

# THE WALL STREET JOURNAL.

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## What's News

Business & Finance

One of Sina's biggest shareholders is launching a proxy fight with the company, calling for measures it says will unlock value, including a potential sale of itself or its big stake in Weibo. **B1**

◆ The Fed is set to announce it will start slowly shrinking its \$4.2 trillion portfolio of bonds bought to stabilize the economy. **A1, B1**

◆ Toys "R" Us filed for bankruptcy protection, undone by a hefty debt load and consumers' rapid shift to online shopping. **B3**

◆ Equifax's work supplying ID verification for the U.S. government has become a concern given the massive breach of consumer data announced this month. **B6**

◆ The Nikkei closed at its highest level in more than two years, up 390 points, or 2%, to 20299. The Dow was up 0.2% to 22374. **B10**

◆ Brevaan Howard plans to inject around \$300 million to \$400 million into a new fund. **B9**

◆ Ten Network creditors accepted an increased offer for the insolvent broadcaster from CBS. **B3**

◆ A group of U.S. activist investors threatened to vote against the proposed merger between Clariant and Huntsman unless alternatives are explored. **B3**

◆ TPG Telecom slashed its final dividend and warned of pressure from the rollout of Australia's national broadband network. **B5**

### World-Wide

◆ Trump threatened to "annihilate" North Korea if the country fails to abandon its pursuit of nuclear weapons. **A1**

◆ Suu Kyi defended her country's treatment of ethnic-Rohingya Muslims, saying Myanmar had nothing to fear from international scrutiny. **A1**

◆ Mattis said the U.S. has military options available for North Korea that won't put South Korea at risk of a counterattack. **A3**

◆ Republicans pushed ahead with a last-minute effort to repeal most of the ACA. **A5**

◆ Russia and China launched joint war games in the North Pacific, giving Moscow a venue to double up on its military display. **A4**

◆ Senate Republicans are considering writing a budget that would allow for up to \$1.5 trillion in tax cuts over the next decade. **A5**

◆ Hurricane Maria tore through Puerto Rico, ripping away roofs and knocking out electricity. **A7**

◆ Trump's cabinet is split over where to set the limit on refugee admissions. **A7**

◆ Israel said it intercepted and shot down an Iranian-made drone that flew from Syria over the Golan Heights. **A4**

◆ Trump's attorney denied allegations of the president's connections in Russia. **A7**

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China: RMB28.00; Hong Kong: HK\$23.00;  
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## WORLD NEWS

# Women Remain Late to the Politburo's Party



### CHINA'S WORLD

By Andrew Browne

SHANGHAI—The last woman to run China was the Dowager Empress more than a century ago.

On current trends, it could be another hundred years before a woman takes charge again. A country that officially promotes equality between the sexes is a men-

only bastion at the very top. No woman has ever climbed as high as the Politburo Standing Committee, which currently has seven members led by Xi Jinping.

The wider Politburo isn't much more inclusive. Since 1949, it has welcomed only a handful of women, most of them wives of top leaders. Mao's wife, Jiang Qing, was a member. So was Zhou Enlai's spouse.

This dismal record will almost certainly go unchallenged during the party's next shuffle in a few weeks. As with so much in the political arena under Mr. Xi, China is heading backward on women's rights. He has compounded an unabashed sexism in senior party ap-

pointments with a broad assault on civil society, including feminist groups.

At the same time, Mr. Xi is reviving Confucian values to try to anchor the party's legitimacy in classical tradition. The glass ceiling in politics is now reinforced by a rigidly paternalistic philosophy.

**T**his year, social-media sites lit up in protest after an expert on traditional culture, Ding Xuan, urged chastity for female students in a university lecture. (Ms. Ding also advises that "virtuous" women shouldn't eat and walk at the same time, or cross their arms while talking.) "What? The Qing dynasty is over," one indignant social-media user commented.

Feminist leaders are dismayed. Writing in the Paper, a state-owned news website, the activist Wang Xiaoneng bemoans a conservative backlash against feminists by men who portray them as "objects with claws, a hateful face, bias against men and psychological distortions."

Others think the problem is deeply entrenched attitudes in the party, which the sociologist Li Yinhe argues are widespread around the world. "Among women politicians, the ones with a strong feminist inclination can hardly be selected; only those who don't make men feel threatened can," she wrote in a commentary after the latest U.S. presidential election.



An ethnic minority delegate left a plenary session for the National People's Congress in Beijing in March.

But would more women in the Politburo, or even a female president, really make a difference?

The evidence around Asia is mixed. Although the region has produced more women presidents, prime ministers and opposition leaders than any other in the modern era—Corazon Aquino in the Philippines, Myanmar's Aung San Suu Kyi and South Korea's Park Geun-hye are a few examples—they've done little to advance a pro-woman agenda more generally. Most are widows or daughters of assassinated political figures drafted in by male-domi-

nated parties anxious to cash in on their name recognition and public sympathy.

The first democratically elected female Chinese leader, Taiwan's current President Tsai Ing-wen, breaks that mold. A lawyer, she worked her way up the political ladder. Even so, she is up against the legacy of Confucian thinking on the island. Former Vice President Annette Lu, a pioneer feminist, sought to marry traditional Chinese conceptions of an ideal woman—soft, domestic and chaste—with modern realities. She once described the "new woman" as an educated professional

who "holds a spatula with her left hand, and a pen in her right hand."

Andrea Fleschenberg, the author of "Women and Politics in Asia," says women have been "roaring tigresses" in getting elected but "timid kittens" when it comes to filling the lower ranks of government with other women.

**A**head of China's 19th Party congress next month, when most positions on the Politburo standing committee will turn over—President Xi and Prime Minister Li Keqiang will stay on—the prospects

for change are dim. Women have never made up more than 10% of the party's Central Committee, from whose ranks the Politburo is drawn, writes Cheng Li, an expert on elite Chinese politics at the Brookings Institution.

Only two women serve on the current 25-member Politburo. At least one is set to retire. And, notes Mr. Li, the most important pipeline for female replacements is empty; no woman serves as a party secretary of a province or province-level city.

Outside of the party structure, the National People's Congress—China's legislative body—does a better job: 23% of its members are women, which is the global average for parliaments, according to data from the Inter-Parliamentary Union; the figure for the U.S. Congress is 19%.

At least in theory, hopes for gender equality were higher in the revolutionary era: "Women hold up half the sky," Mao declared. The party still counts freeing Chinese women from the bondage of arranged marriages and bringing them into the workforce as some of its most notable accomplishments.

As Mr. Xi turns back the clock, the state-sponsored All-China Women's Federation is taking note. It piled in with criticism of Ms. Ding's lecture and an article in one of its official publications urged more gender-equality education, arguing that, "Monsters and demons can only live in places where the sun doesn't shine."

## TRUMP

*Continued from Page One*  
[the] U.N.'s platform to declare war on North Korea."

Mr. Trump also singled out Cuba and Venezuela as civil-rights violators. He criticized Venezuela's "crumbling" Maduro government in energetic terms.

"The problem in Venezuela is not that socialism has been poorly implemented, but that socialism has been faithfully implemented," he said.

Mr. Trump said existing diplomatic and economic U.S. sanctions against President Nicolás Maduro's government were "tough and calibrated" and that he wanted other countries to add to their weight. "We are prepared to take further action" if needed, he said, but stopped short of past threats of military intervention.

Venezuela dismissed the criticism.

"President Trump has a fatal obsession with Venezuela, the product of his white supremacist ideas," the Venezuelan government said in a statement shortly before the U.S. president's speech. "We will defend our independence with firm-



Far left, three seats normally occupied by North Korea's U.N. delegation sit empty while President Donald Trump addresses the General Assembly on Tuesday.

ness against the attacks of the racist government of the United States."

Mr. Trump didn't call out China or Russia by name, but offered implicit criticism of both countries by saying he rejected "threats to sovereignty, from Ukraine to the South China Sea." Still, Mr.

Trump also thanked both countries for backing a U.N. resolution imposing new sanctions on North Korea that passed the Security Council with unanimous support.

Adding to U.S. grievances, Mr. Trump said the world faced "both immense promise and great peril," and said leaders

must decide "whether we lift the world to new heights or let it fall into valley of disrepair."

The U.S. president ratcheted up his rhetoric as the speech went on, with a vow to crush "the lesser terrorists" and an assertion that some parts of the world "are going to hell." In so doing, he left behind the more

unifying tones that marked the opening of his remarks.

U.S. Sen. Dianne Feinstein of California, the ranking Democrat on the Senate Select Committee on Intelligence, criticized Mr. Trump for using the U.N. "as a stage to threaten war."

"Trump's bombastic threat

to destroy North Korea and his refusal to present any positive pathways forward on the many global challenges we face are severe disappointments," she said. "He aims to unify the world through tactics of intimidation, but in reality he only further isolates the United States."

## THEFT

*Continued from Page One*  
of Massachusetts declined to comment on the case beyond details in court records.

Before his arrest, police said Mr. Liu told them he was there to discuss doing business with the company—but Dr. Straface says no one had scheduled a meeting with Mr. Liu.

The case against Mr. Liu is part of a boom in federal prosecutions alleging theft or attempted theft of trade secrets from U.S. companies or firms with American operations. Many of the cases involve a China connection.

In August, at the request of President Donald Trump, the U.S. trade representative launched an investigation into Chinese efforts to secure U.S. technology.

The Chinese government's main information office in Beijing declined to comment, and its intellectual-property administration didn't respond to a request to comment. Government officials in the past have denied allegations Beijing takes part in or encourages the theft of trade secrets.

Medrobotics, of Raynham, Mass., makes a snake-like robot designed to get to hard-to-reach places in the body during minimally invasive surgeries. Each machine costs \$1 million, Dr. Straface said.

He declined to disclose annual revenue of the privately held firm, but he said gaining access to the design of the product—plus versions under development—would be valuable to a third party.

"I was angry that someone would be so brazen to come into the facility and try to, potentially, allegedly steal from us something I've worked my heart and soul out for," he said in an interview, his first public remarks on the case.

On that evening in late August, Dr. Straface said he introduced himself to Mr. Liu as the CEO and asked who Mr. Liu was and what he was doing in the office.

Mr. Liu mumbled at first, then said he was there to visit the company's head of intellectual property and also the sales director for the European division, according to Dr. Straface.

"At one point he mentioned that he was here to do business with the CEO, not seeming to realize he was looking at the CEO," Dr. Straface said.

Dr. Straface stepped outside the conference room and called the police, who arrested Mr. Liu on trespassing charges and also summoned the Federal Bureau of Investigation, which sent agents that night, according to a police report.

A bureau special agent assigned to a squad specializing in counterintelligence matters has investigated the Aug. 28 incident, according to an affidavit filed with the U.S. District Court in Boston.

Mr. Liu, 44 years old, told investigators he was a patent attorney for a Chinese firm called Boss & Young Patent & Trademark Law Office, according to court records.

Boss & Young, based in Bei-

jing, didn't respond to an email, and a receptionist for the firm in Beijing said no one by Mr. Liu's name worked at the firm.

Mr. Liu made two initial appearances at hearings in federal court following his arrest but hasn't entered a formal plea. He is being held in Boston, and a trial date hasn't been set.

The entrance to Medrobotics has an outer set of doors that are unlocked during business hours, and a second set of locked doors that require buzzing in, by an employee who monitors the door or an access card, according to Dr. Straface.

Mr. Liu later told police someone had let him through the second set of doors around 5 p.m. on Aug. 28, according to a police report.

Dr. Straface said it didn't appear that Mr. Liu had gotten

into sensitive areas of the building that require access cards. It isn't known where he was at all times; Dr. Straface spotted him about 7:30 p.m.

The FBI confiscated "an unusual amount of computer equipment" that Mr. Liu had brought with him, including the laptops and tablet and also two smartphones, a smartwatch, a computer thumb drive, two digital video cameras, several SIM cards and high-capacity storage drives, according to the affidavit.

Two Medrobotics employees later said they saw Mr. Liu recording video of a monitor displaying public information about the company in the lobby, according to the affidavit.

Someone seeking confidential information could have used a computer to try to connect with a Wi-Fi or other network, the FBI affidavit said.

The Aug. 30 affidavit said it

### The Economic Cost Of Stolen Secrets

FBI investigations and arrests for industrial espionage and violations of export-control laws, predominantly linked to the Chinese government, rose to an all-time high in 2015, according to a report last year for the U.S.-China Economic and Security Review Commission.

In May, the Justice Department charged two Chinese citi-

zens, four Americans and one Canadian with conspiring to steal trade secrets from an engineering firm on behalf of a Chinese company that makes a marine product for military and civilian use. All seven have pleaded not guilty. In another case, last year, federal prosecutors charged two Chinese citizens and three Americans with conspiring to steal trade secrets from drugmaker GlaxoSmithKline PLC and to provide them to companies doing busi-

ness in China. Four of the five people pleaded not guilty, and the fifth was never arrested and is considered a fugitive.

Foreign theft of U.S. trade secrets costs the American economy at least \$180 billion a year, according to a report this year from the Commission on the Theft of American Intellectual Property, an independent, bipartisan group co-chaired by Jon Huntsman Jr., a former ambassador to China.

—Peter Loftus

Portugal's economy grew 2.9% in the second quarter from a year earlier, according to official data. A Markets article on Tuesday about Portuguese bonds incorrectly said it grew 2.8%.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

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## WORLD NEWS

# Mattis Hints at Secret Options on Korea

Defense secretary says some military choices could avoid putting Seoul at risk

The U.S. has military options available for North Korea that won't put South Korea at grave risk of counterattack, Defense Secretary Jim Mattis said Monday, but he refused to spell out what those are.

By Gordon Lubold  
in Washington  
and Laurence Norman  
in Vienna

Mr. Mattis also said in an impromptu meeting with reporters at the Pentagon that the U.S. isn't likely to try to shoot down the type of missiles launched so far by North Korea because they haven't threatened the U.S. or its interests.

And asked whether the U.S. was holding discussions with South Korea about the possibility of basing tactical nuclear weapons on the Korean Peninsula, Mr. Mattis said: "We have an open dialogue with our allies on any issue; we are not only friends, we are trusted allies, and we bring up all issues."

U.S. and allied officials and military experts have repeat-



NICHOLAS KAMM/AGENCE FRANCE PRESSE/GETTY IMAGES

Defense Secretary Jim Mattis said the missiles North Korea has launched haven't threatened the U.S. or its interests yet.

edly warned that any military attack on North Korea would bring a massive conventional counterattack against South Korea. While Mr. Mattis didn't explain what military options could avoid such a retaliation, the U.S. considers actions such as military maneuvers and aircraft flyovers to be among options they use to pressure North Korea militarily.

Mr. Mattis's comments came as world leaders gathered at the United Nations this

week to grapple with the threat of armed conflict. President Donald Trump made North Korea's drive for an intercontinental nuclear missile a major issue of his address there Tuesday and in his meetings with counterparts.

If a diplomatic resolution emerges, the head of the U.N. nuclear watchdog agency said in an interview Monday, monitors would be able to keep check on North Korea's nuclear-related activities.

Yukiya Amano told The Wall Street Journal that the International Atomic Energy Agency could quickly have inspectors on the ground to oversee any agreement on a freeze or a rollback, once it won backing for a mission from its 35 member board of governors.

The IAEA has recently stepped up work on North Korea, eight years after Pyongyang kicked the organization's inspectors out of the country.

Mr. Amano has ordered increased satellite monitoring and established a unit on North Korea in the agency's executive body to ensure inspectors are ready if international talks opens the way for their return. "We are monitoring the situation through satellite imagery and we cannot say for 100%, but we have a good understanding of the nuclear program," he added.

Mr. Amano wouldn't say whether he believed the U.S.

objective—denuclearizing the Korean Peninsula—was achievable in coming years.

Mr. Amano also said that he wouldn't guess what impact a U.S. withdrawal from the Iranian agreement would have on the prospect of a diplomatic solution to the North Korean crisis. Some former U.S. officials have said it could dash any hopes of persuading Pyongyang to engage in serious negotiations.

Mr. Mattis said there still are diplomatic options, including punitive sanctions, which he said are working.

"We are putting the leader in North Korea in a position to be aware that...there is a penalty to be paid for ignoring international concerns and norms," he said.

U.S. and Japanese officials, meanwhile, continue to closely monitor the North Korean test launches, he said.

The North Koreans, Mr. Mattis said, are intentionally keeping their provocations from "going over some sort of line in their minds that would make them vulnerable.

"The bottom line is that...were there to be a threat to U.S. territory—Guam, obviously, Japan, Japan's territory—that would elicit a different response from us," Mr. Mattis said.

## Trump Official: China Is Huge Threat to Global Trade

BY WILLIAM MAULDIN

WASHINGTON—President Donald Trump's trade chief said China represents an unprecedented threat to the world trading system, saying its state-driven economic system poses a "substantially more difficult" challenge than in the past.

The sheer scale of their coordinated effort to develop their economy, to subsidize, to create national champions, to

force technology transfers and to distort markets in China and throughout the world is a threat to the world trading system that is unprecedented," U.S. Trade Representative Robert Lighthizer said Monday at the Center for Strategic and International Studies, a Washington think tank.

Mr. Lighthizer, in one of his first lengthy public appearances outside Capitol Hill, put China at the center of the administration's concern that the

global trading system isn't serving U.S. workers and farmers well. The focus on Beijing echoes the GOP president's 2016 campaign message and illustrates the administration's emphasis on trade deficits. China sent \$347 billion more in goods to the U.S. than the U.S. exported to there in 2016.

