.82 \$6.70

*Estimates based on grocery-store prices in the 91362 ZIP Code of suburban Los Angeles: 20-ounce/8-count bag of Mission flour tortillas – \$4.49; 1 lb. organic chicken breast – \$7.99; 15-ounce can of organic black beans – \$1.50; 32-ounce bag of long grain white rice – \$1.99; 8-ounce package of Kraft Natural Cheese, finely shredded: \$2.99 †Not including tax

Sources: Staff reports (DIY ingredients); Chipotle Mexican Grill

The cost at Chipotle

A burrito with chicken, white rice, black beans and cheese.

Consumers are buying fresh foods, from supermarkets, and eating them at home as a replacement for eating out," Tyson Chief Executive Tom Hayes said.

The average price of a restaurant lunch has risen 19.5% to \$7.59 since the recession, as rising labor costs pushed owners to raise menu prices—even as the cost of raw ingredients has fallen. According to the Bureau of Labor Statistics, the U.S. last year posted the longest stretch of falling grocery prices in more than 50 years.

Rising labor costs have pushed restaurant owners to raise menu prices.

"We believe significant food deflation was the primary culprit behind last year's weakness, favoring food at home pricing over food away from home pricing to a degree not seen outside of the global financial crisis," Sanford Bernstein analyst Sara Senatoro said in a recent report on the restaurant industry.

More fundamental shifts in consumer behavior also are at play. The share of people doing at least some of their work at

home—and who are unlikely to go out and eat—has fluctuated over the years, but was as low as 19% in 2003 and reached a high of 24% in 2015, according to the BLS. And the rise of online shopping means fewer trips to the mall—or a stop for a restaurant lunch there.

Despite the traffic decline, dollar sales at lunch were flat last year because of the menu price increases. But restaurants can't raise prices indefinitely. In fact, many now are offering lunch discounts to bring people out to eat.

an hour.

After it saw lunch traffic "fall off" in late 2015, sports-bar chain Buffalo Wild Wings Inc. introduced a cheaper "fast break lunch" menu with smaller portions. Chief Executive Sally Smith said the new menu—and a 15-minute service guarantee—recently helped improve traffic.

Many restaurants are restructuring. Cosi Inc., Garden Fresh Corp. and Old Country Buffet owner Buffets Inc. recently have filed for chapter 11 bankruptcy protection. Others, like Ruby Tuesday Inc. and Famous Dave's of America Inc. have been closing restaurants. Bob Evans Farms Inc. in January sold its struggling restaurant business to private-equity firm Golden Gate Capital. On the same day, Bob Evans announced that its packaged-foods arm was acquiring a potato-processing company in an effort to focus on growing demand for refrigerated side dishes.

Josh Benn, managing director at corporate-finance advisory firm Duff & Phelps Corp., said new restaurant concepts, such as those that cater to consumers' desire for faster, healthier food, are on the rise.

"I think there's a death and regeneration happening in this whole industry," Mr. Benn said.

BUSINESS NEWS

Ryanair Holdings' Profit Rises After Rocky Year

By ROBERT WALL

LONDON—**Ryanair Holdings** PLC Tuesday posted a 6%

through a series of buybacks and special dividends.

Europe's largest airline by passenger numbers also said profit would rise further this year and reach €1.4 billion to €1.45 billion. Ryanair typically begins the year with conservative profit forecasts. It said much of the increase in profit should come from a projected €70 million fall in fuel costs. The carrier also expects to carry 130 million passengers by the end of March 2018.

Ryanair said it posted a €1.32 billion (\$1.47 billion) net profit for the financial year ended March 31 against a target range of €1.3 billion to €1.35 billion. Sales last year advanced 2% to €6.65 billion as the airline carried 120 million passengers.

The airline also kicked off a €600 million share buyback to be completed by the end of October, having completed a €1 billion stock-repurchase round in February. Ryanair said it has returned €5.4 billion to investors since 2008

years. Central East European budget Wizz Air last week said ticket prices have stabilized earlier than expected.

Ryanair said bookings for the six months to Sept. 30 are ahead of last year, though the slump of the British currency after the Brexit vote is expected to lead to a 5% to 7% decline in average ticket prices for the full financial year. The company generates more than a quarter of its sales in sterling. Fares fell 13% in the prior financial year.

Ryanair has delivered strong earnings growth in recent years by rapidly expanding while maintaining low costs. Nonfuel unit costs are expected to fall 1% this year.

The Dublin-based airline also said it was preparing for more aggressive growth through a fleet review with plane provider Boeing Co. The size of its fleet should increase in the 2018 and 2019 period by



Ryanair posted a 6% rise in net profit for the past financial year.

extending leases on 10 existing planes and picking up delivery slots for new aircraft, it said.

"We are aware of the need to have additional short-haul aircraft to," Ryanair said. The

carrier has been growing aggressively in Germany, where

Air Berlin PLC is retrenching, and is a major player in Italy, where flag carrier Alitalia has entered the equivalent of bankruptcy protection.

But Ryanair also is starting to branch out in other ways. This month it said it was

starting to sell long-haul tickets for Spanish carrier Air Europa. The Irish airline also is in talks with others, including Norwegian Air Shuttle ASA and IAG's Aer Lingus, to provide feeder traffic to those airlines' international service.

Akzo Nobel Wins Court Ruling to Rebuff Activist Investor Elliott

By NATALIA DROZDIAK
AND BEN DUMMETT

U.S. activist investor **Elliott Management** Corp. lost a legal battle to remove **Akzo Nobel NV**'s chairman, increasing pressure on **PPG Industries** Inc. to make a hostile bid for the rival Dutch paint and chemicals giant or abandon its monthslong takeover pursuit.

Earlier this month, Elliott took Akzo to court in the Netherlands to force Akzo to hold a special shareholder meeting on the dismissal of Antony Burgmans. Akzo, citing Dutch law, previously rejected the shareholder request for such a meeting.

Elliott said that Mr. Burgmans failed to "discharge his fiduciary and corporate governance duties" after the Amsterdam-based company re-

jected PPG's latest, sweetened offer of €24.6 billion (\$29.49 billion) without first attempting to negotiate a deal.

Akzo argues its stand-alone strategy to boost dividend payouts and spin off its specialty-chemicals business and return the bulk of the proceeds to shareholders will generate more value.

In defending its position, the paint maker has said its actions have met the highest standards of corporate governance in the Netherlands and complied with Dutch law.

Siding with Akzo, the Dutch business court on Monday rejected Elliott's request to allow the vote to take place. The court said Akzo had analyzed PPG's bids "seriously" and that the dismissal of the company's chairman is a matter of strategy, which is for the manage-



KOEN VAN WEEL/EUROPEAN PRESSEPHOTO AGENCY

ment and supervisory board to decide—not the shareholders.

Elliott can appeal the decision to the Dutch Supreme Court. A spokeswoman said Elliott was "surprised and disappointed" with the ruling. "Elliott is considering the

accordance with the highest standards of Dutch corporate governance and it confirms the position and actions of the chairman," said Akzo spokesman Andrew Wood. The company will continue to engage in a constructive dialogue with its shareholders, he added.

In its ruling Monday, the Dutch court also warned Akzo that it can't afford to ignore the rift with some of its shareholders over the company's strategy. The court said it would continue to assess whether it needs to call for an independent investigation into Akzo over whether the company has been sufficiently transparent with its shareholders about the process it took when rejecting the PPG proposals.

With its court challenge, Elliott was betting that a favorable shareholder vote—or

the threat of one—to remove an important opponent to PPG's offer, could pressure the board to bow to deal talks.

At the hearing PPG Chief Executive Michael McGarry also urged the Dutch court, known as the Enterprise Chamber, to "do all that is necessary" to require Akzo to enter into negotiations, according to a transcript of the executive's statement. PPG said Monday that it remains open to deal talks with Akzo, but "without productive engagement, PPG will assess and decide whether or not to pursue an offer for Akzo Nobel."

The Pittsburgh-based paint maker, under Dutch law, must decide by June 1 whether to present its offer directly to Akzo shareholders, a move tantamount to launching a hostile bid. Its alternative is to shelve its bid for at least six months.

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TECHNOLOGY

Nintendo Fights A Parts Shortage

BY TAKASHI MOCHIZUKI

TOKYO—Nintendo Co.'s biggest battle these days isn't against other game makers. It is against companies such as Apple Inc. that are gobbling up the same parts Nintendo needs to make its hit Switch machine, people in the industry say.

Nintendo has told suppliers and assemblers it hopes to make 20 million units of the Switch device in the year ending in March 2018, people involved in the talks said. Though the company's official sales target for the year is 10 million, strong demand suggests it can sell many more—if it can make them.

The problem is an industry-wide capacity shortage for components used in smartphones, computer servers and other digital devices. These include the NAND flash-memory chips that store data, as well as liquid-crystal displays and the tiny motors that enable the Switch's hand-held controllers to imitate the feel of an ice cube shaking in a glass.

Demand for Apple's iPhone 7 is keeping parts makers at full capacity.

"Demand for our NAND flash memory has been overwhelmingly greater than supply, and the situation is likely to stay for the rest of this year," said a spokeswoman at Toshiba Corp., the industrial giant that is leaning on flash memory to survive.

She cited demand from smartphone makers—Apple and Chinese companies are among Toshiba's customers—and data centers.

People in the industry say the expansion of web-based services for corporations has driven demand for computer servers that use flash memory. Continued demand for Apple's iPhone 7 and a 10th anniversary model of the iPhone expected later this year are also keeping parts makers at full capacity, helping power Japan's economy to its longest growth streak since 2006.

Nintendo and Apple representatives declined to comment on supply-chain issues.