Mr. Lighthizer mentioned only the Beijing government by name in his prepared remarks and didn't refer in the

speech to accelerated talks to renegotiate the North American Free Trade Agreement with Canada and Mexico.

"We're moving at warp speed, but we don't know whether we're getting to a conclusion," Mr. Lighthizer said in response to a question about Nafta. "We're running very quickly somewhere," he said. In contrast, he expressed optimism that future trade talks with the U.K. will be successful.

The president's administration has sought to put heavy pressure on Mexico and Canada, which haven't welcomed some U.S. Nafta ideas, including a possible provision to have Nafta sunset every five years if it isn't renewed.

Mr. Lighthizer declined to comment on the sunset idea and wouldn't discuss Nafta provisions.

On China, Mr. Lighthizer also avoided laying out a specific plan. So far, the adminis-

tration has opened a variety of investigations under U.S. law that could end in tariffs on Chinese goods, but it has delayed imposing major duties, citing continuing talks with Beijing.

"We must use all the instruments we have to make it expensive to engage in noneconomic behavior and to convince our trading partners to treat our workers, farmers and ranchers fairly," Mr. Lighthizer said.

Peter Paul Rubens, "Portrait of Clara Serena Rubens", c. 1616.  
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## WORLD NEWS

# Russia, China Intensify Defense Ties

By THOMAS GROVE

MINSK, Belarus—Russia and China launched joint war games in the North Pacific on Monday, showcasing a budding military partnership and giving Moscow a venue to double up on its display of military might as world leaders converge at the United Nations.

Chinese and Russian forces are set to conduct eight days of land and sea drills, including defending ships from attack by air or by other surface ships, the Chinese Defense Ministry said.

No formal military alliance exists between Russia and China, but they are developing common equipment and techniques that allow them to train and fight together.

"They are building a de facto alliance," said Vasily Kashin, a military expert and China specialist at the Higher School of Economics. "They want to understand on a granular level how their two militaries can cooperate."

At the same time, Russia is winding down one of its biggest military exercises since the Cold War. As leaders began to assemble in New York for the annual U.N. General As-

sembly, Russian President Vladimir Putin made the pointed gesture of staying in Russia on Monday to observe the military games, known as Zapad, just outside his hometown of St. Petersburg.

Moscow is facing lingering problems over international refusal to recognize its annexation of the Black Sea peninsula of Crimea from Ukraine in 2014. It is also facing broader sanctions from the U.S.

"Russia is trying to show Europe and the United States that it is ready for a full-scale war and that is why we should all sit down and talk about geopolitics on Russia's terms," said Arseny Sivitsky, director of the Belarus-based Center for Strategic and Foreign Policy Studies, which is close to the Belarusian foreign and defense ministries.

The latest series of exercises began on Monday as a detachment of Chinese naval vessels entered Russia's far-eastern port of Vladivostok and were greeted by an artillery salute, the Russian military said.

Though the exercises with China highlight Moscow's relationship with a powerful partner, Russia and China are in



A Chinese naval frigate arrived in the port of Vladivostok on Monday for an eight-day joint Russian-Chinese military exercise.

SMITIUK YURI/TASS/ZUMA PRESS

many respects rivals. The Soviet Union fought a brief border war with China in 1969, and many Russians are anxious about the long-term aims of its populous and resource-hungry neighbor.

But with tensions rising between Russia and the West, Mr. Putin has increasingly tried to make inroads with Beijing and Chinese President Xi Jinping. Last month, Beijing invited Russian soldiers to China to let them familiarize themselves with Chinese-made small arms and artillery.

Russia and China are increasing military cooperation as the U.S. steps up its own

military presence in the Pacific region in response to challenges from North Korea and China's rising power.

Most recently, the U.S. sent four of its most advanced jet fighters and a pair of bombers over the Korean Peninsula, alongside Japanese and South Korean aircraft, in direct response to North Korea firing a missile over Japan.

This month's Russian-Chinese exercises follow joint U.S.-South Korean exercises in late August. Last year, Russia sent two antisubmarine ships and an amphibious warfare ship to train with China in the

South China Sea, where Beijing has entered into numerous territorial disputes.

The potential for a Russian-Chinese alliance is in part a response to U.S. and North Atlantic Treaty Organization influence in Europe and the American presence in Asia.

While NATO offers a division of labor among member countries, "here we see two countries that are not going to be part of the same machine, but who are learning how to fight side by side with one another," said Alexander Gabuyev, a specialist in Russian-Chinese relations at the Moscow-based

Carnegie Center.

The Pacific exercises also give China an increasingly expeditionary force the experience it needs to operate far beyond its own borders.

The drills will be a "great help for the Chinese navy in raising its capabilities for sea defense and combat, and for far-seas operations," Senior Capt. Zhang Junshe, a researcher at China's Naval Military Studies Research Institute, told China Central Television, the state broadcaster.

—Jeremy Page  
and Xiao Xiao in Beijing contributed to this article.

## Israel Says It Downed Iran-Made Drone

By RORY JONES

TEL AVIV—Israel said it intercepted and shot down an Iranian-made drone that flew over the Golan Heights from Syria, the latest point of tension between the two neighbors, as Israeli Prime Minister Benjamin Netanyahu visits the United Nations to discuss Iran's expansion in the Middle East.

The Israeli military downed the unmanned aerial vehicle with a Patriot missile-defense system after it came near but failed to reach Israeli-controlled airspace, it said on Tuesday.

The drone took off from the Syrian capital Damascus on a reconnaissance mission for Lebanese militant group Hezbollah, an ally of President Bashar al-Assad, crossing the cease-fire line on a strategic mountain plateau in the Golan, it said.

The military "will not allow any breach of Israeli sovereignty or any hostile attempts by organizations...to harm the Israeli state and its citizens," army spokesman Lt. Col. Jonathan Conricus said. "We will respond swiftly and forcefully to any such attempts."

There was no immediate response to Israel's statements from Hezbollah or the Syrian regime. The Israeli military said it wasn't yet sure about the size and type of the drone.

The incident is the latest point of tension between Israel and the Iran-backed Syrian regime and Hezbollah, and comes as both sides amp up hostile rhetoric and talk of a future war.

Mr. Netanyahu, at the United Nations General Assembly, on Monday met with U.S. President Donald Trump to discuss ways to change or dismantle the landmark 2015 nuclear deal between world powers and Iran.

The Israeli leader says the agreement has emboldened Tehran to expand militarily.

Israel has in recent months accused Iran and Hezbollah of setting up weapons factories in Syria. It fears the partners will take advantage of the fall of Sunni extremist group Islamic State to set up a land corridor from Tehran to the Israeli-controlled Golan Heights.

Majority Shiite Iran and its ally Hezbollah have fought alongside Mr. Assad's forces for five years, helping the Syrian leader fend off an assault on his power by Sunni rebel groups allied with different powers.

Israel won control of the Golan Heights plateau from Syria in the 1967 Arab-Israeli war.

## War Games Rankle Key Moscow Ally

By THOMAS GROVE

MINSK, Belarus—War games that Russia and neighboring Belarus are currently staging have sharpened tensions with the West—and exposed a rift between Moscow and its closest military ally.

On paper, Belarus and Russia have a tight alliance. The former Soviet republic, which shares borders with three members of the North Atlantic Treaty Organization, is sworn to come to Moscow's aid in the event of an attack.

But Minsk bristled when Russia sought to move more of its soldiers into Belarus during the joint exercises, which continued Monday as Chinese naval vessels arrived in Russia's far-eastern port of Vladivostok for separate joint exercises.

When Russia's defense ministry said a premier tank unit was rolling toward the Belarus border and that three Russian paratrooper divisions were to land on Belarusian soil, the Belarus defense ministry contradicted that.

"None of this was agreed with Belarus beforehand," said Arseny Sivitsky, director of the

Minsk-based Center for Strategic and Foreign Policy Studies, which has ties to the Belarus foreign and defense ministries.

Relations have fallen to such an extent that Russian President Vladimir Putin and his counterpart in Belarus, Alexander Lukashenko, are likely not to meet during the exercises, a break with tradition.

Mr. Lukashenko's spokeswoman told the Belarusian state news service that he wasn't even invited to watch parallel exercises that Moscow is conducting in Russia.

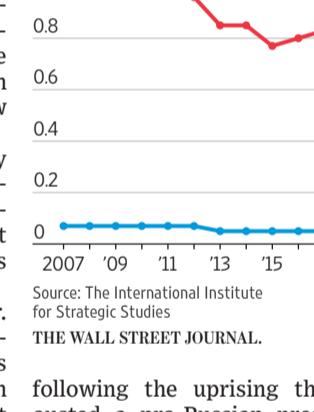
Kremlin spokesman Dmitry Peskov said no problems existed between the two presidents and their failure to meet was due to the busy schedules of the leaders.

The rift is emerging as Mr. Lukashenko, often called "Europe's last dictator," takes steps to normalize ties with the West. Belarus has said it wants to join the World Trade Organization in the next three years to give the country a chance to negotiate trade deals with the European Union.

Such overtures have irritated the Kremlin, especially

### Out in Force

The military in Belarus is smaller and weaker than in Russia, which is making large investments in modernizing its forces.



Source: The International Institute for Strategic Studies

THE WALL STREET JOURNAL.

following the uprising that ousted a pro-Russian president in Ukraine, which borders both Russia and Belarus. Moscow subsequently invaded and annexed Crimea in 2014, which ratcheted up tensions between Russia and NATO.

The current joint military

exercises, known as Zapad, are one of the largest such events Russia has conducted since the end of the Cold War. Officially, the exercises are supposed to involve 12,700 soldiers deployed in both countries, with most of the training taking place on Belarusian soil.

But Western and Belarusian observers have put the number of Russian troops involved in the war games at between 70,000 and 120,000.

The military drills, set to last until Wednesday, had already increased tensions between Russia and the West. Before the exercises, Western officials and Belarusian analysts said Russia might try to use the cover of the exercises to establish a permanent military contingent on Belarusian soil.

Russia is also carrying out maneuvers on its own territory that involve large numbers of troops, military experts say. Russia hasn't said how many soldiers are participating in those overlapping exercises, but its Northern Fleet and Southern military district have also been involved in maneuvers since the start of Zapad.

## SUU KYI

Continued from Page One  
ports" Myanmar's efforts to step up security in the area, according to a statement from China's Foreign Ministry.

During a visit to Myanmar this month, Indian Prime Minister Narendra Modi blamed the turmoil in Rakhine State on extremists.

The exodus began on Aug. 25 when militants calling themselves the Arakan Rohingya Salvation Army launched a series of coordinated attacks on government outposts in Rakhine State, on the country's western border, killing 12 people.

Myanmar's armed forces responded by torching Rohingya villages and in some instances shooting villagers as they fled toward the border with Bangladesh.

Just over half the 1.1 million Rohingya who were recorded to live in the country after a census in 2014 remain, many of them in relief camps, denied citizenship and the right to travel freely.

Ms. Suu Kyi, a Nobel Peace Prize winner who took over from a series of military-backed governments after landmark elections in 2015, has drawn much of the international criticism.

Fellow peace laureates have called on her to speak out with the moral authority earned with her own Nobel Prize, awarded in 1991 for resisting military rule.

"How many Rohingya have to die; how many Rohingya women will be raped; how many communities will be razed before you raise your voice in defense of those who have no voice?" one group of laureates wrote.

Ms. Suu Kyi's circle sees itself boxed in by a politically powerful military that still controls the defense and interior ministries, people familiar with the situation say. Domestic support in the majority Buddhist country for the violent response to Rohingya rebel attacks is strong, too.

Before Tuesday's speech Ms. Suu Kyi said little on the matter, except to command army commander Senior General Min Aung Hlaing's operations in Rakhine State.

Some commentators say the growing backlash against the purge of Rohingya might strengthen the growing nationalist sentiment in Myanmar, which is sandwiched between Asia's two political and economic giants, China and India.

In Yangon, the largest city, demonstrators gathered on Tuesday to proclaim their support for Ms. Suu Kyi, many holding up banners extolling their love for "Mother Suu."

### KENYA

#### Tear Gas Fired Upon Kenyatta Supporters

Kenyan police fired tear gas at supporters of President Uhuru Kenyatta who were protesting outside the Supreme Court against the invalidation of his Aug. 8 re-election.

The Supreme Court nullified the presidential election on Sept. 1 and ordered the electoral body to hold a repeat vote within 60 days. The court, which issued a majority judgment, said there were irregularities in tallying results of the poll.

David Maraga, the chief justice and president of the Supreme Court, said threats against judicial staff had risen since the ruling.

He cited the hundreds of protesters wearing the bright red of Kenyatta's Jubilee Party gathered outside the court as an example of the rising threats, and threatening messages sent on social media to individual judges and their staff.

"Senior political leaders have also threatened the judiciary, promising 'to cut it down to size' and 'teach us a lesson,'" Judge Maraga said, adding that judges wouldn't be intimidated by any-

one and were ready to pay the "ultimate price" to protect the constitution and rule of law.

—Reuters

### BOJ Is Seen Keeping Its Ultraeasy Policy

A year after Bank of Japan Gov. Haruhiko Kuroda promised to keep long-term interest rates at zero, Japan's economy is enjoying its best run in more than a decade and inflation is a percentage point higher.

While the Federal Reserve,

the European Central Bank and

the Bank of England head toward an exit from easy money, the Bank of Japan is widely expected to keep its ultraeasy policy on hold this week as it continues its experiment in using anchored interest rates to spur price gains.

Mr. Kuroda has essentially steered the BOJ ship with the policy overhaul a year ago. But that still leaves him far from a shoo-in for an unprecedented second term as governor. It also remains unclear whether Mr. Kuroda has the desire to continue if asked to do so.

Even in the upper echelons of the BOJ, senior officials aren't ruling out a change of leadership, even though they are generally content with the functioning of the framework for controlling short- and long-term interest rates, according to people familiar with the bank's thinking.

—Megumi Fujikawa

### HUNGARY

#### Bank Cuts One Rate

Hungary's central bank cut its overnight deposit rate of interest further into negative territory in an effort to curb the country's strengthening currency, as much of the rest of Europe seems on the cusp of a period of tighter monetary policy. The bank's Monetary Policy Committee lowered the interest rate it pays on deposits placed with it overnight by commercial banks to minus 0.15% from minus 0.05%.

—Paul Hannon



Supporters of Kenyan President Uhuru Kenyatta demonstrated outside the Supreme Court Tuesday.

BAZ RATNER/REUTERS

## U.S. NEWS

# GOP Budget Targets \$1.5 Trillion Tax Cut

The move would let senators make fewer tough calls on what tax breaks to eliminate

By RICHARD RUBIN  
AND SIOBHAN HUGHES

WASHINGTON—Senate Republicans are considering writing a budget that would allow for up to \$1.5 trillion in tax cuts over the next decade, said people familiar with the discussions.

Budget talks are continuing and no final decision has been reached yet.

A budget that creates fiscal room for a \$1.5 trillion tax cut, if adopted, would then be followed by a tax bill that would specify rate cuts and other policy changes that don't exceed that figure. Calling for a tax cut in the budget would let Republicans lower tax rates while making fewer tough decisions on what tax breaks to eliminate to help pay for the cuts.

Republicans contend that some expiring tax cuts would have been extended anyway and that their plan would boost economic growth and generate revenue, reducing the actual impact on the deficit below whatever overall number they agree on. Still, they may need to make some of the tax cuts expire after 10 years, leaving decisions to a future Congress they might not control.

With this latest turn in budget talks, Republicans are gradually shifting away from an earlier stance some took in favor of a tax plan that fully paid for itself in the first decade. Budget Committee member Mike Crapo (R., Idaho) said on Monday that the tax cut should be "as big as we can get."

The budget is an essential first step to the major tax bill Republicans want to pass this year. If the House and Senate



Sen. Pat Toomey, a Budget Committee member, said he has been advocating a \$2 trillion tax cut, larger than the \$1.5 trillion being considered.

progress relative to where we are now," he said.

The tax-rate cuts Republicans want for corporations, other businesses, estates and individuals would likely increase budget deficits by far more than \$2 trillion, so in their tax bill they would still need to find savings elsewhere in the tax code, likely by getting rid of some tax breaks.

"We're going to do as much base-broadening as we possibly can," Mr. Toomey said. "That will allow us to lower marginal rates and move somewhat in the direction" of faster capital write-offs.

Faster growth likely couldn't cover all of a \$1.5 trillion tax cut, which would reduce projected federal revenue by more than 3%. The high end of the nonpartisan Joint Committee on Taxation's estimate of revenues from economic growth in a 2014 tax plan was \$700 billion.

"For every economist, there's an equal and opposite economist, and they're usually wrong," said Budget Committee member John Kennedy (R., La.), who said a middle-class tax cut such as a bigger standard deduction is his top priority.

Under the fast-track budget reconciliation rules, bills can increase deficits for the duration of the budget, typically 10 years. After that, they can't increase deficits, without 60 votes in the Senate.

That could lead to a repeat of the 2001 and 2003 tax cuts under President George W. Bush, which were scheduled to expire in 2010, then were largely extended through 2012. Most survived and had expiration dates removed by a bipartisan majority in 2013.

Republicans such as Mr. Toomey and House Speaker Paul Ryan (R., Wis.) have argued that the tax cuts should be as permanent and run as long as possible to encourage businesses to invest.

agree on a budget, they can fast-track a tax bill through the Senate on a simple-majority vote through a process known as reconciliation, rather than seek a bigger 60-vote majority that would require support from Democrats.