Nintendo's component

struggles suggest the Switch, a hybrid device designed for use in the living room and on the go, is likely to remain hard to find throughout this year.

Analysts say competitors for the parts can often offer better terms than Nintendo. Makers of data-center servers tend to use newer and higher-margin components, while smartphone makers issue larger orders than Nintendo.

If Nintendo increased spending significantly to secure more parts, that could risk driving the Switch's production cost above the \$299 retail price. Nintendo President Tatsumi Kimishima, has said he doesn't want to sell the Switch at a loss.

Nintendo has already taken one expensive step to ensure early sales momentum for the Switch by using air cargo to deliver some units to the U.S. and Europe in March.

Normally, Nintendo could use the late summer months to deliver extra supplies to the U.S. by ship in preparation for the holiday season, but that is more difficult now and Nintendo might again consider air cargo toward the end of the year, people briefed on its thinking said.

In April, Nintendo said the Switch, which went on sale globally March 3, sold 2.74 million units in March.

The company was burned by the poor performance of the Switch's predecessor, the Wii U machine, which had lifetime sales of fewer than 14 million units, but the recent good news has driven Nintendo's share price to an eight-year high.

Some families are buying multiple units, treating them more like smartphones than living-room consoles because of the Switch's portability. Yukiko Amakawa, a 36-year-old homemaker in Fukuoka, Japan, said her family of four owns three Switches; one for herself; one for her husband to play on the train while commuting; and a third for their children, a 6-year-old boy and 3-year-old girl.

Hirokazu Hamamura, a director at Kadokawa Dwango Corp., publisher of the video-game magazine Famitsu, said momentum was likely to pick up as outside software publishers add games to the Switch's lineup.

Capcom Co. of Japan plans to release a "Monster Hunter" title for the Switch.



Uber Technologies CEO Travis Kalanick ordered the investigation into allegations of sexism and sexual harassment at his company.

Uber Probe Winds Down

Ride-hailing company expected next week to wrap investigation of harassment claims

BY GREG BENINGER

Uber Technologies Inc. expects to conclude a report soon on claims of sexual harassment and sexism that it hopes will close a damaging chapter in its history. But it also could bring even greater scrutiny for the troubled ride-hailing company.

The report—expected next week—will be the culmination of an investigation triggered in February when former software engineer Susan Fowler Rigetti claimed in a nearly 3,000-word blog post that Uber management had ignored multiple complaints from her and other female workers of sexual harassment and sexism by their managers.

The outcome carries significant stakes for the world's most valuable startup. Some employees say the allegations and the three-month investigation, along with other recent controversies, have been painful distractions and threaten Uber's ability to attract talent.

Employees will be looking for information about how

Uber's leaders handled workplace issues and what changes the report might trigger. Others who will be contemplating the results: candidates in Uber's search for its first-ever chief operating officer to assist CEO Travis Kalanick.

Uber declined to comment on the investigation or its impact on the company.

Ms. Fowler Rigetti's allegations sparked a firestorm almost instantly, prompting Mr. Kalanick within hours to condemn the alleged behavior and order an investigation. The next day, he addressed employees and announced the probe would be led by former U.S. Attorney General Eric Holder.

In recent weeks, attorneys from Mr. Holder's firm, **Covington & Burling** LLP, have summoned select Uber workers to its nearby San Francisco office, according to employees who have been interviewed or were requested to be. Employees say the interviews are described as mandatory and designed to elicit details about their experiences, including names of people involved.

Mr. Holder didn't respond to a request to comment.

Another law firm, **Perkins Coie** LLP, which Uber hired to investigate Ms. Fowler Rigetti's specific claims, also is bringing in workers for inter-

views as part of the broader investigation, employees say.

Meanwhile, Uber is conducting its own review. Human-resources chief Liane Hornsey and board director Arianna Huffington have held a series of so-called listening sessions and focus groups where employees are invited to air grievances and ask pointed questions, according to those who have attended.

At one recent listening session led by technology chief Thuan Pham in the company cafeteria, employees recounted their experiences and grilled the executive about processes, according to one attendee.

Among Uber's senior leaders, Mr. Pham has faced particular public scrutiny because he oversaw the engineering operation where Ms. Fowler Rigetti worked. Ms. Fowler Rigetti claimed Mr. Pham was aware of her troubles, and people familiar with the matter say he had been briefed by other employees about inappropriate behavior at the company.

Mr. Pham didn't respond to a request to comment. It couldn't be learned what actions he may have taken.

Beyond the investigation, Uber is grappling with challenges including a lawsuit by Google parent **Alphabet** Inc.

over alleged trade-secret theft; a federal probe into its business operations; and the company's admission that it erroneously withheld tens of millions of dollars from New York City drivers over more than two years. A leaked video in February of Mr. Kalanick berating an Uber driver prompted the CEO to apologize and announce plans to hire a deputy.

Uber has signaled the controversies and their remedies will have a lasting impact. "This is a challenging time for Uber," the company said in a recruitment email in April reviewed by The Wall Street Journal. "Recent events are proving to be a catalyst for a necessary change that will help propel Uber towards a more principled future."

Mr. Holder's team is expected by month's end to submit its findings to a subcommittee of Uber's board, according to a person familiar with the process. Uber will then release an executive summary, likely with names omitted, to employees and the media in early June.

Companies often conduct such internal investigations, but rarely make them public because of liability and other concerns, say employment law experts.

Vox to Host Sports Website Ringer

BY LUKAS I. ALPERT

Bill Simmons is taking another step on his winding path through the annals of sports journalism.

The internet iconoclast has signed a deal to move his sports and culture website, the Ringer, off Medium and onto Vox Media's platform, Vox executives have announced.

While Mr. Simmons will maintain ownership of the site he launched last summer, the Ringer will become part of the portfolio of brands Vox offers to marketers alongside its own properties like SB Nation, the Verge and Eater.

"We will contribute sales and cross-promotional services, but they will continue to have their own voice and inde-

pendence," said Vox Media Chief Executive, Jim Bankoff. "The Ringer fits into our portfolio really well, and for advertisers looking to reach sports fans, it will be a really nice addition."

Mr. Bankoff said revenue from ad sales will be split between the two companies but declined to disclose the specifics of the arrangement.

The Ringer employs several dozen people and offers a mix of features on sports, film, television and technology as well as a slate of sports podcasts.

The Ringer had been one of the more high-profile sites to publish directly to Medium, a blogging platform created by Twitter co-founder Ev Williams in 2012 that promised a

higher-quality alternative for publishers than typical web advertising.

But when Medium announced in January that it was discontinuing its advertising services, laying off one-third of its staff and rethinking its business model, many publishers were caught off guard.

The deal marks the first time Vox has opened its platform up to a third-party company. Mr. Bankoff said if all works well, it is possible that other similar deals may follow.

"We may do others, but we will be very selective," he said. "We only want to work with the best and with sites that are consistent with our approach."

The deal is the latest step in Mr. Simmons's career that began with sports blogging in

Boston, followed by a long run as a columnist at ESPN where he also served as editor in chief of the now-defunct Grantland site and helped create the channel's successful documentary series "30 for 30."

In 2015, ESPN opted not to renew Mr. Simmons's contract following a series of clashes he had with top network executives. He joined HBO a few months later to develop a weekly sports talk show called "Any Given Wednesday," which was canceled late last year after just four months on the air due to poor ratings.

HBO is a minority investor in the Bill Simmons Media Group, which operates the Ringer and network of podcasts.

BUSINESS NEWS

BOARD

Continued from page B1 about the company's operations in October 2015, including its dependence on standard equipment for most tests. The U.S. Food and Drug Administration reported on problems with the company's device that same month. The men remained on a separate "board of counselors" until December 2016.

Federal regulators have cited problems with tests Theranos performed on its own devices as well as commercial lab equipment, leading the company to retract nearly one million patient blood-test results over the past year.

Theranos said it "has taken significant strides to address past shortcomings by improving its corporate governance" and other aspects of its opera-

tions. It said it has built a new management team and changed its board composition and structure.

As of March 20, Theranos's board hadn't commissioned any independent investigation of allegations the company produced inaccurate test results and misled investors, or Ms. Holmes's culpability for them, according to the new documents.

The documents offer fresh insights into the Theranos board's response to a high-profile crisis. Some legal specialists say the lack of action by Theranos's board suggests it fell short of corporate-director responsibility.

"The point of having a board of directors is to operate as some sort of constraint and check on the founder," said Jill Fisch, a law professor at the University of Pennsylvania who studies corporate governance. She said that while

no law requires directors to commission a probe, it is a part of "a board's fiduciary duty to find out what was going on."

Ms. Holmes controls 98.3% of Theranos's voting shares—and under company rules, the board can't make decisions unless she is present, the records showed.

A Delaware judge unsealed the documents last week after a legal effort by the Journal. Theranos initially had redacted most of the 402 pages, which were filed in a lawsuit by Partner Fund Management LP alleging the blood-tester had defrauded the hedge fund.

The suit was settled May 1 for an undisclosed sum.

Representatives of current Theranos board members and those that resigned in recent months either declined to comment or didn't respond to requests for comment.

The documents include ex-



ANDREW SOKOLOW/DPA/ZUMA PRESS

The firm is under investigation by the U.S. Justice Department.

cerpts from 22 depositions taken by Partner Fund attorneys, including of former Theranos employees who described secrecy, intimidation and lack of oversight at Theranos, as its problems mounted in recent years.

The records include a former employee's testimony re-

calling a colleague who was fired after complaining about lab conditions, and another describing physical barriers that prevented employees from viewing work areas other than their own.