The budget sets the maximum size of any tax cut over the next 10 years, making it a crucial fiscal marker in this fall's tax debate. A budget with a tax plan that is revenue-neutral would effectively pay for itself, meaning any reduction in tax rates would be offset by reducing breaks or other revenue-raising measures. A budget with \$1.5 trillion in tax cuts wouldn't be revenue-neutral.

Republicans face internal tension in trying to bridge the

gap between those warning about large federal debt levels and the desire of many to cut taxes. The Senate Budget Committee, led by Mike Enzi (R., Wyo.) hasn't yet scheduled a committee vote or released a draft budget.

Any plan would face hurdles in the Senate and the House. On the Senate floor, the budget would need support from at least 50 senators and Republicans have just 52 seats. The House budget came out of committee in July but hasn't gotten a vote in the full chamber amid disputes over spending levels and the details of the tax plan.

The House budget calls for a tax bill that doesn't cut tax revenue, but that assumes

economic growth already. It also isn't clear how big a tax cut the Trump administration will support.

Sen. Pat Toomey (R., Pa.), a Budget Committee member, said in an interview Monday that he has been advocating a \$2 trillion tax cut. Mr. Toomey's preference is partly based on arguments that the tax bill, which is still being written, would generate significant economic growth that would yield additional tax revenue on its own and make the actual hit to the budget from tax cuts smaller.

The GOP tax-cut target may include more than \$400 billion in extensions of expired or expiring tax breaks. Under congressional scorekeeping con-

ventions, retaining those breaks or replacing them would count as tax cuts.

The tax-cut number will dictate how much Republicans can reduce tax rates on individuals and corporations. It will also affect their ability to move forward on desired breaks, such as accelerated depreciation for some business investment.

Mr. Toomey said he hoped Budget Committee members would reach a decision this week. The number, he added, would likely end up below \$2 trillion; he said a \$1.5 trillion target would be possible.

"It's tough to squeeze in the optimal tax reform into that window, but it would be possible to certainly make a lot of

## Effort to Repeal Health Law Gets New Push

By STEPHANIE ARMOUR  
AND MICHELLE HACKMAN

WASHINGTON—Republicans pushed ahead with a last-minute effort to repeal most of the Affordable Care Act, preparing for a meeting of GOP senators to discuss the latest version as opponents mobilized to block it.

The legislation by Republican Sens. Lindsey Graham of South Carolina and Bill Cassidy of Louisiana is gaining attention after senators of both parties assumed the GOP health push was dead. The bill will be the subject of committee hearings next week.

On Monday, Arizona Gov. Doug Ducey said he supported the effort, which could help gain support from Sen. John McCain (R., Ariz.), who voted against an earlier repeal bill.

But the interest in the Graham-Cassidy proposal has caught Democrats and other ACA supporters by surprise, providing the GOP arguably its last chance to deliver on its seven-year pledge to repeal the current health law.

Since the Republican effort to repeal and replace most of the ACA faltered in July, three major efforts have emerged in the Senate as lawmakers seek a path forward. They include a final effort to repeal the ACA; an attempt to find a compromise that would shore up the insurance markets; and a push for a new government-run system. All of them face big political hurdles.

Here are some details of the

three proposals:

### Graham-Cassidy Bill

**What it is:** The bill is widely considered Republicans' final shot at largely repealing the ACA before a procedural maneuver allowing them to pass it without Democratic votes expires Sept. 30.

**What it would do:** The plan would take money the ACA spends on Medicaid and insurance subsidies and turn it into block grants to states, which could use it to design their own health-care systems. It includes spending caps on Medicaid. It would also let states

waive certain ACA rules, including the one that prohibits insurers from charging higher premiums to people with pre-existing conditions.

**The sponsors:** Sens. Graham and Cassidy proposed the idea, and fellow Republican Sens. Dean Heller of Nevada and Ron Johnson of Wisconsin have since lent their support.

**Where it stands:** Mr. Cassidy told reporters Friday that 48 or 49 Republicans back the repeal measure. Fifty votes would be needed to pass it, with Vice President Mike Pence casting a potential tie-

breaking vote. But it isn't clear that Republicans, who hold a narrow 52-member majority, have the numbers yet. Sen. Rand Paul (R., Ky.) says he is against the bill, while Sens. Susan Collins (R., Maine) and Lisa Murkowski (R., Alaska) say they are undecided.

### Insurance Stabilization

**What it is:** The effort, spearheaded by a Republican and a Democrat, is a rare broad bipartisan health-care push. It seeks to shore up the rickety individual insurance market, repairing a part of the ACA.

**What it would do:** The plan would officially authorize payment of ACA subsidies that lower out-of-pocket costs for low-income consumers, in an attempt to prevent large premium hikes. (The Trump administration has continued making those payments, even while warning it may end them.)

**The sponsors:** Sens. Lamar Alexander (R., Tenn.) and Patty Murray (D., Wash.), leaders of the Senate Health Committee, are negotiating the bipartisan package.

**Where it stands:** The plan has faced stiff opposition from Republican leaders, who say it would throw money at a law they believe is failing.

### Single-Payer Plan

**What it is:** The bill would create a national government-sponsored health care system in an effort to extend coverage to all Americans.

**What it would do:** The plan would extend Medicare-like health coverage to all Americans over a four-year transition period. People would have the same medical benefits as those provided under the ACA, with most out-of-pocket costs eliminated.

**The sponsors:** The bill was offered by Sen. Bernie Sanders (I., Vt.), and it has 16 Democratic co-sponsors.

**Where it stands:** The bill has virtually no path in a Republican-controlled Congress, and it hardly enjoys universal support even among Democrats. Members of both parties have raised concerns about the cost and how it would be paid for.



Sen. Lindsey Graham (R-S.C.) spoke as Sen. Bill Cassidy (R-La.) looked on during a news conference held to introduce health-care legislation in Washington last week.

## Senate Passes Bill to Boost Defense Spending

By KRISTINA PETERSON

WASHINGTON—The Senate passed the annual defense policy bill, in a broad show of support for boosting military spending well above the current limits set by law.

The measure passed overwhelmingly Monday evening, in an 89-8 vote. "For too long our nation has asked our men and women in uniform to do too much with far too little," said Senate Armed Services Committee Chairman John McCain (R., Ariz.).

Mr. McCain urged lawmakers to support higher military spending not only in the defense policy bill, but later this year in negotiations over the spending bills that would actually translate it into more money for the military in fiscal 2018.

"We still have no path to actually appropriate the money that we are about to authorize," Mr. McCain said. "That requires a bipartisan agreement to adjust the spending caps."

Senate negotiators now have to hammer out a compro-

mise with the House, which passed its own version of the defense policy bill in July. Both chambers approved legislation authorizing military spending well above the level established by spending caps known as the sequester, which was born out of a 2011 deal aimed at winnowing the federal budget deficit.

The Senate bill would authorize \$640 billion in base military spending, plus \$60 billion in an emergency war fund not subject to the sequester. Under current law, base military

spending is capped at \$549 billion for fiscal 2018.

Earlier this month, Congress passed an extension of the government's current funding through Dec. 8. Lawmakers from both parties are trying to work out a new budget agreement in the hopes of passing a longer-term spending bill in December.

Republicans are adamant about boosting military spending, but some conservatives have said they would balk at lifting nonmilitary spending. Democrats, meanwhile,

have generally said they would insist on boosting domestic spending if military spending is increased.

Although in the minority, Democrats will have leverage in December, since spending bills require 60 votes to clear procedural hurdles in the Senate, where Republicans hold 52 seats.

"We've been clear on the Democratic side that we think the artificial sequester caps are hurting not only our military readiness, but also our economy," said Sen. Chris Van Hollen (D., Md.).

Police shot and killed Scout Schultz, 21, Saturday night after the student himself called 911 to report an armed and possibly intoxicated suspicious person, the Georgia Bureau of Investigation said. Georgia Tech hasn't identified the officer who fired the fatal shot and has declined to release any information about the officers who confronted Mr. Schultz.

After Monday's peaceful vigil, about 50 protesters marched to the campus police department, university spokesman Lance Wallace said. A police vehicle was burned and two officers suffered minor injuries.

The university hasn't said whether the three people charged are students, and didn't provide their ages or home-towns.

—Associated Press

## IN DEPTH

# FISH

Continued from Page One  
of books on elegant kosher cooking, has a recipe for "tricolor gefilte fish" with dill.

"What can you do with a jar of Manischewitz?" Ms. Fishbein says. "I am sorry, but there is nothing to do—no magic spice, no magic touch."

She confesses a fondness for the company and once did a TV segment for Manischewitz's brisket splices. But she isn't touting its gefilte fish. "If I put a jar of it on my table, no one will even think to open it," she says. Her guests would assume it was vintage table decoration.

At the end of the 20th century, Manischewitz was selling 1.5 million jars of gefilte fish, but in recent years, sales have fallen by about 2% a year, the company says.

Rabbi Aron Yonah Hayum, who oversees production at Manischewitz, is trying to help revive gefilte fish's appeal. "To keep the category alive," he deadpans, "we have to bring it to the 1990s, at least."

The kosher-food company, founded in 1888, has tried to freshen up its fish before and Rabbi Hayum, a 23-year Manischewitz veteran, can rattle off every experiment. In the late 1980s, Manischewitz unveiled a salmon gefilte fish. "They thought that it would generate buzz," he says.

Unfortunately, the industrial cooking process washed out the natural pink color, he says, and turned the fish an unappetizing shade of gray.

Manischewitz tried jalapeño gefilte fish in the early 1990s, hoping customers were ready



for a zesty flavor. "Not so much," says the rabbi.

Next up was "Mediterranean" gefilte fish, made with rosemary and oregano. While he liked it, the product had a weird look, Rabbi Hayum says. "We put real spices and you could see little green dots and stems," floating through the jar. "Too wacky."

Rabbi Hayum is an avid collector of company memorabilia. Items line his office and grace glass cases in the company's halls—from a canvas

"Borscht belt" with names of old Catskill hotels, to a Roberta Flack record album, signed "To Manischewitz with Love." There is also a jar containing a "loaf" of gefilte fish the company once tried to market. It was a no-go.

European Jewish immigrants brought the specialty with them to America. Making it from scratch meant securing live fish—which homemakers parked in the bathtub—that had to be killed, deboned, minced and seasoned.



Chanie Apfelbaum with her panko-crusted gefilte fish. Top left, tri-color gefilte fish from the cookbook 'Kosher by Design' by Susie Fishbein; lower, an artisanal gefilte fish dish by Liz Alpern and Jeffrey Yoskowitz, co-authors of 'The Gefilte Manifesto.'

"Gefilte fish took a whole day to make, and Jewish women had carefully made it in Europe," says Jonathan Sarna, professor of American Jewish history at Brandeis University.

When Manischewitz began mass-producing its gefilte fish, it was embraced by homemakers seeking relief from the arduous preparation.

The jar, says Prof. Sarna, was "a metaphor for America itself—Jewish women no longer had to slave all day long."

Now consumers have gravitated from the jar to frozen gefilte fish, which yields a cream-colored loaf.

The frozen version lets cooks be creative, Prof. Sarna says. "You might *patschke* [fuss] with it a little bit. The frozen gefilte fish allowed you to add some of your own carrots, some of your own spices, and it didn't take very long."

The Gefilteria's co-owners Liz Alpern and Jeffrey Yoskowitz suggest a return to pre-jar days. It is far less la-

bor-intensive to make gefilte fish now, Ms. Alpern says, with one of their recipes taking 1½ hours at most. And, she adds, no need to store fish in a bathtub. Buy fish fillets and use a food processor.

Some of Manischewitz's innovations have worked. Rabbi Hayum says the gluten-free gefilte fish, which uses potato starch instead of matzo meal, is popular, as is the Premium Gold variety, which uses less carp and more whitefish. He says Manischewitz is hoping to try its new secret variation in the spring.

The company says it sells 1.2 million jars annually, retailing from \$6.26 to \$8.99 for the 24-ounce jar.

Rabbi Hayum knows keeping the jar alive is an uphill battle. But he believes it is important. For many American Jews, he says, the jar of gefilte fish on the supermarket shelf "is their last connection to Judaism."

Manischewitz, now part of Bain Capital Credit after churning through several owners, recently laid off workers and said it would manufacture products, including gefilte fish, in other facilities. David Sugarman, CEO, said Manischewitz was taking "necessary steps to preserve and position the business" to grow "over the next 129 years."

Karen Blum, of Westlake Village, Calif., answered an online Facebook survey by Manischewitz on gefilte fish. She recalled how after she had her tonsils removed as a 4-year-old, she refused any nourishment, even ice cream and Jell-O. Instead, she says, "I pointed to the jar of gefilte fish."

She says she still favors the version from the jar: "It is the ultimate Jewish comfort food."

seat board of governors.

By reaching unanimous agreement on the balance-sheet plan this year, the Fed has essentially resolved the issue for any Yellen successor and given more certainty to markets, just as Ben Bernanke in 2013 announced plans to gradually reduce the Fed's purchases before his term as chairman ended in 2014.

The balance-sheet plan bears hallmarks of Ms. Yellen's meticulous, leave-nothing-to-chance leadership, say current and former Fed officials. The core of it came together three years ago. Officials said they would raise the federal-funds rate before starting on the balance sheet, and wouldn't be bond sellers.

The rate-setting committee ramped up discussions at its March 2017 meeting, weighing questions such as whether to set a fixed calendar or to condition a wind-down on economic conditions; the pros and cons of a phasing out of reinvestments vs. stopping cold turkey; and whether to treat mortgage bonds and Treasurys differently.

After the March discussion, a majority—around 10 of the committee's 17 members—appeared to form a consensus: The Fed's plans should be predictable and passive. Tapering the pace of bond reinvestments would extend the process by a year, reducing the chance of spike in bond yields.

It should be as exciting as watching paint dry, Philadelphia Fed President Patrick Harker later said.

**The Fed has never before had so large a balance sheet or tried a maneuver like this.**

In regular calls and meetings to gain more feedback from committee members after the March meeting, Ms. Yellen gently highlighted the growing consensus to those who had different ideas.

Meantime, when minutes of the meeting revealed details of the discussion, markets shrugged, helping to move off the fence some who worried about acting too soon. By the Fed's June meeting, officials who were uneasy about moving ahead with rate increases voiced little concern about starting the balance-sheet plan, largely because it was so gradual.

"We won't know until we actually take the action, but I'm reasonably confident that it's not likely to be much of an event," said Boston Fed President Eric Rosengren.

"We communicated it better this time."

# FED

Continued from Page One  
panding in sync.

Chairwoman Janet Yellen's management of the process will shape the final verdict on whether the bond-buying was successful, which in turn could determine whether it remains a policy tool for future downturns.

"She has reached agreement in a way that is really impressive. Markets didn't freak out. Nobody said 'boo,'" said Austan Goolsbee, who headed the White House Council of Economic Advisers in 2010-2011. Now, he said, "The final exam, with the grade yet to be determined, is can the Fed actually get out of this stuff?"

Other central banks that adopted such programs are watching, particularly the European Central Bank, which is considering whether to wind down its asset purchases next year.

When central bankers began these unconventional campaigns, "we had no idea what we should buy, how much, for how long," said David Blanchflower, a Dartmouth College economist who was on the Bank of England's monetary policy committee from 2006 to 2009. Similarly, "there is no idea on the way going out."

## Calm reaction so far

Markets' ho-hum reaction so far prompted J.P. Morgan Chase & Co.'s James Dimon to warn this summer against complacency. The Fed's unwind "could be a little more disruptive than people think," the CEO said at a conference in Paris. With other central banks set to pull back on stimulus, "the tide is going out."

Added Matthew Jozoff, J.P. Morgan's mortgage-debt strategist: "We have never seen a central bank exit out of \$1 trillion of mortgage-backed securities, so we are concerned about how this is going to go."

What could go wrong is hard to predict. When the Fed discussed plans to pare its purchases of new bonds in 2013, a tumble in prices sent yields soaring, in what was called the taper tantrum. The unanticipated turmoil included capital outflows from emerging markets. Fed officials' desire to avoid a replay has driven careful planning for the balance-sheet wind-down, according to current and former Fed officials.

The Fed launched its bond buying in late 2008, at the depth of the financial crisis, to shore up money-market funds, companies and banks.

A government takeover of housing-finance giants Fannie Mae and Freddie Mac had

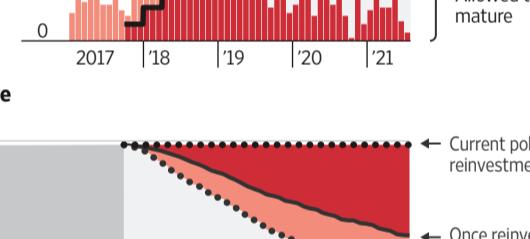
## Maturing Assets

The Fed's plan to shrink its bond portfolio will allow increasing amounts of assets to mature or be paid off without being replaced with new securities.

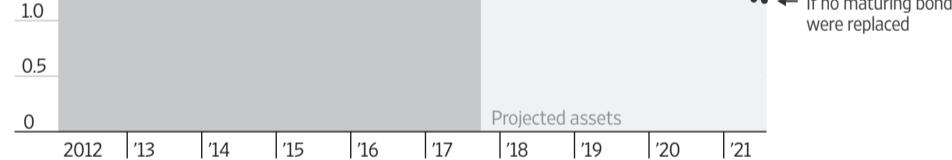
### Treasurys

Currently, the Fed reinvests maturing Treasurys to keep its asset portfolio steady. Now, it plans to allow some—up to a monthly cap—to mature without reinvestment.