Theranos's former president and chief operating officer sat in on one March deposition of one former employee and critic, Tyler Shultz—grandson of George Shultz, the document showed. The former executive, Sunny Balwani, had sought to squelch claims by the younger Mr. Shultz in 2014 when he first raised questions about the company, the Journal reported last year. Mr. Balwani's lawyers didn't respond to requests for comment.

Theranos said the deposition excerpts picked by its legal opponent "represent a misleading version of the record." Theranos declined to provide full transcripts of the depositions or other materials.

The records also included financial details showing the company spent \$240 million last year, and had \$180 million in available cash at the end of the year.

The company also described the continuing investigations by the U.S. Justice Department and Securities and Exchange Commission in the documents. They said Theranos received grand-jury subpoenas in January and November of last year seeking information about its business relationships, securities offerings and interactions with regulators.

"Theranos will work on resolving its remaining legal and regulatory issues and, in parallel, focus on delivering on its founding vision for its remarkable, proprietary technologies," the company said.

Tyler Shultz didn't respond to a request for comment Monday.

MANAGEMENT

WORKAROUNDS



Some Toxic Bosses Manage to Thrive

Ever wonder why toxic leaders sometimes don't get fired for mistreating underlings? It's because, in the short term, they can appear very effective, new research suggests.

People who work for highly toxic bosses—managers with more than a handful of bullying or undermining behaviors—tend to be more engaged in their work than other employees, according to a survey of 1,000 college-educated U.S. employees. The study, conducted by the consulting firm Life Meets Work, also found that such employees stayed an average of two years longer in their jobs than other workers.

But any advantages of a toxic boss are short-lived, says Kenneth Matos, a psychologist and head of research at Life Meets Work. However high-performing toxic managers appear, he says, they eventually lead to more employee turnover, burnout and a greater risk of employee lawsuits.

A widely cited 2006 study estimates that abusive supervision costs companies \$23.8 billion annually.

Many people have found themselves working for a nightmare boss at some point, and according to a 2015 Gallup study of 7,200 U.S. adults, half of workers have left at least one job because of a bad manager. But the Life Meets Work survey suggests that working for an abusive or dysfunctional supervisor is even more commonplace: Among those polled, 56% described their current manager as toxic.

Researchers asked employees whether their supervisors exhibited any of a range of behaviors, from publicly belittling subordinates to explosive outbursts to taking credit for others' accomplishments or ideas. Bosses with a few of these traits were classified as mildly toxic—suggesting their actions were more due to being overwhelmed as managers than to any concerted strategy, Mr. Matos said.

Managers who exhibited a greater number of abusive behaviors were categorized as highly toxic.

Mr. Matos speculates one reason employees reported staying longer with highly toxic bosses is that less-engaged workers quickly leave such jobs and so don't leave a mark in the survey results. Those remaining are highly motivated by their work or see their job as a lucrative steppingstone despite a boss who treats them poorly. "They tell themselves, 'This is my opportunity. I need to stick this out,'" he said.

Employees at companies with highly competitive, win-or-die cultures were more likely to report working for a toxic boss, according to the study.

—Vanessa Fuhrmans

A Copycat? No, Call It Competition

Instagram's CEO says the execution of Stories matters more than whether format is original

By DEEPA SEETHARAMAN

Edited excerpts:

Among the widespread opinions in Silicon Valley, one particularly irks Kevin Systrom: Facebook copies Snap.

It isn't that Mr. Systrom doesn't think **Snap Inc.** deserves credit. The chief executive and co-founder of **TALK** Instagram, the app owned by **Facebook Inc.**,

readily says that Snap is responsible for coming up with popular formats such as Stories, where users can post photo and video montages that vanish after 24 hours.

Instagram introduced its own version of Stories last August, part of a broader effort to hold its ground among teens and millennials, a lucrative demographic that is becoming harder to reach over traditional media channels.

So far, it has been a hit. Some 200 million people use Stories every day, more than Snap's flagship app, Snapchat, which has 166 million daily users.

Instagram's success with Stories led Facebook's other apps to embrace the feature, starting with WhatsApp, then Messenger and finally Facebook.

Mr. Systrom says he understands the critics, but he disagrees with the idea that Instagram's embrace of emerging features is untoward. Execution matters more than originality, he says.

What critics call copying, Mr. Systrom calls competition.

Mr. Systrom sat down with The Wall Street Journal to discuss Snap, Instagram's next set of challenges and its relationship with Facebook.

WSJ: What surprises you most about Instagram these days?

Mr. Systrom: The thing that I'm learning that has surprised me the most is you have a window of relevance and unless you reinvent yourself within that window of relevance, you die. I call it "success syndrome," where you're successful, you do all the things that made you successful and you keep doing those things thinking that that's why you're going to be successful in the future. Things change.

WSJ: Walk me through the decision to launch Stories.

Mr. Systrom: The first decision was to focus on a problem we had heard from people directly, which is, "I feel like this photo isn't good enough to share on Instagram." Focusing on high-end highlights is wonderful and, honestly, it makes Instagram, Instagram.

But just by focusing on that we're missing out on this tremendous wealth of moments in your life that could bring you closer to other people.

WSJ: What about the narrative that Instagram is taking features from the Snapchat playbook?

Mr. Systrom: Stories is definitely similar to Snapchat. I think anyone would say that. The first time you see a product show up somewhere else it feels a lot like copying, but imagine a world where the only car was the Ford Model T.

WSJ: How do you keep engi-



Instagram CEO Kevin Systrom, who says building upon a technology isn't the same as copying it.

How I Work

Your favorite Instagram filter?

X-Pro II

The trait that won't get someone hired?

Drama

The item you'd ban from Silicon Valley wardrobes?

Socks and sandals combo

neers motivated when you are replicating features from other apps?

Mr. Systrom: This is the other misconception.

If you take the 700 people that work at Instagram, how many of them do you think are working on Stories? A tiny fraction.

We do a lot of things. We're working on Live. We're working on Feed. We're working on advertising, [which is] like a crazy business that went from nothing to something in a very short amount of time.

We're trying to scale in developing markets with our existing platforms.

People have a lot to choose from when they come to work here.

WSJ: You seem to have thought about this a lot.

Mr. Systrom: It's because I do a lot of these interviews where people ask a lot of these questions.

WSJ: How does the relationship between Instagram and Facebook work?

Mr. Systrom: I have never had an instance where we've had to run anything by [Facebook] to get approval

of anyone and that's the magic.

We touch points on a bunch of really important things that I think help us move more quickly, but the product process is super independent.

What makes it work is that independence and autonomy and, frankly, the enormous support on resources and coaching that Facebook has given.

WSJ: What's the next challenge—the next thing you're trying to tackle?

Mr. Systrom: Instagram can't just be for developed markets with nice phones. I love using Instagram because I follow my favorite cyclists, my favorite baristas. It makes my day. How can we give that to everyone in the world? Stories is a tremendous amount of video and bandwidth hungry. How do we do that in other countries where you may be on a limited data plan?

WSJ.COM Management

BRITISH AIR

Airline's System Is Back to Normal

British Airways said Tuesday its computer networks were operating normally again after an outage over the weekend sparked hundreds of flight cancellations.

"Our IT systems are now back up and running and we will be operating a full flight schedule at Heathrow and Gatwick"—British Airway's two main London airports—on Tuesday, the airline said.

An electrical malfunction hit British Airways, a unit of **International Consolidated Airlines Group SA**, during one of the U.K.'s busiest travel weekends, with a public holiday Monday and the Memorial Day break in the U.S.

The disruption brought down

the airline's systems handling flights, bags and customer communications—and a back-up system failed to kick in. Operations at 170 airports in 70 countries were impacted.

The airline canceled more than 580 flights and delayed hundreds more, according to FlightAware.com. British Airways said Monday that around 75,000 passengers had flights canceled Saturday and Sunday, although most eventually made it to their destinations.

—Robert Wall

WESTINGHOUSE

Former CEO Was Paid Over \$19 Million

Westinghouse Electric Co. paid Daniel Roderick more than \$19 million in the year before he was pushed out as chairman and chief executive, an ouster

that came days before billions of dollars of cost overruns plunged the business he led into bankruptcy.

Court records revealed the payments to Mr. Roderick, who led the U.S.-based nuclear busi-

ness. He was stripped of his executive role on orders of Westinghouse parent **Toshiba Corp.** on March 27. Westinghouse filed for bankruptcy March 29. Mr. Roderick couldn't be reached Tuesday to discuss his compen-

sation.

Court records don't detail whether Mr. Roderick's compensation included bonuses or a severance package, and a Westinghouse spokeswoman Tuesday declined to comment.

The former CEO was one of a number of multimillion-dollar executives on Westinghouse's payroll as the company struggled to overcome problems with the construction of new nuclear reactors that were supposed to herald the return of growth in the U.S. nuclear industry.

Toshiba bought a controlling stake in Westinghouse in 2006, hoping to become a major player in the nuclear industry.

In February, however, Toshiba revealed that delays and cost overruns at Westinghouse construction projects in the U.S. would force it to take \$6.3 billion in write-downs.

—Peg Brickley



Westinghouse Electric filed for bankruptcy in March.

KEITH BRAZEE/ASSOCIATED PRESS

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FINANCE & MARKETS

A Tale of Big, and Bigger, Banks

Lawmakers reconsider the \$50 billion threshold that defines largest U.S. lenders

BY CHRISTINA REXRODE
AND RYAN TRACY

There is a magic line in banking, and it is \$50 billion.

That is the boundary that separates the big banks from the small. Firms with assets in excess of that figure face stricter rules on capital, mergers and other business, thanks to the Dodd-Frank Act of 2010.

Now, as the Trump administration and Republican-controlled Congress look to overhaul Dodd-Frank, one of the few points of bipartisan agreement is that \$50 billion isn't the right number.