### Value, by month, of maturing Treasurys held by the Fed



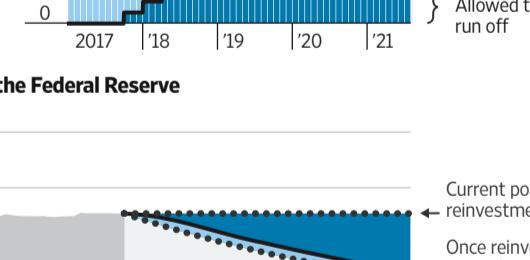
### Treasurys held by the Federal Reserve



### Mortgage-backed securities

At present, the Fed also reinvests the payments it receives on its vast mortgage holdings. The cap on reinvestments is set so that by late 2019, under current rate forecasts, all repayments will run off each month.

### Value, by month, of principal paid down on the Fed's mortgage-backed-security holdings\*



### Mortgage-backed securities held by the Federal Reserve



\*Assumes forecast in which interest rates do not fall significantly.

Note: Scenarios assume portfolio size normalizes in 2021 at around \$3.3 trillion and that the plan starts in October.

Source: Federal Reserve Bank of New York

Nick Timiras and Andrew Van Dam/THE WALL STREET JOURNAL

failed to thaw the mortgage market. So the Fed began buying hundreds of billions of dollars of their debt and mortgage-backed securities to get mortgage rates down. Rates did, as bond prices rose.

The Fed later decided it needed to do more to support the economic recovery, and over the next three years it launched two other bond-buying rounds to lower long-term interest rates and keep inflation from going below zero.

Buying long-term bonds sends some investors into riskier assets, buoying stocks, corporate bonds and real estate. Ultralow interest rates allowed millions of Americans to refinance, reducing foreclosures and freeing up cash for spending.

Problems some critics warned about, such as roaring

inflation and currency debasement, haven't materialized. Labor markets have tightened, leaving unemployment at a 16-year low in July, while price pressures have been muted.

At the same time, the bond-buying has fueled concerns about frothy asset values, such as in commercial real estate. And while financial markets have boomed, economic growth and business investment have been unspectacular.

### Term Premium

Research published by the Fed in April estimated its purchases have reduced by around one percentage point what economists call a "term premium," the extra yield investors demand for the risk of lending over a longer term.

Fed economists estimated

this stimulus would decline slightly this year as markets anticipate a reduction in bond reinvestments. When the Fed's balance sheet returns to a more normal level, the term premium could still be around 0.25 percentage point lower than if the bond programs had never occurred.

The Fed, though it stopped adding to its holdings of bonds in 2014, has continued to reinvest the proceeds of those that mature. It owns \$1.7 trillion in mortgage bonds issued by government-related entities, or around 29% of the market, and around \$2.4 trillion in Treasurys, which is 17% of that market.

In June, the Fed said when it started to shrink its balance sheet it would do so by allowing a small initial amount of bonds—\$4 billion of mort-

this stimulus would decline slightly this year as markets anticipate a reduction in bond reinvestments. When the Fed's balance sheet returns to a more normal level, the term premium could still be around 0.25 percentage point lower than if the bond programs had never occurred.

The Fed wants to move now because the economy is on stronger footing. Its large holdings have become a political liability, with critics saying the mortgage-debt buying, in particular, exceeded the Fed's mandate once normal market functioning had been restored.

Central bankers are "comfortable with the extraordinary actions they took during the crisis, and they know not everybody is," said Lou Cran dall, chief economist at financial research firm Wrightson ICAP. "If the unwind is successful, it will bolster the case for" similar bond buying in the future.

Hanging over the discussions has been the question of who will lead the Fed next year. Ms. Yellen's term expires in February, and Vice Chairman Stanley Fischer is giving up his seat. There are three other vacancies on the seven-

member board of governors. By reaching unanimous agreement on the balance-sheet plan this year, the Fed has essentially resolved the issue for any Yellen successor and given more certainty to markets, just as Ben Bernanke in 2013 announced plans to gradually reduce the Fed's purchases before his term as chairman ended in 2014.

The balance-sheet plan bears hallmarks of Ms. Yellen's meticulous, leave-nothing-to-chance leadership, say current and former Fed officials. The core of it came together three years ago. Officials said they would raise the federal-funds rate before starting on the balance sheet, and wouldn't be bond sellers.

The rate-setting committee ramped up discussions at its March 2017 meeting, weighing questions such as whether to set a fixed calendar or to condition a wind-down on economic conditions; the pros and cons of a phasing out of reinvestments vs. stopping cold turkey; and whether to treat mortgage bonds and Treasurys differently.

After the March discussion, a majority—around 10 of the committee's 17 members—appeared to form a consensus: The Fed's plans should be predictable and passive. Tapering the pace of bond reinvestments would extend the process by a year, reducing the chance of spike in bond yields.

It should be as exciting as watching paint dry, Philadelphia Fed President Patrick Harker later said.

**The Fed has never before had so large a balance sheet or tried a maneuver like this.**

## U.S. NEWS

# Hurricane Batters Dominica in Caribbean

Maria, a Category 5 storm, heads toward Puerto Rico; officials urge evacuations

BY JOSÉ DE CÓRDOBA  
AND ANTHONY HARRUP

SAN JUAN, Puerto Rico—Hurricane Maria thrashed the tiny island nation of Dominica Tuesday, as the second Category 5 storm in as many weeks made a beeline for the Virgin Islands and Puerto Rico.

The storm tore into Dominica Monday night with maximum sustained winds near 160 miles an hour, ripping away roofs, knocking out electricity and inundating streets and mountainsides with heavy rain.

Hours after the storm hit, Dominica's Prime Minister Roosevelt Skerrit found himself in trouble after the "merciless" wind tore off the roof of his home and he had to be rescued, according to a post on his Facebook account.

"So far the winds have swept away the roofs of almost every person I have spoken to or otherwise made contact with," Mr. Skerrit wrote, saying initial reports were of widespread devastation on the island of 74,000 people.

Hours later, he wrote again: "So far we have lost all what money can buy and replace."

Maria was the strongest storm on record to hit Dominica, an island that relies heavily on agriculture, offshore banking and some tourism. Tropical Storm Erika killed roughly 30 people there and left hundreds homeless in August 2015. In 1979, Category 3 Hurricane David killed an estimated 56 people on the island and left three out of every four homes uninhabitable.

As it bore down on Dominica, Maria had intensified from a tropical storm to a Category 5 hurricane in just 30 hours, with its top winds ramping up from 65 to 160 miles an hour from Sunday afternoon to Monday night, the



A man covers the windows of a supermarket Tuesday in San Juan, Puerto Rico. 'This is a moment of extreme danger for Puerto Rico,' Gov. Ricardo Rosselló said.

National Hurricane Center reported. After weakening briefly from that landfall, the storm regained its strength as it moved northwest.

In Puerto Rico, Gov. Ricardo Rosselló urged people in flood-prone and coastal areas to evacuate. "This is a moment of extreme danger for Puerto Rico," he said at an early morning news conference. "If we don't take precautions, there will be a significant loss of life." People who live in wooden houses, or houses with zinc roofs, are particularly at risk, Mr. Rosselló said.

"Zinc houses, wooden houses won't survive winds of 160 miles an hour," he said. "Get out, get out of there."

Mr. Rosselló said there was

added danger that the hurricane will linger over Puerto Rico, drenching the island with rains until Saturday, increasing the danger of floods.

As of early Tuesday, there were 299 people in government shelters, a number that had to increase, Mr. Rosselló said.

Puerto Rican officials have warned that Maria's combination of massive amounts of rain and a storm surge could prove deadly. "People in flood-prone areas must evacuate," Hector Pesquera, the island's top public-safety official warned on Monday. "If not, you will die."

Government workers were sent home Monday and the island's schools were closed. Puerto Rican news radio sta-

tions crackled with repeated warnings as San Juan residents lined up to put gas in their cars, stocked up on bottled water and desperately searched for power generators.

Workers labored late into the night Monday boarding up San Juan storefronts.

"It's going to be ugly," hotel worker Pedro Rivera said as he rushed home to finish the last of his hurricane preparations.

Like many other island residents, Mr. Rivera was bracing for a long period without electricity. Many areas in Puerto Rico haven't had power since Hurricane Irma struck a glancing blow nearly two weeks ago.

"We think the lights will go out for months," Mr. Rivera said. After watching Irma flat-

ten neighboring islands, Mr. Rivera feared Hurricane Maria would bring the same destruction to Puerto Rico.

Although currently tracking south of the islands devastated by Hurricane Irma two weeks ago, Maria's tropical storm-force winds and rain are expected to hit St. Martin and the U.S. Virgin Islands later Tuesday. Irma killed at least 38 people and damaged 90% of the buildings on some of those islands as it tore through the northeastern Caribbean before striking Florida.

Gov. Kenneth Mapp of the U.S. Virgin Islands said late Monday he had been told by U.S. forecasters that the storm will come within 10 miles of St. Croix, bringing hurricane-force winds by late Tuesday night until after dawn Wednesday. St. Croix was the one island that had been spared a big hit by Irma.

"In effect, it will be a direct hit," the governor said.

Jean-Michel Jumez, a local French official, said the storm has caused minimal damage around Pointe-à-Pitre, the administrative center of Guadeloupe. There is more concern about the islands of Marie-Galante and Les Saintes, which lie closer to Maria's path to the south of Guadeloupe. Officials are still trying to establish contact with those islands, he said.

—Dudley Althaus  
in Mexico City  
contributed to this article.



Refugees were welcomed in Los Angeles in June, as President Donald Trump's travel ban went into effect.

## Cabinet Splits on Refugee Numbers

BY FELICIA SCHWARTZ  
AND LAURA MECKLER

President Donald Trump's cabinet is divided over where to set the limit on refugee admissions for the coming year, with the Homeland Security Department pushing to lower the cap to 40,000, and the State Department and Pentagon wanting to keep it at 50,000, according to current and former U.S. officials.

Mr. Trump is expected to receive a final recommendation from the cabinet on Wednesday, with a final decision due by the start of the fiscal year on Oct. 1, according to officials.

Mr. Trump has already lowered the cap once. A year ago, former President Barack Obama said the U.S. would accept as many as 110,000 refugees in 2017. After taking office, Mr. Trump revised that to 50,000 and sought to suspend refugee admissions altogether in order to review vetting procedures.

The State Department, Pentagon and others are arguing that there are humanitarian and national security reasons for accepting a robust number of refugees, and are pushing to maintain the ceiling at 50,000. They

also point to economic benefits.

The economic argument is backed up in a draft report written by the Department of Health and Human Services that was ordered as part of implementing the president's executive order, which has been written but not yet submitted to the White House. The report found that refugees have a net positive fiscal impact on the government, when considering taxes paid, as well as benefits collected.

Specifically, over 10 years, refugees generated \$63 billion

cal agenda, not someone looking at hard data." He provided what he said was the accurate HHS report, which he said was the version formally submitted to the State Department.

It concluded refugees draw down more benefits from HHS programs than members of the general U.S. population do. It didn't make estimates or account for taxes paid by refugees.

Refugees with few skills coming from war-torn countries take more government benefits from the Department

eral officials said. They are supported by Trump policy adviser Stephen Miller, a former Sessions aide, who advocated for the cap to go even lower—to as few as 15,000 refugees, people familiar with the process said.

The U.S. began setting refugee admission caps in 1980, and until this year, the cap had never been set below 67,000. In the early 1990s, it topped 110,000 every year, but more recently, the cap hovered between 70,000 and 80,000.

DHS is arguing that admitting fewer refugees will allow the agency to direct more of its resources toward vetting applications for asylum. Refugees remain outside the U.S. while their applications are considered; asylum applicants are filed by people who are already here.

The State Department is advocating for the 50,000 limit based on Mr. Trump's order earlier this year, though many officials there would prefer a higher number, people familiar with the deliberations say. Officials there argue that accepting more people is a humanitarian imperative at a time when the world is undergoing a dramatic refugee crisis.

Mr. Trump's aides are debating capping annual refugee numbers at 40,000 or 50,000.

for the federal, state and local governments combined. When refugees and their nonrefugee spouses and children are considered, they are still a net benefit to the federal government, but a net cost to state and local governments.

Trump administration officials disputed the findings. White House spokesman Raj Shah said the draft was leaked by "someone with an ideologi-

cal agenda, not someone looking at hard data." He provided what he said was the accurate HHS report, which he said was the version formally submitted to the State Department.

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## Trump Attorney Denies Moscow Ties

BY REBECCA BALLHAUS

WASHINGTON—Michael Cohen, a longtime attorney for the **Trump Organization**, is forcefully denying unverified allegations contained in a dossier compiled by a former British intelligence officer about President Donald Trump's activities and connections in Russia.

In a statement Mr. Cohen prepared for his appearance in front of the Senate Intelligence Committee on Tuesday, he says his "reputation was damaged" by the dossier, which senior intelligence officials summarized in an addendum to a classified briefing Mr. Trump received in January about Russian efforts to influence the U.S. presidential campaign.

"In my opinion, the hired spy didn't find anything factual, so he threw together a shoddily written and totally fabricated report filled with lies and rumors," Mr. Cohen says in his statement to the Senate committee. He calls the dossier "riddled with total falsehoods and intentionally salacious accusations."

Among the allegations in the dossier: Mr. Cohen met with Kremlin officials and discussed how to arrange cash payments to hackers working under Moscow's direction against the presidential campaign of Democratic candidate Hillary Clinton.

The Federal Bureau of Investigation has found no evidence that Mr. Cohen traveled to the Czech Republic, where the meeting allegedly took place in August of last year, officials said.

The dossier was commissioned by the political intelligence firm Fusion GPS on behalf of an undisclosed client.

The Washington-based firm is run by Glenn Simpson, a former Wall Street Journal reporter. Mr. Simpson met privately with Senate Judiciary Committee staff last month.

In his statement, Mr. Cohen says he has "never in my life" visited the Czech Republic.

The Senate panel postponed

Mr. Cohen's interview after he arrived on Capitol Hill on Tuesday morning.

The committee's chairman, Sen. Richard Burr (R., N.C.), and vice chairman, Sen. Mark Warner (D., Va.), said in a statement that they would reschedule Mr. Cohen's interview in an open session "in the near future."

"We were disappointed that Mr. Cohen decided to preempt today's interview by releasing a public statement prior to his engagement with Committee staff, in spite of the Committee's requests that he refrain from public comment," the statement said.

Congressional investigators, along with Special Counsel Robert Mueller, are examining Moscow's efforts to interfere with the U.S. presidential election, as well as whether Trump associates colluded in that effort.



Michael Cohen

Mr. Trump has denied any collusion, and Moscow has denied U.S. intelligence agencies' assessment that Russia interfered in the election.

Mr. Cohen last month turned over email exchanges and gave a statement to the House Intelligence Committee showing that in late 2015, he had informed the then-candidate that he was working on a licensing deal for a Trump Tower in Moscow. He subsequently asked for and received Mr. Trump's signature on a nonbinding letter of intent for the project in October 2015. Mr. Cohen abandoned the proposal in January 2016.

# LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

## Apps Target the College Quandry

Dozens of digital tools aim to help students find their dream school

**THE COLLEGE SEARCH** can be an ordeal fraught with anxiety and confusion, and dozens of free websites and mobile apps are vying to help students find the college of their dreams.

The digital tools can help students consider more choices, including little-known colleges that may have a lot to offer, says David Hawkins, a senior executive at the National Association for College Admission Counseling, Arlington, Va. But they also risk confusing students who lack adult guidance or distracting them from important priorities, college counselors say.

Many websites and apps ask students a lot of questions to generate college lists, but only a few invite them to have a little fun with the process. The iOS app Admittedly quizzes users on their preferences for such factors as walkability or weather. An article on the app headed, "The mountains are calling and I must go," suggests 10 campuses in hilly terrain. (Admittedly recently launched on the web as myOptions.)

The College Fair, a mobile app launched in 2016 under the name Schoold, asks users for academic and personal data, then claims to use Netflix-like algorithms to fine-tune college lists. The app also posts whimsical rankings such as "Beyoncé's Short List" of schools the pop star might like, and "Places Where the Professors Know Your Name." The app has been downloaded 1.2 million times, says Allison Winston, president of Kickwheel, its owner. More than one-third of teens do most of their college research on smartphones, research shows.

College Fair employs six coaches who chat online with students. Few teens receive much counseling: the average public high-school counselor's caseload is 490 students. And many are skeptical at first, asking, "Is this a bot? I don't want to talk to a bot," says Kickwheel CEO Joe Ross.

Fifteen-year-old Alara Kilic of Glen Ridge, N.J., chatted on the app with coach Jadelyn Felipe, who has a master's degree and 11 years' experience in university admissions and other student services.

Ms. Kilic, a high-school sophomore, says Ms. Felipe helped her plot a path toward medical school, as well as decide to take three honors classes this semester rather than four. "I'm very happy with that decision," Ms. Kilic says.

Ms. Felipe says she encourages students who are stressed by the college search to focus on academic paths they're drawn to naturally, asking, "What do you love doing?"

Two-thirds of high-school juniors have used a college-planning website, up from about 50% a decade ago, says Kim Reid, an analyst at Eduventures, a Boston research firm. "They're using them as a sorting mechanism, to narrow down a confusing array of possi-

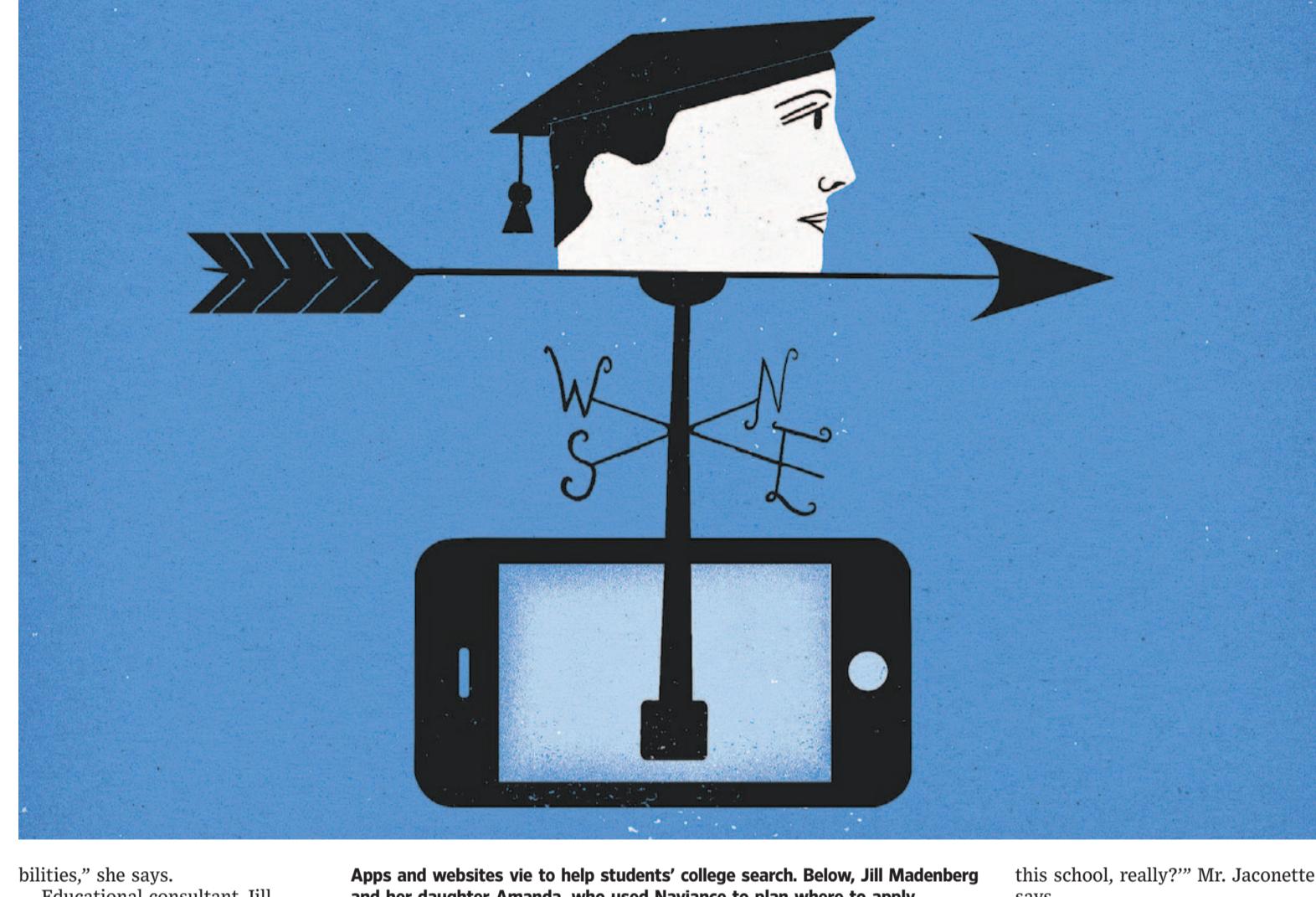


ILLUSTRATION BY HANNA BARCZYK; SHERRY HOROWITZ

bilities," she says.

Educational consultant Jill Madenbergs of Lake Success, N.Y., says college-planning apps and websites can be a good place to start a search, but students should base final decisions on campus visits, self-exploration and discussions with parents, adult mentors or counselors about their interests and potential majors. An extensive website called BigFuture, by the nonprofit college-planning concern The College Board, has helpful tools linking students' interests with potential majors, careers and colleges, says Ms. Madenbergs, co-author with her 19-year-old daughter Amanda of "Love the Journey to College."

Amanda used a site called Naviance to plan where to apply. The Naviance program, owned by the Cincinnati-based education software company Hobsons, offers a wealth of college- and career-planning tools, but it's available only to students whose schools subscribe, including about 40% of U.S. public high-school students. It's well-known for its scatterplots—dot diagrams charting the grades and test scores of students from the same high school who applied to a particular college in the past and showing whether they were admitted. Seeing where your grades and test scores appear in relation to others' helps students estimate their chances of admission. Amanda Madenbergs says the site helped her figure out which colleges to consider "reach" vs.

Apps and websites vie to help students' college search. Below, Jill Madenbergs and her daughter Amanda, who used Naviance to plan where to apply.



this school, really?" Mr. Jaconette says.

Rankings risk distracting teens from attributes that might make an unranked college a perfect fit, counselors say. And users of some sites risk being swamped by mass-marketing spam. It's important to examine websites' privacy policies and consider opting out if asked to authorize contact by third-party vendors.

Some 4 in 5 teens and parents say they trust the information on college-planning websites, according to a 2017 survey of 4,274 students and 2,138 parents led by Eduventures and Ruffalo Noel Levitz, a Cedar Rapids, Iowa, provider of enrollment-management services, but wise use requires a critical eye. Websites and apps that offer students' odds of admission or projected income after graduation are sometimes based on incomplete data or on small samples. Their projections should be taken as ballpark guesses rather than gospel.

Parchment, a site that stores users' transcripts, test scores and other credentials, creates scatterplots showing admission odds, using data from past Parchment users. But it's transparent about the reliability of its projections, including a confidence rating based on the past accuracy of its projections for that school, says Matthew Pittinsky, CEO of the Scottsdale, Ariz., company and co-founder of the education software company Blackboard Inc.

safety schools. It isn't wise to spend too much time comparing yourself to peers, however, says Amanda, who is now a sophomore at Cornell University. "It's easy to feel worse about yourself after doing that."

Some digital tools offer access to current students at target colleges. A unique website called AdmitSee, founded in 2013 by two law-school students, allows users who buy a monthly subscription to see advice and essays from stu-

dents currently enrolled at schools of interest. This can be helpful for students applying to elite schools, says Timothy Jaconette, a Santa Cruz, Calif., college counselor. "If you read a lot of them, you can get a pretty good idea of what Harvard is looking for," he says.

A free Pittsburgh-based site called Niche posts Yelp-like college reviews and rankings. Users can find students' answers to questions they might not ask on a campus tour, such as, "How hard is

MY RIDE | By A.J. Baime

## A RARE 1966 WOLSELEY SOUPED UP BY HEINZ



Brad Swiggart, 63, a financial adviser from Lincoln, Neb., on his 1966 "Heinz 57" Wolseley Hornet, as told to A.J. Baime.

In the mid-1960s, Heinz launched a contest in Britain. The entry form, which appeared in magazines, read "57 Unique Cars to Be Won!" after the company's "57 Varieties" tagline that it still uses today.

Contestants had to match a Heinz soup flavor (Cream of Celery, Cream of Green Pea) with the picnic item that best went with it (Liver Sausage Salad, Beefburgers). Contestants who got the matches right were put in a drawing, and 57 cars were given away.

The convertible cars were custom-built by a British company called Crayford, based on a model called the Wolseley Hornet. The vehicles came with a picnic basket, a Max Factor cosmetics tray, a tea kettle and the same carpeting used in Rolls-Royces. Nowhere did the vehicle say Heinz.

I bought my Heinz 57 Wolseley at Barrett-Jackson auction in Scottsdale, Ariz., in 2009 for \$9,625. I would have paid double that amount. Through a car club, I was able to obtain a photograph of what I believe to be the origi-

nal winner getting the keys from a Heinz soup representative at a dealership in 1966.

Today there are reportedly 41 of the original 57 cars in existence, and last fall, I went to a 50th reunion in Birmingham, England. There were about 10 Heinz 57 owners there. It was so much fun, I am planning to go back to another Heinz car gathering this fall.

I have a small collection of unique cars, and for what it's worth, this one is my wife's favorite, because its story is so surprising. In fact, the story is so unique I had a board made up with it all spelled out, because every time I drive this car, I end up having to tell the story over and over. (That gets old.)

The car is right-hand drive, and the original engine was replaced before I bought it with a more powerful 1275-cc one, also a British motor from the 1960s.

I've been asked every question under the sun. What is my favorite Heinz soup flavor? Tomato. Would I consider selling the car? No way.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).

## LIFE & ARTS

ART

# Next Stop on The Art Circuit: Saskatoon

The \$63 million Remai Modern hopes to put Canadian contemporary art on the map

BY KELLY CROW

**SETTLED AMONG** the wheat fields and mineral mines of the Canadian plains, the city of Saskatoon is hardly a hotbed for contemporary art. Yet having watched art lovers descend on out-of-the-way locales like Arkansas' Bentonville and Colombia's Bogota, Saskatoon is determined to join the global circuit this fall.

For bait, the Canadian government spent \$63 million on a 130,000-square-foot, Jenga-like museum complex sheathed in copper and glass called Remai Modern. The space, designed by Toronto firm KPMB, is named after a local collector, Ellen Remai (pronounced "RAY-mee"), who gave additional funds and art. It opens Oct. 21 in downtown Saskatoon.

The inaugural show, "Field Guide," will survey some of Canada's best-known contemporary artists like Vancouver's Stan Douglas, Ian Wallace and Jeff Wall while also playing up the museum's intentions to commission and show international art—a local-global mix that's become the norm for destination museums.

"Our art may speak with a Canadian accent, but we need to be fully engaged with the international scene," said director Gregory Burke.

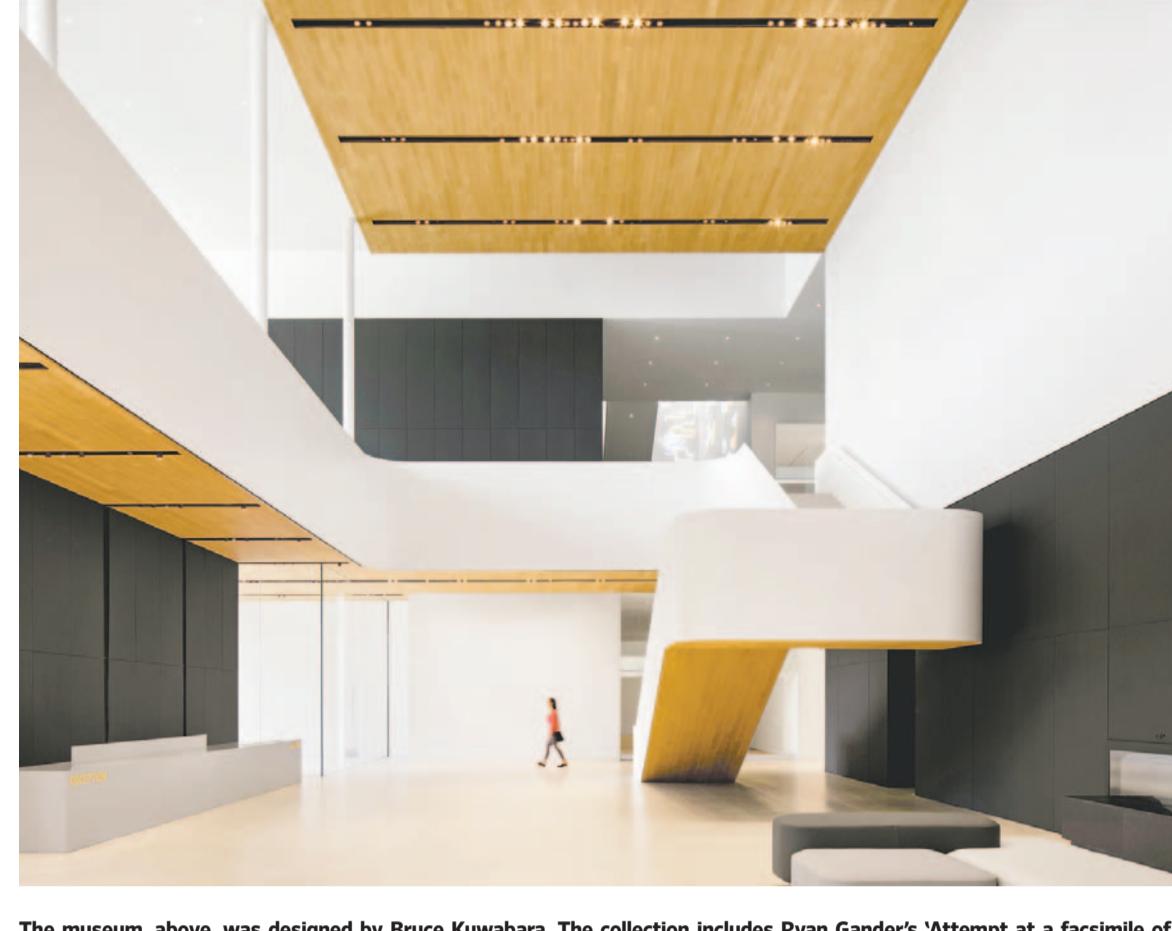
Mr. Burke said the museum will be the first in Canada to show Mr. Douglas's "Secret Agent," a 2015 film about a terrorist plot loosely inspired by a Joseph Conrad novel. The film plays in snippets across six screens arranged so that viewers can walk in and around the scenes.



The effect is hypnotic, like "being inside the movie," Mr. Burke added.

The museum also plans to showcase Mr. Wallace, a pioneering conceptual photographer known for shooting everyday city scenes and hanging them beside monochrome canvases—a combination that serves as a visual segue from painterly abstraction to street photography. One signature example in the show is 2011's "At the Crosswalk IX," in which images of two businesspeople at a Vancouver intersection face each other across a pair of blue and gray canvases. The show will also include a lightbox image of a blacked-out window by Mr. Wall, a former student of Mr. Wallace.

Mr. Wallace said Canadian artists aren't typically as curious about exploring their national identity as U.S. artists—or museums—so Remai's focus could help shape the art world's perspective on Canadian art, including its indigenous and expatriate artists. "We don't wave the flag that much," Mr. Wallace said, "but re-



The museum, above, was designed by Bruce Kuwabara. The collection includes Ryan Gander's 'Attempt at a facsimile of Pablo Picasso's Portrait de Jacqueline accoudée,' left, and a film still of 'The Secret Agent' by Vancouver artist Stan Douglas, below.

gionality matters. It makes the work authentic."

In the future, watch for the museum to organize shows that tease out the who-knew role that Saskatoon's University of Saskatchewan campus played when it invited major abstract-expressionist critic Clement Greenberg to host artist workshops in the nearby Emma Lake area. The retreats were later led by major artists like Barnett Newman and Donald Judd in the 1950s and 1960s.

Minimalist Agnes Martin was also born just outside of town, making her paintings of pale lines a "top priority" on the museum's wishlist, Mr. Burke said. For now, he said the museum is paying homage by showing the Martin-like drawings and "Dear Agnes" diaries of a local artist, Tammi Campbell.



The museum also invited several rising-star artists like Pae White and Ryan Gander to interact with the new building and the roughly 8,000-piece modern art collection it inherited. These include 406 Pablo Picasso linocut prints donated by Ms. Remai, once the biggest set in private hands.

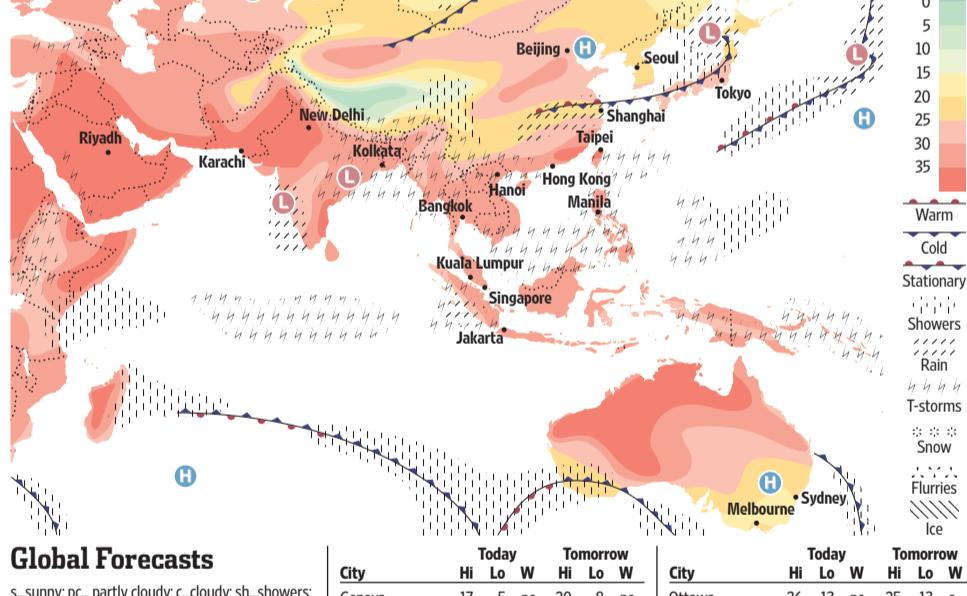
Mr. Gander's "FieldWork" instal-

lation is more subtle but no less complicated: He will set a chair facing what appears to be a shop window that will feature an object, like a gutted Teddy bear or a black balloon, rolling past on a hidden conveyor belt. One of these 34 items will be a metal spike, the kind waitresses use to pile up paid receipts. Instead of meal orders, Mr. Gander will impale 148 copies of Picasso self-portraits that he painstakingly copied from actual Picasso prints in the museum's collection.

Mr. Gander said he initially approached the idea of copying Picasso as a lark, but the task took longer—and took more out of him—than he anticipated. "When you're wrestling with Picasso, you have to take it seriously," he said.