Lawmakers can't agree on a better one, though.

Banks over the threshold are getting used to the fact that, despite President Donald Trump's promises to deregulate the banking industry, even an unpopular provision is hard to overturn in the current polarized political environment.

To many banks and industry analysts, change seems commonsensical. The Dodd-Frank rule was implemented to help prevent another financial crisis. But as Treasury Secretary Steven Mnuchin recently told the Senate Banking Committee, banks with \$50 billion in assets don't pose "the same risk as a bank that has \$750 billion or \$2 trillion."

Even many officials known for sparring with banks, including Daniel Tarullo, the Federal Reserve's former top



M&T Bank chief Robert Wilmers pictured in 2015.

banking regulator, support raising the limit. So does Barney Frank, the former Democratic congressman who with former Democratic Senator Chris Dodd was the driving force behind Dodd-Frank.

"All numbers are arbitrary, and in the rush, \$50 billion seemed like a much bigger number," Mr. Frank said in a recent interview.

Widespread support means Congress theoretically could act to change at least this part of Dodd-Frank. At the recent banking committee hearing, Chairman Mike Crapo (R., Idaho) made a point of calling the \$50 billion threshold "one area I would like this committee to address." Mr. Mnuchin said Treasury would provide recommendations to the president in early June.

The trick will be reaching a compromise on what should come next.

Republicans tend to favor either setting a threshold of between \$250 billion and \$500 billion, or basing the designation on a bank's riskiness rather than on its size. That new range would leave around a dozen or as few as a half-dozen banks facing stricter regulation.

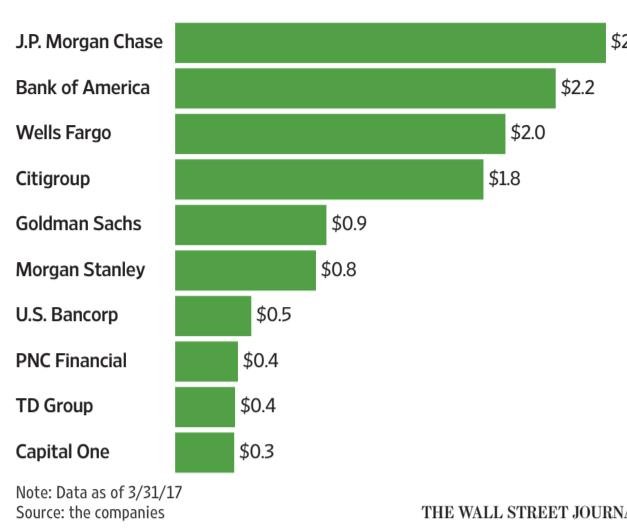
Currently, 37 firms are above the \$50 billion mark and face tougher Dodd-Frank rules, such as stress tests. This year's stress test will apply to only 34 banks, because some firms have more time before they undergo the exams.

Democrats generally want a stricter threshold, perhaps \$100 billion to \$150 billion—leaving about 20 or 30 firms above the threshold.

The current boundary applies regardless of a bank's

Biggest Banks

The 10 largest U.S. banks by total assets



Note: Data as of 3/31/17

Source: the companies

THE WALL STREET JOURNAL.

Some officials involved in the drafting of Dodd-Frank thought setting the bar at \$250 billion or \$500 billion would send the unwanted message that any bank above the line could be bailed out. Some wanted to index the number to growth or another measure of the economy.

Supporters of a low threshold say small firms have caused banking crises, too. Their view is that it is in the public interest to err on the side of sweeping up more banks while giving regulators the freedom to ease up on firms they don't view as risky.

Under Dodd-Frank, regulators can, and have, tailored the fine print about how capital, liquidity and other rules apply to different banks above the \$50 billion line. Other tinkering has included reducing requirements in annual stress tests that banks with less than \$250 billion in assets have to meet.

But regulators can't exempt banks entirely. For that, Congress needs to act. Bipartisan support will likely be necessary to move the measure through the Senate.

"On the surface, changing the threshold has bipartisan support," says Brian Gardner, an analyst with Keeffe, Bruyette & Woods. But, he added, "I don't see Democrats in the mood for helping Republicans, especially when it will help what some people perceive as big banks."

Even if lawmakers compromised, legislation changing Dodd-Frank could be derailed by other controversial issues, such as whether to alter the Volcker rule's ban on proprietary trading.

LSE, Citi In Deal for Indexes, Analytics

BY BEN DUMMETT

LONDON—London Stock Exchange Group PLC agreed to buy a portfolio of fixed-income indexes and related analytics services from Citigroup Inc. for \$685 million, the U.K. exchange operator's latest bet on the growth of passive investing.

The LSE is under pressure to identify targets as part of its strategy to bolster earnings after European regulators in March blocked its proposed merger with Deutsche Börse AG. The European Union was concerned that the proposed \$30 billion pan-European exchange tie-up would gain too much influence over the clearing of fixed-income trading.

The Citigroup deal fits with LSE's focus on expanding its operations selling market data and licensing indexes for institutional investors and developers of exchange-traded funds as new competition and computerized trading pressure fees from the more traditional business of operating venues for buying and selling stocks.

For Citigroup, the global bank gains a buyer that is committed to expanding its Citi Fixed Income Indices and Yield Book operations, which it had decided weren't key to its own strategy.

"This transaction is a positive outcome for The Yield Book and Citi Fixed Income Indices for both clients and employees," said Okan Pekin, Citigroup's global head of investor services, in a news release.

The LSE's index business is among the exchange operator's fastest-growing operations as the increasing popularity of low-cost funds that mimic benchmarks drives demand for indexes. In the first quarter, LSE's index business reported an 11% jump in organic revenue from the year-earlier period. The acquisition of Citigroup's fixed-income indexes are meant to augment that growth by broadening the exchange's offering of benchmarks to reach a larger customer base.

Citigroup's fixed-income indexes business, which includes the World Government Bond Index, has about 300 clients, including 200 fixed-income asset managers. The indexes will become part of the LSE's FTSE Russell's existing portfolio of indexes.

Citigroup's yield-book products are used to collect and analyze historical pricing data that are used to build indexes.

—Rory Gallivan contributed to this article.

Bats Tries 'Alternative' Pricing at Exchange

BY ALEXANDER OSIPOVICH



The company is simplifying fees at its EDGA equities exchange.

Bats is simplifying fees for one of its stock exchanges, charging the same rate to traders who post orders and traders who remove them—part of a broader shake-up in the pricing models used by U.S. exchanges.

Bats said Tuesday it will introduce the new flat-fee model to the smallest of its four equities exchanges, EDGA. The move by the second-largest U.S. stock-exchange operator is a step away from the widely used but controversial pricing model called "maker-taker," in which exchanges pay rebates to traders who post orders.

Critics of the maker-taker model say it creates a conflict of interest for brokers, by encouraging them to send client orders to the exchange where the broker collects the highest rebate, rather than where the customer would get the best

price and quality of execution. Big asset managers such as T. Rowe Price Group Inc. and Capital Group Cos. are among the firms that have attacked the system.

Of the 12 U.S. stock exchanges currently in operation, only IEX Group Inc. has a

flat-fee model. IEX, the upstart stock exchange made famous by Michael Lewis's 2014 book "Flash Boys," has criticized other exchanges for paying rebates.

The New York Stock Exchange is also planning to roll out a flat-fee structure on its

smaller sister exchange, NYSE MKT, which is being relaunched on July 24 under the new brand name NYSE American, a person familiar with the situation said.

Bats's move comes as the Securities and Exchange Commission is exploring a pilot program that would experiment with the effect of lowering rebates and fees for certain securities, which would dilute the impact of maker-taker for a portion of the U.S. stock market.

The exchange operator, which was acquired this year by Chicago-based CBOE Holdings Inc., said it wasn't coming out against maker-taker pricing—which is still used by Bats's two largest exchanges. Instead, it was responding to customer demand and wider discussions in the industry about a better model, said Bryan Harkins, head of U.S. equities and global foreign ex-

change at CBOE.

"There is a segment of the market that wants an alternative," Mr. Harkins said in an interview.

Under the new fee structure, which is set to be rolled out on EDGA on June 1, traders will be charged a flat fee of three cents per 100 shares regardless of whether they are adding new orders to EDGA or executing against orders already displayed on EDGA—although a different set of fees applies for so-called "non-displayed" orders, which aren't broadcast to the broader market..

The maker-taker system originated with off-exchange electronic trading venues that sprung up in the late 1990s. Exchanges later adopted the pricing model as the number of trading venues proliferated and exchanges battled to attract orders from high-speed traders and brokers.

FINANCE WATCH

WELLS FARGO

Another Shakeup In Retail Banking

Wells Fargo & Co. again shuffled the ranks in its retail-banking unit, continuing efforts to untangle the firm from the sales-practices scandal that erupted in September.

The San Francisco-based bank reorganized the regions in the western half of the U.S. and rearranged executive positions, according to a memo sent last week that was signed by retail-banking head Mary Mack and reviewed by The Wall Street Journal. Southern California and Arizona previously were cited as hot spots for the aggressive sales tactics that have put the bank in the spotlight after a settlement, congressional hearings and continuing investigations.

A Wells Fargo spokeswoman

confirmed the content of the memo.

In last week's memo, Ms. Mack said retail-banking executive Lisa Stevens—whose job responsibilities were curtailed in March—reorganized the region she oversees to five areas from eight to "streamline" and make the bank more "consistent" across regions.

The bank also detailed changes among regional leaders, including further trimming the responsibilities of John Sotoodeh, who took charge of the bank's troubled Los Angeles region in 2009, according to the memo. Changes to his job announced in March meant employees directly reporting to him previously fell to an estimated 7,000, from 15,000. The "Midwest West" region the executive will oversee now—made up of Illinois, Iowa, Missouri, Nebraska, Kansas, Colorado, Wyoming and

Idaho—is made up of even fewer employees, current staff said.

Wells Fargo spokeswoman Mary Eshet said Mr. Sotoodeh continues to hold the title of lead regional president and still reports to Ms. Stevens, though he now oversees a different regional geography. She said he wasn't demoted but didn't comment on the number of employees now reporting to him.

The executives involved didn't immediately respond to requests for comment.

—Emily Glazer

BANK OF NOVA SCOTIA

Revenue Declines, But Profit Increases

Bank of Nova Scotia said revenue unexpectedly fell even as profit rose in its latest quarter.

Toronto-based Scotiabank, one of Canada's largest banks by assets, said it earned \$2.06 billion Canadian dollars (US\$1.53 billion) in the quarter ended April 30, up from C\$1.58 billion a year earlier. The prior quarter included a C\$378 million restructuring charge.

On a per-share basis, earnings climbed to C\$1.62 from C\$1.23. Revenue fell 0.2% to C\$6.58 billion. Analysts polled by Thomson Reuters had expected earnings per share of C\$1.56 and revenue of C\$6.74 billion.

Fee-based income fell 7.3% to C\$2.85 billion as net interest income rose 6% to C\$3.73 billion. Expenses fell 5.7%.

—Austen Hufford



Wells Fargo was fined last year for illegal sales practices.

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FUND NAME GF AT LB DATE CR NAV YTD 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: www.cam.com.sg CAM-GF Limited OT MUS 05/19 USD 30758.02 1.8 5.4 -4.5

Value Partners Value Partners Investing through discipline

Website: www.valuepartners-group.com Tel: (852) 2143 0688

China A-Share Fund Cls A AUD H OT HKG 05/26 AUD 13.03 10.5 22.6 -8.3

China A-Share Fund Cls A AUD I OT HKG 05/26 AUD 12.21 11.7 17.1 -8.3

China A-Share Fund Cls A CAD H OT HKG 05/26 CAD 10.3 21.2 -9.3

China A-Share Fund Cls A EUR H OT HKG 05/26 EUR 12.61 9.7 19.9 -9.3

China A-Share Fund Cls A GBP H OT HKG 05/26 GBP 12.33 6.9 19.5 NS

China A-Share Fund Cls A GBP I OT HKG 05/26 GBP 12.61 9.5 23.3 -8.3

China A-Share Fund Cls A USD H OT HKG 05/26 USD 14.54 12.0 25.1 -6.2

China A-Share Fund Cls A USD I OT HKG 05/26 USD 12.77 14.7 20.7 -9.6

China A-Share Fund Cls A USD N HKD H OT HKG 05/26 USD 12.79 10.1 21.6 -9.0

China Greenchip-A Units AS EQ CYM 05/26 HKD 11.40 20.7 31.2 -8.7

China Greenchip-A Units AUD H AS EQ CYM 05/26 AUD 10.41 21.2 32.3 -9.1

China Greenchip-A Units CAD H AS EQ CYM 05/26 CAD 10.10 20.8 30.8 -9.9

China Greenchip-A Units NZD H AS EQ CYM 05/26 NZD 10.6 20.9 32.6 -8.5

China Greenchip-A Units USD AS EQ CYM 05/26 USD 10.13 20.3 31.0 -9.7

China Greenchip-AQDcls Units AS EQ CYM 05/26 HKD 11.12 20.5 31.0 -8.8

GC HI Yield Inc-Cls A MDLS GBP H OT CYM 05/26 GBP 9.76 5.5 15.5 9.1

GC HI Yield Inc-Cls A MDLS AUD H OT CYM 05/26 AUD 9.40 5.8 16.3 9.4

GC HI Yield Inc-Cls A MDLS CAD H OT CYM 05/26 CAD 9.69

FINANCE & MARKETS

Oil Loses Its Pull on Other Assets

The link between the price of crude and stocks and currencies has weakened recently

BY RIVA GOLD

Stocks and currencies are ignoring the oil price after previous periods of moving in lockstep.

Crude prices took a sharp turn lower last week amid disappointment at the outcome of a meeting of the Organization of the Petroleum Exporting Countries, but stocks continued to reach records. Even commodity-sensitive currencies like the Russian ruble did fine.

Oil and stocks at times in recent years have moved in tandem, but the link between the S&P 500 and West Texas Intermediate futures prices, the U.S. oil price benchmark, has continued to fall over the past two months, according to strategists at Brown Brothers Harriman.

The correlation between the S&P 500 and the price of oil has fallen from nearly 0.6 in early 2016 to 0.18 now, and even briefly dipped into negative territory in February, according to Brown Brothers Harriman. A correlation of 1 would mean oil and stock prices move by the same proportion in the same direction, while a correlation of minus-1 would mean they move proportionally in opposite directions.

The correlation began diminishing last year as investors became more sanguine about the global economy, but the recent fall says more about the actual oil price, which has traded in a range throughout the year. That price stability has allowed investors to focus on other market influences outside of crude.

The energy sector comprises only about 6% of the S&P 500, according to FactSet, but oil prices have in the past had an outsize impact on the



Crude has traded within a range this year, allowing investors to focus on other market influences. Above, an oil refinery in Hungary.

daily performance of the index due to their influence on how investors view global growth, inflation and wider risk sentiment.

Steep plunges in oil prices in January and February of 2016 sparked fears that lower demand for oil was signaling a weaker global economy, sending the correlation between Brent and the S&P 500 up to levels not seen since 1990.

Now, "people spend most of their time talking about the supply side and OPEC" rather than considering what it all says about demand, said Charles de Boissezon, deputy head of global asset allocation at Société Générale SA.

Last week, OPEC members and other large oil producers, like Russia, agreed to extend an agreement to cut supply, but to a level that disappointed some investors.

OPEC's cuts have boosted the price but encouraged nimble U.S. shale producers to increase production, capping the rise. Many investors believe crude prices are locked in a range this year, but that this is

'Nobody worries too much about the cost of oil,' says one strategist.

something of a sweet spot for the global economy. Prices aren't too low to crush oil-dependent economies or trigger more defaults in the energy sector, nor too high to pressure consumers.

"Nobody worries too much about the cost of oil," said

Sam Stovall, chief investment strategist at CFRA Research. "People would just prefer more stable oil prices in a \$50-\$60 range rather than be surprised one way or the other," he said.

The influence of the price of oil on the performance of oil-related currencies has also diminished over the past year, as other more fundamental drivers have proved more influential, said Lee Hardman, currency analyst at Mitsubishi UFJ Financial Group Inc.

The Canadian dollar and Russian ruble, which have in the past shown close ties to oil prices, showed little reaction to the 2.7% drop in Brent crude last week. For Canada, investors are more focused on relations with the U.S., its largest trading partner and any changes that may be made to the North American Free

Trade Agreement, said Mr. Hardman.

The Russian ruble, meanwhile, has benefited from its comparatively high yield, Mr. Hardman said, which can draw investors borrowing from currencies with lower rates. The ruble is up 9% against the dollar this year.

There also has been little correlation between the daily performance of the price of oil and the dollar, Mr. Hardman said. While there used to be a negative correlation between the two, the rise of U.S. shale production has mitigated that effect, he said.

To be sure, the correlation could soon shoot higher again. On Tuesday, copper and some other commodities were trading lower on the back of weaker oil, underscoring the influence crude still has on investors.

Doubts on OPEC's Plan Hit Crude

BY ALISON SIDER
AND NEANDA SALVATERRA

Oil futures fell amid persistent doubts about whether OPEC's decision last week to extend production cuts will be enough to alleviate the global supply glut.

U.S. crude futures fell 43 cents, or 0.9%, to \$49.37 a barrel on the New York Mercantile Exchange at early afternoon in New York. Brent, the global benchmark, fell 72 cents, or 1.4%, to \$51.57 a barrel on ICE Futures Europe.

The Organization of the Petroleum Exporting Countries and other major producers, including Russia, announced Thursday that they would extend their production-cut deal through March 2018. But some traders and investors had been hoping that the group would pledge to make even deeper cuts, and crude futures slumped after the nine-month extension was announced.

"The market was just hoping for another surprise," said Emily Ashford, director of energy research at Standard Chartered, "and was just disappointed that they didn't go any further."

Analysts at Goldman Sachs lowered their forecast for oil prices this year, calling for U.S. crude to average \$52.92 a barrel, down from their previous estimate of \$54.80. The analysts said longer-term futures prices need to fall further in order to slow down resurgent U.S. shale producers.

Oil-field services company Baker Hughes Inc. said Friday that two more oil rigs were put to work in the U.S. last week. The additions marked the 19th consecutive week of increased drilling activity in the U.S.

—Biman Mukherji contributed to this article.