CLOCKWISE FROM TOP: ADRIEN WILLIAMS; STAN DOUGLAS/DAVID ZWIRNER, NY; RYAN GANDER/COLLECTION OF REMAI MODERN

### Weather



### Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	17	10	pc	18	10	pc
Anchorage	13	8	s	11	9	sh
Athens	32	22	s	27	20	s
Atlanta	30	21	pc	31	21	pc
Bahrain	46	27	pc	45	26	s
Baltimore	29	18	s	30	18	s
Bangkok	34	25	t	33	25	sh
Beijing	29	14	s	30	16	pc
Berlin	16	7	sh	17	8	pc
Bogota	20	10	sh	20	8	r
Boise	16	4	s	14	3	pc
Boston	22	18	r	23	14	pc
Brussels	17	9	pc	19	10	pc
Buenos Aires	24	10	pc	14	7	r
Cairo	36	24	s	36	23	s
Calgary	12	1	r	7	-1	c
Caracas	31	25	pc	31	26	pc
Charlotte	31	19	s	31	20	pc
Chicago	32	21	pc	31	21	s
Dallas	36	25	s	34	23	pc
Denver	27	12	s	31	13	s
Detroit	28	18	pc	29	18	s
Dubai	40	31	s	41	30	s
Dublin	17	7	r	15	8	c
Edinburgh	18	11	sh	15	7	r
Frankfurt	17	6	sh	19	7	pc

AccuWeather.com

### The WSJ Daily Crossword | Edited by Mike Shenk



#### FENDING OFF | By Samuel A. Donaldson

##### Across

- 1 Clip contents  
5 Clear the snow again  
11 "Shiny Happy People" band  
14 Clancy character played by Baldwin, Ford, Affleck and Pine  
15 Aziz of "Master of None"  
16 Martinique, par exemple  
17 Result of using yarn for stitches?  
20 Island nation once governed by Germany
- 21 Bananagrams piece  
22 Tel. add-on  
23 Secret wish for the cheese course?  
27 Alternative to NYSE  
30 Plumbing connector  
31 Co-founder of Death Row Records  
32 Lady of the Haus  
34 Head lines?: Abbr.  
36 "The African Queen" screenwriter James  
37 Rototill some recently acquired grazing land?
- 42 Omar of "Shooter"  
43 Abbr. on country mail  
44 Lose sleep  
45 Short post  
47 That, in Tijuana  
49 Without exception  
50 Shearings from Norfolk?  
55 Dallas-to-Houston dir.  
56 Oscar nominations, informally  
57 Gets a closer look at Beneke  
62 Queen with an unusual diet?

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- 65 Org. for Nadal, Murray and Federer  
66 State since 1948  
67 Golden Globe winner for "Chicago"  
68 Youngster in the Hundred Acre Wood  
69 Must  
70 Buds on spuds  
**Down**  
1 Sacred chests  
2 Bird in the starling family  
3 Seriously impair  
4 Leading  
5 Carly Jepsen's middle name  
6 It might be bitter  
7 Attention-getters  
8 Big name in portable hard drives  
9 Maker of the Deep Sweep 5000  
10 Burr on a knife  
11 Mouth location  
12 Magic potion  
13 Luke, to Obi-Wan, e.g.  
18 Account  
24 Mountain nos.  
25 Helm heading  
26 Does a barista's job  
27 Commonly  
28 Tony-winning title role for Robert Morse  
29 Speed-dating event for businesses and job seekers  
33 Let off the hook?  
35 Boxer's warning  
36 Thus  
38 Agreeing to participate  
39 Just three or four, say  
40 Slender swimmer  
41 Bookbinder's tool  
45 Jim Parsons, e.g.  
46 Aware of  
48 Move like molasses  
51 Saga language  
52 "Do \_\_\_\_ to eat a peach?": T.S. Eliot  
53 Putin ally  
54 Beaver home  
58 Mind  
59 Simple  
60 Doesn't fold, perhaps  
63 Theater array  
64 Progressive spokesperson

##### Previous Puzzle's Solution



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## OPINION

### REVIEW & OUTLOOK

## The Fed's Long March to Normal

The Federal Reserve this week, at long last, may announce plans to begin unwinding its nearly nine-year experiment with unconventional monetary policy known as quantitative easing. The move is welcome, even if it brings more financial volatility, because for the sake of the economy and its own credibility the Fed needs to return to a more modest view of central banking.

Financial markets seem to be anticipating the decision without angst, and for that the Fed deserves some credit. Chair Janet Yellen and her colleagues have signaled the move well in advance, including what is an agonizingly slow wind down in its \$4.5 trillion balance sheet. The Fed has said it expects to pare that by only \$10 billion a month for three months, then \$20 billion for another three, before rising to \$50 billion a month within a year. This means the return to monetary normalcy won't arrive before 2021 or 2022 at the earliest, assuming no recession along the way.

This reflects the Fed's inherent caution and perhaps a belief in its own QE advertising. Keep in mind how former Chair Ben Bernanke sold the concept: By buying long-duration Treasurys and mortgage securities, the Fed would drive down bond yields and force investors into riskier assets as they searched for yield.

This was supposed to lift asset prices and spur faster economic growth. The faster growth never arrived—despite Fed predictions for years that 3% annual GDP growth was right around the corner—in what has been the slowest modern expansion on record. But prices have risen in stocks, real estate, emerging-market plays and other assets.

If the Fed calls that a success on Mr. Bernanke's terms, then shouldn't the reverse happen as the Fed unwinds? That is, as the Fed unloads long-duration bonds, will investors sell some of those riskier assets to buy the Treasurys and mortgage debt the Fed won't be buying? Will we see naked bodies if the tide recedes in some asset classes?

If we knew the answer, we'd be rich, but there's certainly a chance for more financial volatility as investors react. This concern may explain the Fed's slow unwinding, especially as it now pays such close attention to the stock market. The Fed seems to fear the effect of any stock correction on the "wealth effect," even if corrections are useful in heading off investor manias that can become bubbles. (See the dot-com Nasdaq, year 2000.)

The effect on the real economy may be more sanguine, and in that sense the Fed's timing is fortuitous. The world's major economies are

all growing at once for a change, and bank balance sheets in the U.S. are strong. The Trump Administration and Congress are moving toward what we hope is a pro-growth tax reform. The dollar has weakened considerably so there is little fear that monetary tightening will lead to an overvalued greenback. Inflation is contained, though it

bears watching.

As David Malpass has argued on these pages, paring the Fed balance sheet might even be a growth stimulus. The Fed's post-crisis policies have favored big business and governments that have been able to borrow at bargain rates. But that has meant less credit to the rest of the economy, especially small businesses that create most new jobs. Fed policy has also favored the affluent who have financial assets at the expense of savers and the middle class. Reversing all this could unleash more bank lending and perhaps more small-business hiring.

We are using "might" and "could" here because no one really knows. No central bank in a large, modern economy had previously embarked on such a vast bond-buying experiment, and thus none has ever tried to unwind it. Some modesty is warranted.

\* \* \*

Yet that is all the more reason for the Fed to begin the long march back to normalcy. Whether or not you think its post-2008 exertions succeeded, they have taken the Fed far from its legal mandate.

Its purchase of mortgage securities in particular are a form of credit allocation that distorts financial markets and investment decisions. Its meddling in the long bond market abetted federal-government borrowing by disguising the long-term cost of debt repayment. The Fed offered a free lunch for the Obama Administration with the bill presented to future Presidents and taxpayers.

The Fed needs to shrink these financial and political footprints. History shows central bankers have a hard enough time guiding interest-rate policy without producing either inflation or recessions. The longer they are viewed as economic maestros, or the wizards of helicopter money, the more they are able to distort investment decisions and hijack economic policy from elected political actors.

One danger of this QE experiment is that too many in the political class and inside the Fed are already eager to call it a success and repeat it during the next recession. Historically slow growth and tepid income gains during an eight-year expansion aren't our idea of success, and they don't justify a Fed that continues to dominate economic decision-making.

crats are in the minority on Capitol Hill.

But dozens of young people instead rushed the stage and began chanting, "we are not a

bargaining chip" and "all of us or none of us." They also demanded a "clean bill" without any provisions for additional border security, as Mr. Trump said he wants.

Perhaps before they're granted legal status, these kids should be required to understand how America works. If they want legal status under the U.S. Constitution, Congress must pass a law and Republicans now have a majority. This requires compromise, and Mrs. Pelosi is trying to cut a deal that will stop these protesters from being deported. They're fortunate that a requirement of legal status isn't an IQ test.

Regarding the dark-skinned and Muslim Rohingyas, Ms. Suu has always refused to call them by the name they have used for centuries. Her government now labels the Rohingyas "Bengalis" to emphasize that they don't deserve Burmese citizenship.

The collapse of the Aung San Suu Kyi myth may help the world see Burma's political

transition more clearly. After the military ceded some power to the elected government in 2015, most political prisoners were released and the media briefly flourished. But in the past year Ms. Suu Kyi's government has begun to crack down on dissent, jailing journalists who cover ethnic minorities sympathetically.

The eruption of violence against the Rohingyas in 2012 may have been instigated by the military as a way to undermine Ms. Suu Kyi's National League for Democracy. Speaking up for the Rohingyas risked losing her popularity with most of the Buddhist-majority Burmese population.

Instead Ms. Suu Kyi has joined the generals riding the nationalism unleashed by anti-Rohingya violence. This is upsetting to those who believed she would lead her country into a more enlightened age. But Burma is a deeply divided country traumatized by decades of military dictatorship and isolation. Its civil wars are likely to get worse before they are resolved.

This means Burma's neighbors will have to take a tougher approach with Ms. Suu Kyi's government to deter the mistreatment of ethnic minorities. Otherwise the country's instability will continue to spill across their borders.

### Why the central bank needs to unwind its balance sheet.

OPINION

## Winning Again Is Merkel's Easiest Task

By Walter Russell Mead

**A**s Sunday's German election approaches, sighs of relief can be heard across Europe. When much of the world seems to be spinning out of control, Germany remains reassuringly dull. Angela Merkel is all but certain to return for a fourth term as chancellor. Although many votes remain undecided, her Christian Democrats (and their Bavarian allies, the Christian Social Union) have a healthy lead. The only question appears to be whether Mrs. Merkel will renew her coalition with the center-left Social Democrats or turn to smaller parties in its place.

The European Union establishment—shaken by Brexit, staggered by Donald Trump, challenged by Russia and worried about the rise of populist and nationalist parties around the Continent—wants stability above all, and Germany seems to be the only country that can keep Europe on an even keel.

This is a major historical shift. From the rise of Bismarck in the 1860s through World War II, Germany kept European politics on the boil. As recently as 1990, both British Prime Minister Margaret Thatcher and French President François Mitterrand tried to stop unification in its tracks. Unable to block it, Mitterrand insisted that Germany bind itself to the rest of Europe by giving up the deutsche mark for the euro. Then-Chancellor Helmut Kohl agreed and promised to build a "European Germany" rather than a "German Europe."

A generation later, Thatcher and Mitterrand might feel their fears were justified. Politically and economically, Germany has become the most powerful and successful EU member state. In today's Europe, all roads lead to Berlin. Yet as nervous as Germany's strength makes some of its neighbors, the real question is whether Berlin can meet the expectations they are placing on it. Germany might look relatively strong, but the world may be expecting more than the Germans are willing or able to give.

The economies of Southern Europe, still struggling with the fallout from the 2008-09 financial crisis, look to Germany for relief. The Baltic states and Poland look to Germany for European leadership against Russia. France wants Germany to accept it as the co-leader of Europe—an ambition that makes countries like Poland and Italy suspicious. German diplomats labor to pacify the Balkans and take the front line in Europe's growing confrontation with Turkey's President Recep Tayyip Erdogan. EU officials in Brussels look to Germany for leadership in dealing with the legal and political challenges

populist governments in Poland and Hungary pose to European institutions. The Trump administration wants Germany to increase military spending, to reduce its trade surplus, and to do more to lead the North Atlantic Treaty Organization. Britain wants Germany to ease the path of Brexit.

Chancellor Merkel's fourth term will not be easy. Even if her party scores a decisive victory at the polls, she will face serious constraints. The Alternative für Deutschland—a populist, nationalist and anti-euro party—is running third in national polls and seems certain to enter the Bundestag. That would be the first time in postwar German history that a far-right party has been seated in the national legislature.

**The world may be expecting more than Germany is able to deliver.**

The AfD usually runs strongest in the former East Germany, where many factories closed following unification and wages still lag. But recently the AfD has made inroads in the prosperous west. It now holds seats in the legislatures of 13 of Germany's 16 states.

The danger for Mrs. Merkel and the German political establishment is that issues like migration and reform of the eurozone trigger the kind of populist backlash that feeds antiestablishment parties like AfD and Die Linke, successor to the East German Communist Party.

The economic outlook is also mixed. Looking ahead, it isn't clear how long the old manufacturing economy can continue to underwrite German success. The automobile industry faces disruptive changes with an impending shift toward electric and autonomous vehicles. China continues to move up the value chain, increasingly looking to compete for the high-value-added precision work over which German industry has long reigned supreme. Automation will continue to put pressure on manufacturing employment, even in Germany. And with protectionist winds blowing worldwide, Germany's export-oriented economic model may struggle to repeat past success.

Mitterrand and Thatcher opposed German reunification because they feared a rich and powerful Germany would dominate Europe. Today, their successors must hope that Germany remains both powerful and rich enough to lead. The alternatives are grim.

*Mr. Mead is a fellow at the Hudson Institute and a professor of foreign affairs at Bard College.*

## Pelosi Faces Her Constituents

**N**ow Nancy Pelosi knows how Charles Murray, or any conservative speaker at Berkeley, feels. The U.S. House Minority Leader was confronted by angry protesters in San Francisco Monday as she and two other California Democrats sought to explain her tentative agreement last week with President Trump to provide legal protection to young undocumented immigrants.

The event was intended as a call for U.S. Congress to pass the Dream Act that would protect some 700,000 so-called Dreamers from being deported. And you'd think that Mrs. Pelosi would be thanked for getting Mr. Trump to move off his campaign rhetoric and support legalization—especially when Demo-

**These days, no good compromise goes unpunished.**

crats are in the minority on Capitol Hill.

But dozens of young people instead rushed the stage and began chanting, "we are not a

bargaining chip" and "all of us or none of us." They also demanded a "clean bill" without any provisions for additional border security, as Mr. Trump said he wants.

Perhaps before they're granted legal status, these kids should be required to understand how America works. If they want legal status under the U.S. Constitution, Congress must pass a law and Republicans now have a majority. This requires compromise, and Mrs. Pelosi is trying to cut a deal that will stop these protesters from being deported. They're fortunate that a requirement of legal status isn't an IQ test.

Spare a thought for poor Bill de Blasio. As cities across the American South are shedding their Confederate memorials faster than you can say

Stonewall Jackson, what New York's mayor wouldn't give for a larger-than-life Robert E. Lee bronze in full "Gone With the Wind" glory

that he could order taken down.

Instead, he had to content himself with the announcement, days after last month's deadly protest in Charlottesville, that the violence there had led him to order a 90-day review of "all symbols of hate on city property."

Alas for the mayor, the Confederate pickings in his Yankee city are slim. The president of Bronx Community College found busts of Jackson and Lee and removed them. The Episcopalians took down two plaques commemorating a maple tree that Lee planted outside a now-closed church when he was stationed at Brooklyn's Fort Hamilton in the 1840s. The tree itself lives, despite its Confederate roots.

Polls show most Americans oppose the removal of Confederate memorials, at least by mobs or politicians winking at them. Even so, the vandals are ascendant. In recent days, Francis Scott Key joined a list of statuesque notables, from Joan of Arc to Wall Street's Charging Bull, that have been toppled or otherwise despoiled.

Mr. de Blasio is hardly the only pol to grandstand here. But as mayor of the nation's largest city—and America's self-styled progressive-in-chief—his eagerness helps illuminate why these hunts for hate hold such an attraction for the Democratic left.

One big reason is that the left's identity politics isn't about healing old wounds. It's about picking at them. Is there anyone in New York who believes a de Blasio panel rummaging through the city's monuments for evidence of "hate" will contribute to either greater reconciliation or a deeper appreciation for the complexities of the Civil War?

Second, even where the charge of hate is outrageous, the accusation puts political opponents on the moral defensive. Look at the Southern Poverty Law Center. Most of Washington understands the SPLC's hate designations are arbitrary and political. But in a confi-

mation hearing earlier this month for Amy Barrett, an eminently qualified nominee for the Seventh U.S. Circuit Court of Appeals, Sen. Al Franken berated her for having appeared before an SPLC-designated "hate group."

The "hate group"? The Alliance Defending Freedom, a religious-liberty outfit whose "hate" turns out to be holding traditional Christian views on marriage and sexuality.

Still, the last reason driving Mr. de Blasio to the soapbox may be the most telling: Railing at dead white hateful males is lots more fun than doing the hard work required to improve city life for New Yorkers.

If Mr. de Blasio were truly looking to tear down monuments that actively contribute to racial injustice, he would find plenty in his city. These include a failing public school system in which only a small fraction of African-American students test at grade level; a new, state-mandated \$15 minimum wage, which will further price young black men out of jobs; and the misguided welfare programs that undermine the black family.

Compare this state of affairs with what Joel Kotkin's Center for Opportunity Urbanism found when it looked at the best cities for racial minorities to get ahead. The center ranked cities by homeownership, entrepreneurship and median household income. When it crunched the numbers, 13 of the top 15 cities for African-Americans turned out to be in the former Confederacy.