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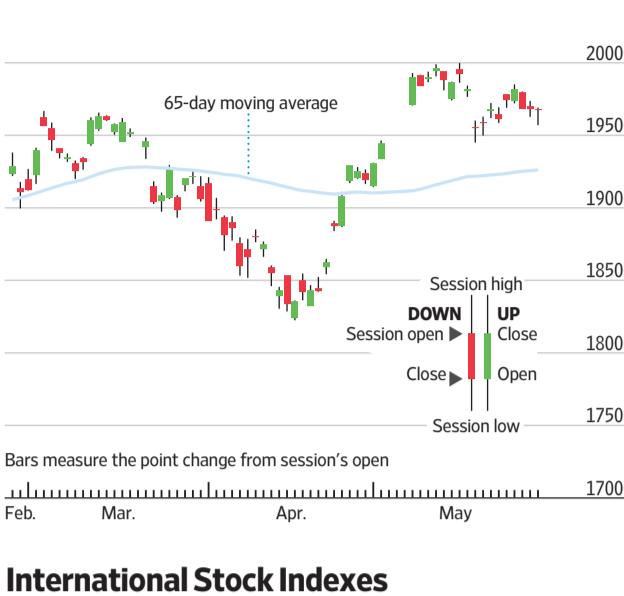
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MARKETS DIGEST

Nikkei 225 Index

19677.85 ▼ 4.72, or 0.02%

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



Bars measure the point change from session's open

STOXX 600 Index

390.50 ▼ 0.75, or 0.19%

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



S&P 500 Index

2413.30 ▼ 2.52, or 0.10%

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



Data as of 12 p.m. New York time

Last Year ago

Trailing P/E ratio 23.94 24.04

P/E estimate * 19.15 17.75

Dividend yield 1.95 2.19

All-time high: 2415.82, 05/26/17

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

International Stock Indexes

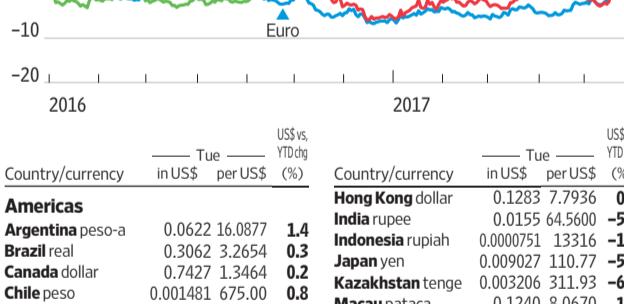
Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Close	High	YTD % chg
World	The Global Dow	2762.34	-4.29	-0.16	2193.75	● 2773.08	9.3	
	MSCI EAFE	1884.50	0.77	0.04	1471.88	● 1956.39	9.8	
	MSCI EM USD	1011.90	-3.29	-0.32	691.21	● 1044.05	27.4	
Americas	DJ Americas	578.98	-0.92	-0.159	480.90	● 580.46	7.1	
Brazil	Sao Paulo Bovespa	64076.48	315.54	0.49	48066.67	● 69487.58	6.4	
Canada	S&P/TSX Comp	15373.94	-47.97	-0.31	13609.58	● 15943.09	0.6	
Mexico	IPC All-Share	49441.82	-8.66	-0.02	43902.25	● 50154.33	8.3	
Chile	Santiago IPSA	3727.16	9.73	0.26	2998.64	● 3786.05	15.6	
U.S.	DJIA	21042.85	-37.43	-0.18	17063.08	● 21169.11	6.5	
	Nasdaq Composite	6204.25	-5.95	-0.10	4574.25	● 6217.34	15.3	
	S&P 500	2413.30	-2.52	-0.10	1991.68	● 2418.71	7.8	
	CBOE Volatility	10.43	0.62	6.32	9.56	● 26.72	-25.7	
EMEA	Stoxx Europe 600	390.50	-0.75	-0.19	308.75	● 396.45	8.0	
	Stoxx Europe 50	3220.57	-10.62	-0.33	2626.52	● 3279.71	7.0	
France	CAC 40	5305.94	-26.53	-0.50	3955.98	● 5442.10	9.1	
Germany	DAX	12598.68	-30.27	-0.24	9214.10	● 12841.66	9.7	
Israel	Tel Aviv	1419.36	...	Closed	1372.23	● 1490.23	-3.5	
Italy	FTSE MIB	20814.48	30.66	0.15	15017.42	● 21828.77	8.2	
Netherlands	AEX	525.71	-2.02	-0.38	409.23	● 537.84	8.8	
Russia	RTS Index	1074.81	-10.94	-1.01	874.88	● 1196.99	-6.7	
Spain	IBEX 35	10876.90	-7.10	-0.07	7579.80	● 11184.40	16.3	
Switzerland	Swiss Market	9007.54	-24.42	-0.27	7475.54	● 9136.95	9.6	
South Africa	Johannesburg All Share	54158.04	213.82	0.40	48935.90	● 54716.53	6.9	
Turkey	BIST 100	97347.63	-378.32	-0.39	70426.16	● 98794.90	24.6	
U.K.	FTSE 100	7526.51	-21.12	-0.28	5788.74	● 7554.21	5.4	
Asia-Pacific	DJ Asia-Pacific TSM	1607.04	3.06	0.19	1308.52	● 1608.94	13.0	
Australia	S&P/ASX 200	5717.90	10.80	0.19	5103.30	● 5956.50	0.9	
China	Shanghai Composite	3110.06	...	Closed	2821.05	● 3288.97	0.2	
Hong Kong	Hang Seng	25701.63	...	Closed	20038.42	● 25701.63	16.8	
India	S&P BSE Sensex	31159.40	50.12	0.16	25765.14	● 31159.40	17.0	
Indonesia	Jakarta Composite	5693.39	-18.94	-0.33	4796.87	● 5791.88	7.5	
Japan	Nikkei Stock Avg	19677.85	-4.72	-0.02	14952.02	● 1991.55	2.9	
Malaysia	Kuala Lumpur Composite	1765.34	0.45	0.03	1614.90	● 1778.65	7.5	
New Zealand	S&P/NZX 50	7411.95	-0.79	-0.01	6664.21	● 7571.11	7.7	
Pakistan	KSE 100	51453.16	-685.74	-1.32	36061.56	● 52876.46	7.6	
Philippines	PSEI	7860.77	-25.26	-0.32	6563.67	● 8102.30	14.9	
Singapore	Straits Times	3204.79	-9.76	-0.30	2729.85	● 3271.11	11.2	
South Korea	Kospi	2343.68	-9.29	-0.39	1925.24	● 2355.30	15.7	
Taiwan	Weighted	10101.95	...	Closed	8458.87	● 10108.49	9.2	
Thailand	SET	1568.57	0.40	0.03	1406.18	● 1591.00	1.7	

Source: SIX Financial Information/WSJ Market Data Group

Currencies

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



London close on May 30

US\$ vs. Country/currency

— Tue — YTD chg

THE PROPERTY REPORT

Builders Cite Scarcity to Get Laws Eased

Some U.S. states add legal protections for housing developers in bid to spur construction

By PETER GRANT

The real-estate industry is having increasing success in using the scarcity of affordable housing in the U.S. to convince lawmakers to give builders more legal protection.

Colorado Gov. John Hickenlooper last week signed a measure making it harder for condominium associations to sue builders over allegedly shoddy construction. Backers, who have been pushing for the change for years, argued that Colorado's former law, one of the toughest in the country, aggravated the state's shortage of affordable housing by discouraging condo development.

The governor "knows it's not a silver bullet," said Kurtis Morrison, the director of legislative affairs. "But the hope is it will release a pressure valve with the rental market and first-time owners seeking their first property."

A similar measure passed the Minnesota legislature this month and is now before Gov. Mark Dayton. The real-estate industry in that state also argued that current rules have been limiting new supply of relatively inexpensive condominiums by encouraging litigation and driving up insurance costs and other builder expenses.

Developers in both states predict legal changes will lead to a flurry of new construction.

"It's a big shot in the arm," said Buzz Geller, of Paradise Land Co., which owns about a half-dozen sites in the Denver region. "We're going to have a lot of condominiums we wouldn't have had before."

Trial lawyers and homeowner associations that battled the bills raised doubts the measures will trigger much new supply of affordable con-



Construction on a Denver condo project in April. In the Denver area, the median price of a single-family home just crossed \$400,000.

dos.

Opponents accused the real-estate industry of exploiting growing concern about affordable housing availability to advance its agenda.

"They were trying to take advantage of a perception that litigation is depressing the amount of units being constructed," said Joel Carlson, a lobbyist for the Minnesota Association for Justice, a trial lawyers group.

Affordability is becoming a problem in cities like Denver and Minneapolis because home prices have been skyrocketing in many parts of the U.S., outpacing wage increases. Prices on average are nearly 40% above their level at

the bottom of the housing crash in 2012, according to an index compiled by S&P CoreLogic Case-Shiller.

Part of the problem is a dearth of new supply, according to experts. As of April, there were about 835,000 starts of single-family homes on an annual basis, well below the long-term average of 1.3 million, according to the Commerce Department.

To stoke supply in other states, real-estate industry officials have gotten behind a wide range of efforts to make it cheaper and easier for developers to build houses. More than 130 bills addressing affordable housing have been introduced in the California leg-

islature alone.

"We can't turn a blind eye to the fact that we have established barriers to housing creation," said David Chiu, chair of the California Assembly's housing committee, at a news conference last month.

To be sure, some measures have faced higher political hurdles than others. For example, many communities of single-family detached homes have been successful at beating back projects that would increase housing density.

But real-estate industry executives in Colorado and Minnesota have been able to boost support for new construction-defect laws by pointing to the decline in condominium pro-

duction.

For example, in Minnesota about half of the construction of for-sale homes a decade ago was for condominiums, townhouses and other multifamily projects. Today the rate is about 15%, according to David Siegel, executive director of the Builders Association of the Twin Cities, who blamed the decline partly on excessive lawsuits by homeowners associations.

He said that a decade ago 70% of homes sold for less than \$300,000. Now 70% of homes sell for more than \$300,000.

If signed by Gov. Dayton, the Minnesota law would require homeowners associa-

tions to try to resolve disputes over construction defects through mediation before going to court. Also, homeowner associations by themselves couldn't decide to sue.

They would need the support of a majority of all owner-occupiers. "Condos, townhouse and twin-homes are very often the on-ramp into homeownership," Mr. Siegel said.

In the Denver area, home prices have increased at a double-digit rate for three years and the median price of a single-family home just crossed \$400,000, according to Mark Trenka, chairman of the Colorado Association of Realtors and the head of Century 21 Trenka Real Estate in the Denver area.

"I just brought a house out for \$300,000 in the suburbs and it took me a whole weekend to sell it," he said. "We probably could have sold it in an hour."

Mr. Trenka pointed out that the Denver area has been investing billions of dollars in a rapidly expanding commuter-rail service but there has been very little condo development near train stations because of builder concern about litigation.

"It's a squandered opportunity," he said.

The new Colorado law also requires that at least half of homeowners agree to a construction defect lawsuit before one can be brought by a homeowners association.

A provision that would have required associations to go into mediation instead of court on construction-defect disputes was eliminated as part of a compromise with opponents.

"No one deserves a free pass for shoddy construction," said Nick Jurjovec, spokesman for the Colorado Trial Lawyers Association, in an email. The association "has never subscribed to the notion that in order to spur condo development in Colorado you must do it at the expense of homeowners' rights."

Bargain Hunting in Retail Property

By ESTHER FUNG

As investors flee the battered retail-property sector, a few brave ones are picking through the wreckage.

GBT Realty Corp., a Brentwood, Tenn., property developer, is planning to raise a \$500 million real-estate fund to purchase 80 to 100 retail buildings in the next decade.

Hendon Properties LLC, a real-estate development, management and brokerage firm based in Atlanta, is also looking to raise a fund to buy weak malls and open-air shopping centers.

"The opportunistic money is circling," says Jeff Edison, chief executive of **Phillips Edison & Co.**, an owner and operator of more than 340 grocery-anchored shopping centers across the U.S. "They smell blood in the water."

So far this year, retailers have announced more than 3,000 store closures in the U.S. as a result of bankruptcy filings or shifts to e-commerce operations. The few chains that are still expanding, such as discount chain **Burlington Stores Inc.**, are opening smaller stores in wealthier ZIP Codes.

The bifurcation between healthy properties in upscale regions and slumping ones in less-wealthy areas is creating bargains for some hardy investors.

While prices haven't fallen to distressed levels, in some cases the land value itself is worth the purchase price, the



Retailers have announced more than 3,000 store closures in 2017.

investors say. Yet most of the buyers say they have plans to improve operations and expect higher returns. "In some cases, the needle has swung too far and we want to take advantage of it," says Charlie Hendon, chief executive and president of **Hendon Properties**.

The firm plans to raise \$10 million to \$20 million for the fund and will join with other institutional investors that will fork out the majority of the equity in potential projects. Hendon previously has partnered with investors such as Alabama investment firm **Harbert Management Corp.** and **Acadia Realty Trust**.

GBT Realty, which builds neighborhood shopping centers, single-tenant buildings and strip centers, already has several target acquisitions in mind, mostly open-air and

grocery-anchored centers. It also could buy anchor department-store locations in malls directly from retailers and reposition them by bringing in new tenants, says Scott Porter, managing director of GBT's value-add division.

In general, the acquisitions will average around \$10 million to \$30 million, GBT says.

GBT already has an in-house leasing team with relationships in the retail community, says Chief Financial Officer Geren Moor. "We're looking for assets where we can add value, such as backfilling vacant spaces," says Mr. Moor. He adds that the firm will continue with ground-up development operations, though such projects have tighter margins these days.

"There are mall investors with patient capital that can wait for the existing leases to

ride out and bring in other uses to reposition the property," says Margaret Caldwell, managing director at JLL Capital Markets.

Time Equities Inc., a New York real-estate firm, recently purchased two Tennessee malls for \$53.5 million, one in Morristown and the other in Maryville, making a bet it can revitalize the assets.

"The Tennessee portfolio presented the ideal opportunity to acquire two dominant middle market centers, both of which were priced attractively, have stable tenant rosters and showcase significant growth potential," says Ami Ziff, director of national retail for Time Equities.

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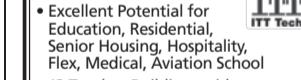
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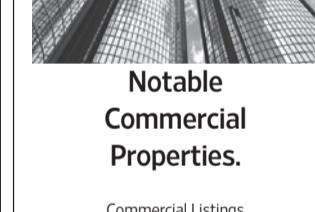
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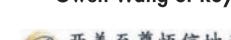
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U.S. Home Prices Keep on Rising

By LAURA KUSISTO

U.S. home-price growth continued to accelerate in March, posing a challenge to the market, which already has seen the pace of sales slow because of rising prices and a shortage of inventory.

The S&P CoreLogic Case-Shiller Indices, covering the whole nation, rose 5.8% in the 12 months ended in March, up from a revised 5.7% year-over-

year increase reported in February.

The 10-city index gained 5.2% over the year, and the 20-city index gained 5.9%, both unchanged from February. That slightly beat the expectations of economists surveyed by The Wall Street Journal, who expected the 20-city index to rise 5.8% in March.

The gains are being driven by growing demand amid rising wages and a large demo-

graphic of people entering their 30s and looking to buy homes, as well as limited supply. Economists said they are concerned that price growth that continues to outpace income growth isn't sustainable.

A handful of markets have been seeing double-digit or near-double-digit growth. Seattle led the way in March with a 12.3% home-price increase, and Portland reported a 9.2% year-over-year gain.

MARKETS

Junk Bonds Face Increasing Skepticism

Traditional investors in high-yield debt are pulling out as others hungry for yield buy in

By MATT WIRZ

Unease is starting to grip the junk-bond market: Even as yield-hungry investors buy in, many traditional buyers are selling out.

About 20% of high-yield investors said in May that they hold below-average positions in junk debt, the highest such response since June 2008, according to a Bank of America Corp. survey.

Meanwhile, the bonds have returned 4.7% this year through May 25. The average yield of high-yield debt is 5.5%, compared with a 10-year average of 8.3%, according to data from Bloomberg Barclays Index Group. Yields fall as bond prices rise.

The dissonance between investor sentiment and market performance is a result of widespread unease caused by geopolitical uncertainty at a time when a global reach for yield continues to push valuations higher.

"No one is really comfortable with current valuations, but you have a fear of selling a bond because you may not be able to buy it back tomorrow," said Michael Contopoulos, a

high-yield strategist at Bank of America. A moderate downturn in junk debt is likely this summer, simply because prices have risen too far, Mr. Contopoulos said.

"Broadly speaking, nothing is cheap, everything is overvalued and it's very hard to find good opportunities," said Kathleen Gaffney, manager of the Eaton Vance Multisector Income Fund, which can invest in a mix of corporate and government debt as well as stocks.

Last year, Ms. Gaffney invested about one-quarter of the \$541 million fund in U.S. high-yield and convertible bonds, which rebounded along with commodity prices. Now she has reduced that exposure to 15% and increased her cash allocation to 15% from about 5% a year ago.

Almost half of the investors surveyed in the Bank of America poll reported holding above-average amounts of cash, the highest since March 2016, just after falling oil prices triggered a wave of defaults and a junk-market crash.

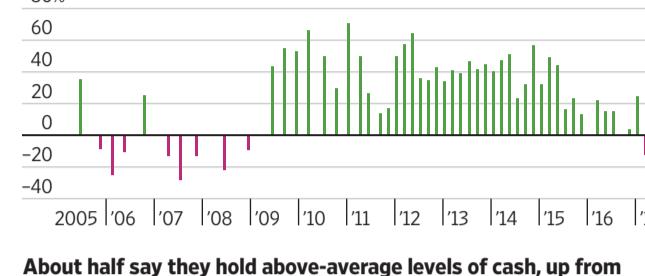
Keeping large sums idle in cash drags down bond-fund performance over the long term but gives portfolio managers ballast in sharp downturns, as well as dry powder to buy with when prices fall back to bargain levels. The urge to raise cash is especially strong now, Ms. Gaffney said, because

Junk Skittishness

Investors are worried that the rally in high-yield bonds is near an end.

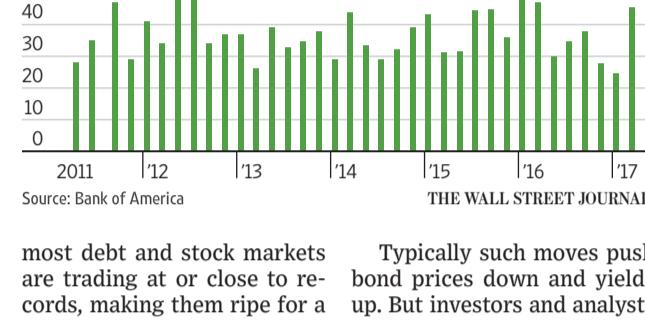
Almost 20% said in May they hold below-average positions in junk, the most since 2008.

High-yield investors' net positioning



About half say they hold above-average levels of cash, up from about one-third a year ago.

High-yield investors who say their cash levels are above normal.



most debt and stock markets are trading at or close to records, making them ripe for a fall.

Investors, most of them individuals, pulled about \$9 billion from high-yield mutual funds so far this year, the largest outflow since 2015, according to data from fund tracker Lipper.

Typically such moves push bond prices down and yields up. But investors and analysts say the scarcity of yield around the world is underpinning demand for high-yield debt.

International investors, in particular, are hungry for U.S. junk bonds. "When you talk to people in Europe and Asia,

they see 5.5% in U.S. high yield and there's no way for them to obtain that at home," said Oleg Melentyev, head of U.S. credit strategy for Deutsche Bank AG. Even emerging-market corporate bonds, which normally yield 1.5 percentage points more than U.S. junk bonds, now yield a premium of only half a percentage point, he said.