That might be embarrassing, if the mayor were interested in improving actual outcomes. Instead, His Honor is now caught up with a new, non-Confederate target: the Christopher Columbus statue high atop a column on Columbus Circle. After the speaker of the city council, Melissa Mark-Viverito, suggested Columbus should come down too, Mr. de Blasio refused to rule it out, generating a whole new controversy.

In the post-Charlottesville press conference that got him into so much trouble, Mr. Trump pointed to the Robert E. Lee statue, whose removal was the ostensible reason for the initial Charlottesville protest, and suggested George Washington might well be the next week's target. "Where does it stop?" he asked.

Mayor de Blasio and fellow progressives have given their answer: It doesn't.

*Write to mcgurn@wsj.com.*

**B**urma's elected leader Aung San Suu Kyi on Tuesday dismissed accusations that her country's military is ethnically

cleansing minority Rohingyas. She says soldiers are exercising restraint as they respond to terrorist attacks, most Rohingya communities have been unaffected by the violence in Rakhine state, and there have been no armed clashes since Sept. 5.

The facts on the ground tell a different story. More than 400,000 Rohingyas, almost half their population in Burma, have fled into Bangladesh—most of them since Sept. 5. They came with few or no possessions, sometimes walking for days to cross the border or risking their lives on overcrowded boats.

The refugees say Burmese soldiers raped and murdered family members and burned their villages. Satellite photos show that about 80 Rohingya villages across an area 100 kilometers wide were burned, and the smoke from more fires is visible from inside Bangladesh. The United Nations' top human-rights official calls the violence "a textbook example of ethnic cleansing."

International supporters of Ms. Suu Kyi are shocked by her indifference to the Rohingyas' suffering, but they shouldn't be. "The Lady," as she was portrayed in the 2011 film, may have acquired a reputation as a human-rights campaigner during her fight for democracy against the Burmese junta. But even then she made clear that she was a Burmese nationalist in the mold of her father, Gen. Aung San, who founded the country. She endorsed military actions against other minority insurrections while atrocities were occurring.

**Burma's leader sides with the military against ethnic minorities.**

Regarding the dark-skinned and Muslim Rohingyas, Ms. Suu has always refused to call them by the name they have used for centuries. Her government now labels the Rohingyas "Bengalis" to emphasize that they don't deserve Burmese citizenship.

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Instead Ms. Suu Kyi has joined the generals riding the nationalism unleashed by anti-Rohingya violence. This is upsetting to those who believed she would lead her country into a more enlightened age. But Burma is a deeply divided country traumatized by decades of military dictatorship and isolation. Its civil wars are likely to get worse before they are resolved.

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## OPINION

# Russia Is but One of Ukraine's Many Problems

By Judith Miller

**Kiev, Ukraine** Ukraine will soon enter the fourth year of a low-intensity war with Russia. More than 7% of its territory remains occupied by its aggressive neighbor. Will Ukraine survive as a free, independent, pro-Western nation?

"It's 50-50," a veteran European diplomat who knows the region well told me this weekend in Kiev. His gloomy assessment was echoed by many of the 350 current and former officials, academics, businessmen and journalists attending the 14th

**It has overcome challenges that would have destroyed a less determined country, but there's trouble ahead.**

annual Yalta European Strategy conference, a two-day gathering sponsored by pro-Western oligarch Victor Pinchuk that has become a popular stop on Europe's conference circuit. While Ukrainian President Petro Poroshenko expressed confidence in his country's future, concerns surfaced repeatedly at the meeting's sessions and more often in quiet, candid conversations.

To its credit, Ukraine has overcome challenges that could have destroyed a less determined country. Russia's invasion and illegal annexation of Crimea in 2014 and its continuing occupation of part of the Donbas region, Ukraine's eastern industrial heartland, initially threatened to turn the country into a finan-

cial and political basket case. After the invasion, gross domestic product fell 17%, inflation soared to more than 60% and Ukraine's currency lost nearly 60% of its value.

Yet after two years of contraction, Ukraine's economy stabilized in 2016 and has started growing again. According to World Bank projections, it will grow by 3.5% in 2018 and 4% in 2019. Moody's recently upgraded Ukraine's creditworthiness from stable to positive. And this week, Ukraine is returning to the sovereign-debt market by issuing \$2.5 billion in new Eurobonds, the most important reflection to date of its remarkable recovery.

Much of this is due not only to Western aid and \$17.5 billion from the International Monetary Fund, but to government reform that has boosted investor confidence. Since Mr. Poroshenko's election in 2014, Ukraine has adopted a business-friendly tax code, closed failing banks and recapitalized others, raised domestic-energy tariffs and enacted a more transparent public-procurement system. It has negotiated a free-trade agreement with the European Union, and in June Ukrainians began enjoying visa-free travel to EU countries.

Ukraine is no longer dependent on Russian natural gas, which before 2013 accounted for more than 99% of its supplies. Finally, the country boasts a cantankerous free press and vibrant civil society, empowered by the Euro-Maidan Revolution, the mass public protests in Kiev's main square in 2014 that prompted the corrupt, pro-Russian President Viktor Yanukovych to flee the country.

Yet all is not rosy. Corruption remains endemic and the pace of reform has slowed. Ukraine's civil ser-



Petro Poroshenko at the Ukrainian Parliament on Sept. 7.

tory down. Several Ukrainians told me they think their president views his office as a business opportunity first and foremost.

Ukraine spends \$5 billion, or 5% of GDP, on defense. Mr. Poroshenko's appointment of two former business partners to key posts related to military spending has sparked war profiteering charges. "The president is one of the main beneficiaries of the defense budget," Oksana Syroyid, a member of Parliament, told the Kyiv Post.

If demography is destiny, Ukraine has another cause for concern. In this country of 45 million, the annual death rate exceeds the number of live births. Martin Schumacher, the German CEO of wholesaler Metro Cash & Carry Ukraine, estimates that as many as 200,000 Ukrainians, often young and skilled, emigrate each year. "There is virtually no immigration," he said. A tech worker can make three times his Ukrainian salary in Poland. In Germany, he added, salaries are almost 10 times higher.

The number of young political activists is shrinking as well, said Aivaras Abromavicius, Ukraine's former minister for economic development and trade. Whereas 60 of the country's 3,000 graduates of Western schools had senior posts in government a year ago, only about 10 do today. Young activists have become discouraged about the prospects of reform from within, Mr. Abromavicius told me after a conference session. "There are islands of reform and hope," he said, "but we need more of them."

*Ms. Miller is a contributing editor of City Journal and a Fox News contributor.*

vice ranks second-lowest in effectiveness in Europe, just above Moldova, according to the World Bank Governance Indicators. Government pledges of land reform and the privatization of some of the 3,300 state enterprises haven't been implemented. Discontent is widespread and growing.

"The government has done a lot, but not enough," Svitlana Zalishchuk, a young member of Ukraine's Parliament, told participants at the conference.

"Reform postponed," warned Suma Chakrabarti, head of the European Bank for Reconstruction and Development, "is transformation [to a post-Soviet society] postponed."

In 2014, under heavy pressure from Western governments and the IMF, Ukraine's government created a new independent National Anti-Corruption Bureau. Kiev also empowered a special prosecutor, who

has since opened hundreds of corruption cases.

Yet VoxUkraine, a nonpartisan research group critical of the government, asserted that due to corruption in the court system, only three senior officials have actually been jailed since 2016. Prosecutor General Yuri Lutsenko told the conference that three bribe-takers were being prosecuted every day, but even he complained about the delay in creating a special anticorruption court.

Mr. Poroshenko is himself the subject of many corruption rumors and complaints. "The president has not helped overcome corruption," Ms. Zalishchuk asserted last week. Storefronts featuring the chocolate brand Roshen, which helped make Mr. Poroshenko an oligarch, are ubiquitous in the capital. And despite the war, the president stopped making chocolate in Russia only after President Vladimir Putin moved to shut his fac-

## Kill the Tax Loopholes, Including One for 'Low-Income Housing'

By Chris Edwards  
And Vanessa Brown Calder

**A**s tax reform begins to wind its way through the American legislative process, President Trump shouldn't forget his call last month to get "rid of the loopholes and complexity that primarily benefit the wealthiest Americans and special interests." Resistance to eliminating these features of the tax code will be stiff, but the more such unjustified breaks are eliminated, the more tax rates can be cut.

Consider the Low Income Housing Tax Credit, created by the 1986 tax reform. This \$9 billion credit masquerades as an antipoverty program, but it mainly subsidizes developers, investors and the financial industry.

To stimulate low-income housing construction, the U.S. government allocates a share of tax credits to the states, which dole them out to selected developers. The credits cover part of the construction costs of

multifamily housing projects. The developers must cap rents for a share of the units, so the benefits of the tax credit are meant to flow to tenants in the form of lower rents.

Yet the developers usually sell the credits to banks and investors, often using syndication companies as intermediaries. The investors, developers and middlemen—not poor families—end up grabbing most of the benefits.

Gregory Burge of the University of Oklahoma estimated in a 2010 study that the value of the rent savings for tenants was a mere 35% of the value of the tax benefits going to developers. Economists Edward Glaeser and Joseph Gyourko concluded two years earlier that the low-income housing credit "is not very effective along any important dimension—other than to benefit developers and their investors."

Although the credit subsidizes a lot of construction, it mainly displaces private building that would have occurred without the program.

A 2005 study in the Journal of Public Economics by Todd Sinai and Joel Waldfogel found that half or more of housing would have been produced even without the credit. And a 2010

**Developers and investors, not the poor, benefit most from the credit. It should not survive tax reform.**

study for the Journal of Public Economics by Michael Eriksen and Stuart Rosenthal found that as much as 100% of development subsidized by the credit is offset by declines in private development.

The housing credit is also a prime target for abuse. Earlier this year a National Public Radio reporter profiled a Miami-area business that stole \$34 million from 14 low-income-credit housing projects by submitting in-

flated construction cost data to the government. Another Miami company discussed by NPR stole \$4 million from four projects by the same method.

The NPR report concluded that "little public accounting of the costs exists, even among government officials and regulators charged with monitoring the program." This is consistent with a 2015 Government Accountability Office report, which concluded that federal oversight of the credit is "minimal." The U.S. government has audited the low-income credit activities of less than 20% of state housing agencies.

This credit is the exact sort of corporate tax loophole that Congress should repeal in exchange for a lower corporate-tax rate. Instead the Senate Finance Committee held a hearing this summer to explore expanding the credit.

Members are swayed by lobbyists such as the chairman of the National Association of Home Builders, who claimed at the hearing: "If we want

to provide affordable rental housing for lower-income households, it is financially impossible to do so without a subsidy."

That isn't true. To increase supply, Americans need fewer local zoning regulations that inflate housing costs, not more federal subsidies. A 2005 study found that restrictive regulations have doubled the price of housing in places such as San Jose, San Francisco and Manhattan. Numerous academic studies suggest that zoning reduces the supply of multifamily housing, which hits low-income families the hardest.

Housing affordability is a serious problem in many cities, but the low-income credit is a misdirected federal solution for a local problem. GOP tax reformers should put it—and other loopholes like it—on the chopping block.

*Mr. Edwards is director of tax policy studies at the Cato Institute, where Ms. Calder is a housing policy analyst.*

## Higher Education's Latest Taboo Is 'Bourgeois Norms'

By Heather Mac Donald

**T**o the list of forbidden ideas on American college campuses, add "bourgeois norms"—hard work, self-discipline, marriage and respect for authority. Last month, two law professors published an op-ed in the Philadelphia Inquirer calling for a revival of the "cultural script" that prevailed in the 1950s and still does among affluent Americans: "Get married before you have children and strive to stay married for their sake. Get the education you need for gainful employment, work hard, and avoid idleness.... Eschew substance abuse and crime." The weakening of these traditional norms has contributed to today's low rates of workforce participation, lagging educational levels and widespread opioid abuse, the professors argued.

The op-ed triggered an immediate uproar at the University of Pennsylvania, where one of its authors, Amy Wax, teaches. The dean

of the Penn law school, Ted Ruger, published an op-ed in the student newspaper noting the "contemporaneous occurrence" of the op-ed and a white-supremacist rally in Charlottesville, Va., and suggesting that Ms. Wax's views were "divisive, even noxious."

Half of Ms. Wax's law-faculty colleagues signed an open letter denouncing her piece and calling on students to report any "bias or stereotype" they encounter "at Penn Law" (e.g., in Ms. Wax's classroom). Student and alumni petitions poured forth accusing Ms. Wax of white supremacy, misogyny and homophobia and demanding that she be banned from teaching first-year law classes.

Ms. Wax's co-author, Larry Alexander, teaches at the University of San Diego, a Catholic institution. USD seemed to be taking the piece in stride—until last week. The dean of USD's law school, Stephen Ferruolo, issued a schoolwide memo repudiating Mr. Alexander's article

and pledging new measures to compensate "vulnerable, marginalized" students for the "racial discrimination and cultural subordination" they experience.

USD's response is more significant than Penn's, because it's more surprising. While USD has embraced a "social justice" mission in recent decades, the law school itself has been less politicized. It has one of the highest proportions of non-leftist professors in the country—about a quarter of the faculty. Mr. Ferruolo, a corporate lawyer with strong ties to the biotech industry, presented himself until recently as mildly conservative.

If USD is willing to match Penn's hysterical response to the Wax-Alexander op-ed, is there any educational institution remaining that will defend its faculty members against false accusations of racism should they dissent from orthodoxy?

Two aspects of the op-ed have generated the most outrage. Ms. Wax and Mr. Alexander observed that cultures are not all "equal in preparing people to be productive in an advanced economy." Their critics pounced on this statement as a bigoted, hate-filled violation of the multicultural ethic. In his response, Penn's Dean Ruger proclaimed that "as a scholar and educator I reject emphatically any claim that a single cultural tradition is better than all others."

But that wasn't the claim the authors were making. Rather, they argued that bourgeois culture is better than underclass culture—specifically, "the single-parent, antisocial habits, prevalent among some working-class whites; the

**An op-ed praising 1950s values provokes another campus meltdown—from the deans on down.**

anti-'acting white' rap culture of inner-city blacks." The authors' criticism of white underclass behavior has been universally suppressed in the stampede to accuse them of "white supremacy."

The op-ed's other offense was extolling the 1950s for that decade's embrace of bourgeois virtues. "Nostalgia for the 1950s breezes over the truth of inequality and exclusion," five Penn faculty assert in yet another op-ed for the student newspaper. In fact, Mr. Alexander and Ms. Wax expressly acknowledged that era's "racial discrimination, limited sex roles, and pockets of anti-Semitism."

None of the professors' high-

worst examples. The dean simply announced that Mr. Alexander's "views" weren't "representative of the views of our law school community" and suggested that they were insensitive to "many students" who feel "vulnerable, marginalized or fearful that they are not welcomed." He didn't raise any specific objections to Mr. Alexander's arguments or even reveal what the arguments were.

Instead, he promised more classes, speakers and workshops on racism, more training on racial sensitivity and a new committee to devise further diversity measures. Stronger racial preferences will most certainly follow.

The implication of this bureaucratic outpouring is that the law-school faculty is full of bigots. In reality, Mr. Alexander and his colleagues are among the most tolerant people in human history, and every USD law student is among the most privileged—simply by virtue of being at an institution with such unfettered intellectual resources. The failure of administrators such as Mr. Ferruolo to answer delusional student narcissism with obvious truth is an abdication of their responsibility to lead students toward an adult understanding of reality.

What are university administrators and faculty so afraid of? The Wax-Alexander op-ed confronted important issues responsibly and with solid grounding in social-science research. Each of these administrative capitulations sends a message to professors not to challenge the reigning ideology. The result is an ever-more monolithic intellectual environment on American campuses, where behavioral analyses of social problems may not even be whispered.

What happens to America if those banned ideas turn out to be true?

*Ms. Mac Donald is a fellow at the Manhattan Institute and author of "The War on Cops" (Encounter, 2016).*

## THE WALL STREET JOURNAL.

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, September 20, 2017 | B1

**Yen vs. Dollar** 111.5330 ▼ 0.03%

**Hang Seng** 28051.41 ▼ 0.38%

**Gold** 1305.60 ▼ 0.05%

**WTI crude** 49.63 ▼ 0.56%

**10-Year JGB** yield 0.031%

**10-Year Treasury** yield 2.239%

## Hedge Fund Takes On China's Sina

Aristea Capital, a top shareholder, pushes for sale of internet firm or stake in Weibo

By JULIE STEINBERG

One of **Sina** Corp.'s biggest shareholders is launching a proxy fight with the Chinese internet company, calling for measures it says will unlock value including a potential sale of itself or its big stake in wildly popular microblog service **Weibo** Corp.

**Aristea Capital LLC**, a Greenwich, Conn., hedge fund

with about \$3 billion in assets, has proposed a range of options to address what it calls a persistent discount to Sina's underlying value—especially considering its stake in Weibo.

The fund is seeking changes that would reduce the valuation gap between Sina and Weibo, the Twitter-like firm in which Sina holds a stake of about 46%. Sina's market value, which comprises its own operations plus the stake in Weibo, was about \$8.2 billion as of Monday's close—less than the market value of its stake in Weibo alone.

Weibo's market capitaliza-

tion is about \$22.9 billion. Both companies are listed in the U.S.

Sina said it didn't believe a deal for the company or its stake in Weibo would succeed in the current Chinese regulatory environment.

"The time, resources and capital invested to pursue a transaction with a high likelihood of failure, rather than accretive and value creating opportunities, is not in the best interests of Sina shareholders," the company said in a statement.