And some investors are still bullish on junk bonds since the biggest risk to high-yield bondholders—a rise in corporate defaults—seems far off.

Junk bonds are "still very attractive," said Joanna Bewick, co-manager of an \$8.4 billion fund for Fidelity Investments that buys a mix of high-yield debt and government bonds with investment-grade credit ratings. The fund is about 47% invested in junk-rated bonds and loans, slightly more than average for the fund, she says.

Some fund managers also aren't selling to meet redemptions or reduce exposure, portfolio managers and analysts say. Instead, they are opting not to reinvest interest and principal payments received from bonds they hold and using the money to pay redemptions or build cash buffers.

But corporate-bond selloffs become more likely when yields draw closer to interest rates of Treasury bonds, the so-called risk-free rate, making

bonds of companies less attractive compared with government debt. The "spread" between yields on junk bonds and Treasuries has fallen by 2.37 percentage points over the past 12 months to 3.60 percentage points, according to data from the Bloomberg Barclays Index Group.

The spread has been that narrow only twice in the past decade—in the summer of 2014 before oil tumbled and in the summer of 2007 before the financial crisis.

If President Donald Trump fails to deliver comprehensive reform before the August recess in Congress, stocks are likely to fall, triggering a decline in junk bonds, Bank of America's Mr. Contopoulos said.

Elaine Stokes, co-manager of the \$14 billion **Loomis Sayles Bond Fund**, cut the fund's exposure to stocks in anticipation of further volatility. Though its 24% allocation to high yield is about average, the fund has sold out of some corporate bonds with the lowest credit ratings and boosted cash holdings to about 20%, she said.

"The main concern today is Trump," said Ms. Stokes. To understand what changes to regulation and legislation are most likely to pass and when, "we're spending a lot more time talking to political types," she said.

Amazon Passes \$1,000 Mark; Dow Average Edges Down

BY AKANE OTANI
AND JON SINDREU

Shares of Amazon.com climbed, breaching \$1,000 for the first time, as the broader U.S. market moved modestly lower, in the latest sign of how technology stocks have dominated trading this year.

Amazon's shares, which are categorized as part of the S&P

500 consumer-discretionary sector but often compared with technology stocks, have climbed 33% in 2017. Tuesday morning in New York, they rose as high as \$1,001.08 before slipping back to \$997.64 early in the afternoon. The S&P 500 was marginally lower at 2414.59,

and the Dow Jones Industrial Average was 0.1% weaker at 21050.53. The Nasdaq Composite edged down less than 0.1% to just above 6209.

Major stock indexes have climbed with few large swings through the first half of the year, bolstered by strength in corporate earnings and the U.S. economy.

Many investors say they are

now trying to gauge how long solid economic data and relatively low market volatility can last.

"Right now, better economic data and earnings have given the Trump agenda the benefit of the doubt, but at some point, stocks will need that catalyst from fiscal stimulus and deregulation," said Michael Arone, chief investment

strategist at State Street Global Advisors.

"Clearly we are late in the economic cycle," said Ryan Detrick, senior market strategist for LPL Financial, adding, "We've got another year or two of good potential economic growth [in the U.S.]"

Elsewhere, the Stoxx Europe 600 fell 0.3%, weighed down by declines in banks and

insurance companies.

Earlier, Japan's Nikkei Stock Average closed broadly flat, having been down as much as 0.6% during the day, as the yen strengthened against the dollar. The South Korean Kospi fell 0.4% and Australia's S&P/ASX 200 gained 0.2%. Markets in mainland China, Hong Kong and Taiwan were shut for the Dragon Boat Festival.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Diesel Cloud Hangs Over Auto Earnings

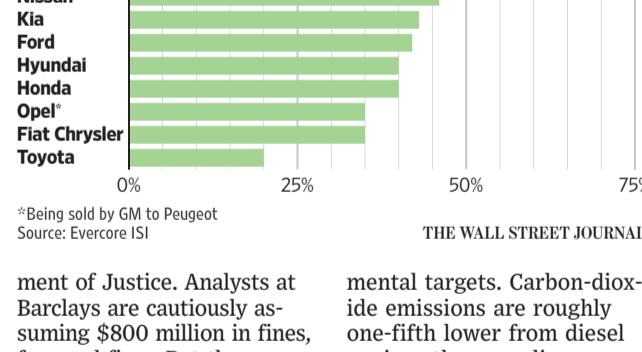
If Volkswagen's rivals ever felt *schadenfreude* when the auto maker's diesel emissions fraud came to light in 2015, they won't be feeling it now. Recently launched lawsuits against Fiat Chrysler and General Motors are only the most visible of diesel's mounting costs.

GM dismissed claims, made last week by lawyers representing vehicle owners, that certain diesel pickup trucks contained Volkswagen-style "defeat devices" designed to cut nitrogen-oxide emissions under test conditions. A previous suit by the same law firm, relating to other models, seems to have turned into a more routine case about misleading marketing. This is also the direction a German public investigation into Mercedes maker Daimler is taking.

The suit filed against Fiat Chrysler looks more serious. The allegations resemble those facing GM, but the plaintiff is the U.S. Depart-

German Problem

Estimated share of diesel in EU car sales, 2016



ment of Justice. Analysts at Barclays are cautiously assuming \$800 million in fines, fees and fixes. But these aren't the only diesel-related costs. More significant in the long run, particularly for European players, is plummeting demand for the technology.

For years, diesel was the easiest way for car makers to meet tightening environ-

trogen oxide, an air pollutant rather than a direct greenhouse gas. Here diesel engines perform much worse. Demand is in free fall:

Across Western Europe, diesel's share fell almost 4 percentage points year over year to 46% in April, according to Barclays.

Car makers' response: massive investment in electric cars. Daimler spent almost 20% more on research and development in the first quarter of 2017 than in the previous year. There are other reasons, too: Tesla's rising market share and stock price and China's coming electric-car quotas. But punchy targets given by all three German manufacturers, who say plug-in cars will account for between 15% and 25% of sales in 2025, are in part calculated responses to the post-diesel regulatory landscape in their European home market.

The transition from engines to electric motors could be extremely costly. Even if

today's car makers succeed in retaining market share in the face of new entrants, analysts at Morgan Stanley warn that engine margins could collapse before electric margins fully mature.

The other big expense for car makers could be write-downs on used-car values. The finance arms of big manufacturers lease vehicles to consumers, effectively taking on the depreciation risk. There is little hard evidence yet, but it seems inevitable diesel valuations will erode faster than previously assumed.

Brokerage Evercore ISI expects a €1.6 billion (\$1.79 billion), or 2.3%, hit to operating profits for the European and U.S. car makers this year as a result of weaker used-diesel prices.

The direct costs of the diesel scandal to Volkswagen have now largely been determined, at about \$25 billion.

The indirect costs to the entire industry are just beginning.

—Stephen Wilmot

OVERHEARD

General Electric, true to its corporate slogan, has its imagination at work—at least in the conglomerate's accounting department.

The industrial behemoth last week unveiled a new way that the company calculates the rate at which its operating earnings convert into free cash flow.

GE now adds back capitalized software costs and cash payments for restructuring charges to the cash-flow tally, and it no longer adds back nonoperating pension costs to its tally of operating earnings.

The results are impressive. Under the new calculation method, GE converted 91% of its earnings to free cash flow in 2016, 99% in 2015 and 96% in 2014.

That is much better than under the old calculation, when GE converted just 76% of earnings to free cash flow, down from 91% in 2014. Talk about bringing good things to life.

For Sterling, Election Is Just a Warm-Up

Elections in Europe this year have clearly reduced political risk, buoying European assets including the euro.

The U.K. election due June 8 is different. It is just a precursor to the defining event for the U.K.'s prospects in coming years. With Brexit about to become real, the pound might find it harder to make progress.

After being battered in 2016, the pound has fared better, rising from \$1.23 at the start of the year to just above \$1.30 in May. April's snap election announcement gave the currency a big boost. But polls suggesting that Prime Minister Theresa May's Conservative Party isn't assured of a landslide victory have weighed on the pound, which traded Tuesday at \$1.286.

Pound's Progress

Performance of sterling



Source: FactSet

THE WALL STREET JOURNAL

The polls challenge an idea that has supported sterling, namely that a big majority for Mrs. May would make the process of Brexit smoother. That assumption has always rested on shaky ground. The start of negotiations will be a real test, with

the European Union wanting answers to thorny questions about citizens' rights, a financial settlement with the U.K. for obligations undertaken during its membership and the Irish border.

Meanwhile, there appears to be little economic support for the pound. First-quarter U.K. growth was reduced last week to just 0.2%, and inflation is squeezing wages again. Tighter monetary policy that might lift the pound isn't likely soon. Gilt yields have fallen this year.

The euro's gains against the dollar this year have been supported by lower political risk and forecast-beating economic data. The pound looks wobbly on both fronts. As the election looms, caution is warranted.

—Richard Barley

Apple has a challenge in China, the world's biggest smartphone market, that it rarely faces elsewhere: Chinese people are less afraid than most to ditch their iPhones.

The technology giant's revenue in China fell 14% in the first quarter, its fifth consecutive quarterly sales decline. China was the only region where Apple's sales fell last quarter. The lack of a new iPhone model explains some of the decline. Apple also faces strong domestic competition from Chinese brands like Huawei, Oppo and Vivo, which together hold more than half the market.

But one key factor that is often overlooked is customer loyalty. Apple's success in most countries is largely due

to the way it locks users into the iOS operating ecosystem. Anyone thinking of switching to a new Android-based handset has to ponder the hassle of a new interface and setting up all their apps again.

About 92% of iPhone owners in the U.S. who consider buying a new phone are going to stay