Representatives for Weibo weren't available to comment.

Aristea, which first bought

Sina stock in June 2016, has built a stake of three million shares, or just over 4% of the firm said.

That would make Aristea the fourth-biggest holder of Sina's stock, according to FactSet data.

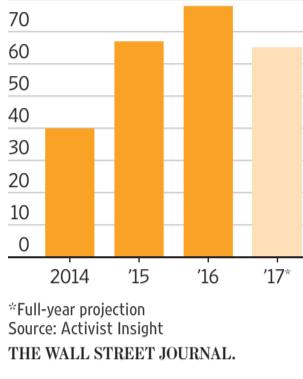
It launched its campaign after trying to engage in private talks with Sina's executives, including Chairman and Chief Executive Charles Chao, regarding its suggestions, Aristea said.

Initially denied access to Please see **SINA** page B2

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### Asia Activism

The number of companies activists have targeted in Asia



\*Full-year projection  
Source: Activist Insight  
THE WALL STREET JOURNAL.

## Markets Brace For Fed To Act

Bond markets are bracing for a historic moment: the beginning of the end of easy Federal Reserve policy. What comes next is anyone's guess.

The Fed is expected Wednesday to announce it will start unwinding the easy-money policies that it has pursued since the financial crisis.

By Daniel Kruger,  
Akane Otani  
and Chelsey Dulaney

Many investors are taking the expected Fed action as a vote of confidence that the economy can grow without persistent support. They add that the Fed has signaled its intentions clearly enough that a disorderly debt-market decline similar to the 2013 "tantrum" appears unlikely.

Yet U.S. government-debt prices had fallen for six straight days through Monday, pushing up the yield for the benchmark 10-year U.S. Treasury note to 2.230%. Bond yields rise as prices fall.

The bond slump, the longest since March, reflects investors' growing unease ahead of this week's Fed meeting. Investors remain wary that any mistake by the central bank, such as removing stimulus too quickly, could upset months of relative calm. Conversely, if the Fed falls behind and allows inflation to grow too quickly, that could also put the economic expansion at risk.

Bond yields tend to rise in periods when the economy is surging, reflecting investors' bets on continued growth. Yet in an economy dependent on consumer debt to finance purchases for everything from homes and cars to televisions, any policy that increases borrowing costs poses the risk of curbing the expansion.

The market's ambivalence heading into the Fed's meeting highlights the stakes. The central bank has helped engineer a more successful rebound from the financial crisis than many analysts would have thought possible. But at a time of near record stock indexes, bond yields far below Wall Street's expectations at the start of the year and a declining dollar that continues to vex investors, the prospect of a textbook unwinding of expansive monetary policy seems almost too good to believe.

"There's always some risk that unwinding the balance sheet is going to be negative for risk assets," said Vassili Serebryakov, chief executive of Sberbank CIB.

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ANDY BUCHANAN/PRESS POOL

Investors this year have jumped on deals for assets in an offshore region whose fields peaked around 2000. A platform off Scotland.

## North Sea Oil Undergoes a Revival

By SARAH KENT

LONDON—For more than a decade, the North Sea's once-booming oil sector was mired in decline. Against the odds, it has emerged as an unlikely bright spot in today's stormy global energy industry.

Investors have sunk more than \$16 billion so far this year into European deals for assets mostly located in the North Sea, a flurry that far outstrips energy deal activity in all but American shale country and Canada's oil sands, according to Edinburgh-based energy-consulting firm Wood Mackenzie. The biggest deal came last month, with **Total** SA's \$5 billion purchase of **A.P. Moeller-Maersk**'s North Sea-focused oil-and-gas business.

The deal was a sign major oil companies are still willing

to invest significant amounts in the region. Many are refocusing on relatively new areas where they can grow, as private-equity funds buy up aging assets and infrastructure that key competitors have been looking to shed.

**Royal Dutch Shell** PLC is planning to spend \$600 million to \$1 billion a year in the North Sea in the coming years, while **BP** PLC expects to double its production there by 2020. Norway's **Statoil** ASA has greenlighted production from a new North Sea field that, at its peak, could pump more oil than the entire nation of Ecuador, a member of the Organization of the Petroleum Exporting Countries.

"We see the North Sea turning things around," BP Chief Executive Bob Dudley recently told an oil conference in Aberdeen, Scotland, the center

of the British oil industry.

The activity opens a new chapter for the vast oil-producing region in the waters separating Great Britain from Northern Europe.

Last year, the U.K.'s North Sea energy industry was described as "at the edge of a chasm" by trade association Oil & Gas UK as low oil prices hammered investment in a region full of aging, depleted fields. At its peak around 2000, the North Sea produced oil in amounts similar to Saudi Arabia, but output has fallen by around 34% since then, a trajectory that only recently began to reverse.

The region still faces significant challenges. Despite all the M&A activity, only a handful of new developments have been approved this year. And a record number of proposals to

Please see **ENERGY** page B2

## Nintendo Fosters Chinese Ties

By TAKASHI MOCHIZUKI  
AND ALYSSA ABKOWITZ

For all its global popularity, **Nintendo** Co. has had relatively limited business in China. Now a deal with **Tencent Holdings** Ltd. has investors excited at the prospect of the Japanese company's Switch console and smartphone games taking off in one of the world's biggest game markets.

Nintendo shares shot up more than 7% to a nine-year high Tuesday on word that one of China's most popular videogames—Tencent's "Honor of Kings"—will be available on the Switch this winter.

The game is called "Arena of Valor" in Europe, where it was introduced in August; a U.S. launch under that name is set for later this year.

For the moment, the deal, disclosed last week in a Nintendo video posted online, doesn't directly involve users in China because the Switch isn't sold there. But it could be a precursor to arrangements allowing Nintendo to sell the Switch and its mobile games in

China, said people familiar with the thinking of Nintendo and Tencent executives.

"This is very positive in the longer term in getting Chinese publishers supporting the Switch," said Macquarie Capital Securities analyst David Gibson. He said he expects Nintendo to introduce the Switch in China by March 2019.

China is the world's largest smartphone game market, and "Honor of Kings," first released two years ago, is one of its standout hits. Research firm App Annie said the game was the top-grossing app in China during the second quarter of this year, raking in some \$87 million a month on average on Apple Inc.'s iOS platform.

The game, a battle between five-player teams, has been so popular that this summer Tencent imposed daily playing-time limits on players aged 18 and under and imposed a curfew for children 12 and under.

For 15 years starting in 2000, China blocked video-game console makers from its market, saying the consoles could hurt young people's edu-

cation. After it opened up in 2015, Sony Corp. and Microsoft Corp. released their latest consoles. Nintendo held back, in part because consoles are a niche product in a country where consumers are used to playing on smartphones and personal computers.

Nintendo has sold a version of its 3DS hand-held device in China, but it gained less traction than in the U.S. or Japan.

People familiar with Nintendo's thinking said it has been looking for ways to expand in China and sees Tencent as a possible partner, although they cautioned nothing is in place yet. They said Nintendo looked at selling its Wii U console in China but dropped the plan.

In addition to its Switch, which went on sale in March, Nintendo has moved into smartphone games globally since last year with titles such as "Super Mario Run." If the company makes a big push in China, it would likely look for ways to make those games available to Chinese smartphone users, analysts said.

The Tencent-Nintendo deal

has implications beyond China because it suggests Tencent is getting more aggressive about reaching customers globally. "Tencent's approach outside China has been to invest in gaming companies that augment its existing games and pipeline in China," said Daniel Ahmad, an analyst at Niko Partners who follows the Chinese game market. "Now we're seeing Tencent start to bring its own internal games to the West."

Meanwhile, the addition of the Tencent game to Nin-

tendo's Switch lineup suggests rising third-party support for the console, a key factor for its long-term success, said Macquarie's Mr. Gibson.

Sony's PlayStation 4 has much wider distribution because it has been on the market for nearly four years, but Mr. Ahmad of Niko Partners said the Switch's smartphone-like aspects, such as portability and a built-in touch screen, are attractive to game makers.

◆ **Nikkei** reaches a two-year high amid election talk.... B10



A contest involving Tencent's mobile games in Chengdu, China, in July. The Chinese company and Nintendo have struck a deal.

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## STREET

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billion-a-year market for illegal drugs, and the formula spits out an ultimate value of \$571 for a single bitcoin. The more drugs traded, the higher the value, and the more bitcoin hoarded rather than spent, the higher the value.

Drug dealers might be willing to put up with the limitations of bitcoin, notably the uncertain time taken to complete a purchase and the high transaction costs. Laundering dollars is more expensive.

**Securing recognition as a safe asset takes more than support from tech evangelists.**

But studies cited by the United Nations Office on Drugs and Crime suggest that cryptocurrency-based online drug dealing remains relatively small, and focused on retail, meaning fewer and smaller transactions than Mr. Davies's limiting assumption, so justifying a much lower bitcoin price.

On this basis the recent price of \$3,950 is mostly speculation, and **J.P. Morgan Chase & Co.** Chief Executive James Dimon's comparison to the 17th-century Dutch tulip mania is apt. Bitcoin is "being driven all over the place by speculative portfolio flows," says Mr. Davies.

Digital gold might be more appealing for bitcoin's true believers, who would surely prefer to avoid basing a currency on illegal activity.

Gold is hopeless if you want to pay the mortgage or buy bread, but is useful insurance because we can be confident that if a government currency collapses the shiny metal will roughly hold its value.

It helps that history holds plenty of examples of currencies losing all their value to hyperinflation while gold could still be bartered for

food and shelter.

Gold has a value far above what is justified by its uses in electronics and jewelry only because (almost) everyone agrees that it has value. That "network effect" is what bitcoin needs to establish itself, and the more attention it garners, the more likely it is to become established. Yet gold has had thousands of years and a history of being used to back money to support its position.

Technological disruption may be overturning many societal norms, but securing society-wide recognition as a safe asset takes more than the backing of tech evangelists and a bunch of get-rich-quick stock promoters.

Still, the potential to replace gold gives us some figures to work with. Thomson Reuters GFMS estimates there were 2,155 metric tons of gold held in exchange-traded funds. Switch all of that into bitcoin and it would justify a price of about \$5,500 for the 17 million bitcoins currently outstanding.

We could be more optimistic and think bitcoin might replace gold coins and bars. Leave aside that the gold is better than bitcoin because gold doesn't depend on having an electricity supply, and the 24,000 metric tons GFMS estimates have been bought for investment in the past half-century would justify a price of \$61,000 for every bitcoin.

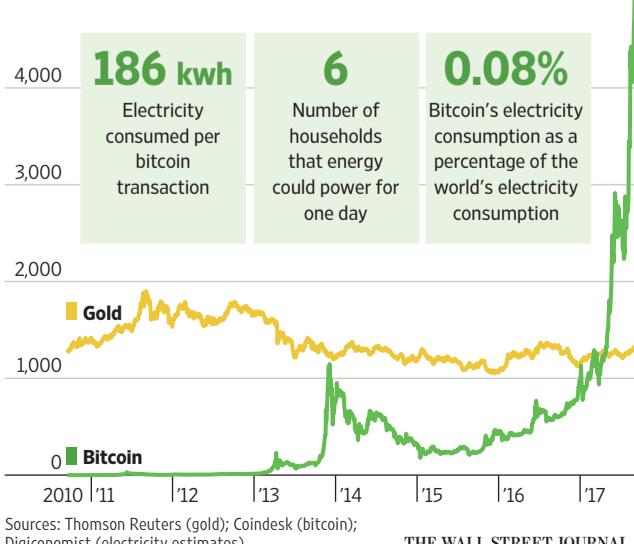
If we assume that bitcoin will either succeed completely in displacing gold or fail and be worth zero, it helps explain why the digital token has been so incredibly volatile, with a 40% loss in two weeks, and a 33% rebound since Friday's low. Based on the simple choice between total success and failure, we can very roughly say that bitcoin at 70% of the gold ETF-derived price suggests a 70% chance of displacing so-called paper gold as society's chosen emergency store of value, and a 6% chance of displacing physical gold.

Even digital dreamers should accept that is far too high.

**Even Less Green Than the Greenback**

Bitcoin has surged while gold has done little in the past few years. But bitcoin's support system is sucking up electricity.

\$5,000 per troy ounce of gold or per bitcoin



## BUSINESS & FINANCE

# Foxconn Gets U.S. Incentive Deal

BY SHAYNDI RAICE

Wisconsin Gov. Scott Walker signed a bill Monday that would give Taiwan's **Foxconn Technology** Group \$3 billion in economic incentives to open a megaplant in the state.

The package garnered push-back from Democratic lawmakers, who said the deal was bad for taxpayers. But the Republican-controlled state legislature easily passed the bill, which was introduced in July in a White House ceremony by Mr. Walker and President Donald Trump.

Foxconn, formally known as **Hon Hai Precision Industry** Co., plans to invest \$10 billion to build a 20 million-square-foot campus in southeastern Wisconsin that could employ up to 13,000 workers over a period of six years. The facility would build liquid-crystal display technology.

"This is a truly transformational step for our state," Mr. Walker said.

In addition to the jobs created directly from the plant, Mr. Walker had argued the deal would help turn the state into a technology hub that could attract young workers.



Wisconsin Gov. Scott Walker called the Foxconn deal 'a truly transformational step' for the state.

But Democrats raised concerns about the price tag and whether the deal would actually bring the number of jobs promised to the state. A state fiscal analysis found that taxpayers wouldn't recoup their investment until the 2042-43 fiscal year.

Senate Democratic Leader Jennifer Shilling said the gov-

ernor and Republicans "are putting homegrown businesses at a competitive disadvantage while committing taxpayers to decades of economic costs and liabilities."

Democrats also raised concerns over whether Foxconn would follow through on its promises. In 2014, the company explored opening a \$40

million facility in Pennsylvania that never materialized.

Republicans praised the bill signing. "Today Wisconsin is officially saying yes to a \$10 billion development project, 13,000 careers and new opportunities throughout Wisconsin," said State Speaker Robin Vos, a Republican from Rochester, in a statement.

## ENERGY

*Continued from the prior page*  
dismantle existing infrastructure were submitted in the first half of this year, according to Wood Mackenzie.

But the stabilization in oil prices, some new oil and gas discoveries and the emergence of private-equity money have helped create a sense of optimism across the North Sea industry not seen since prices crashed in 2014.

Private-equity funds have built up war chests totaling \$15 billion for North Sea acquisitions, Wood Mackenzie said. Companies backed by funds including **EIG Global Energy Partners**, **Carlyle Group** and **CVC Capital Part-**

ners

have already bought sizable asset packages in the region.

Among the largest, after Total, was the \$3.8 billion deal made in January by **Chrysaor Holdings** Ltd., the EIG-backed oil company, for a chunk of Shell's North Sea assets. Shell is now focused on maintaining its North Sea output at around 150,000 barrels a day into the late 2020s.

"The North Sea is in a window of opportunity," Linda Cook, chairman of Chrysaor and chief executive of EIG's investment vehicle, **Harbour Energy**, said in an interview. "We intend for this to be the first of many acquisitions in the region."

BP has also approached potential buyers about its North Sea oil assets—although, like

Shell, it says it remains committed to the region.

In fact, BP and other major oil competitors say that they are looking at growth in the North Sea, especially in an area west of the Shetland Islands that was once considered too difficult to develop. **Chevron** Corp. is sitting on one of the region's largest undeveloped fields, which the company says it is working to advance this year.

Total's deal last month is evidence that big oil companies continue to see value in the region. It marked the biggest North Sea-weighted deal in more than a decade, according to Wood Mackenzie, and was Total's largest purchase since the oil-and-gas megamergers at the turn of the late 2020s.

BP's costs have fallen by 60%—a reduction matched at competitors, said Steve Philpott, the company's U.K. production director. "The thing that has differentiated the North Sea is that we've been using that downturn to right the ship," he said.

The oil-price downturn over the past three years has forced oil producers to make deep cost cuts and driven down prices for contractors and services. Those changes are starting to show results.

BP has slashed its average production costs in the North Sea from a peak of more than \$30 a barrel in 2014 to less than \$15 a barrel at present. By the end of the decade, the company expects that to come down to below \$12 a barrel, Mr. Dudley said last week.

Shell's costs have fallen by 60%—a reduction matched at competitors, said Steve Philpott, the company's U.K. production director. "The thing that has differentiated the North Sea is that we've been using that downturn to right the ship," he said.

## FED

*Continued from the prior page*  
briakov, a currency strategist at Crédit Agricole. "We know what the plan is, but it's possible it has a different impact than what the market expects."

In 2013, then-Fed chief Ben S. Bernanke indicated the central bank could soon end its quantitative-easing program. Treasury rates shot higher in what investors called the "taper tantrum" and the 10-year yield almost doubled to 3% by year-end.

Twenty-one percent of investors say a policy misstep by the Fed or the European Central Bank represents the biggest tail risk to the markets, according to a Bank of America Merrill Lynch survey conducted Sept. 1 to Sept. 7 of 214 investors with \$629 billion in assets under management.

Gary Pollack, head of fixed-income trading at Deutsche Bank Private Wealth Management, has shifted Treasury portfolios into shorter-term securities. He attributed his move to "expectations longer-term that yields are going to rise."

Others worry about the impact of the Fed's moves on a bull market in its ninth year. They warn the unwinding

## Taper Rally

After four of five recent tightening moves by the Federal Reserve, bond yields were lower three months later.

### Yield on the 10-year Treasury note



Source: Ryan ALM

could gradually pressure stock valuations, which are often calculated relative to bond yields, as well as corporate-earnings growth—a key driver of stocks' gains this year. Utilities shares, often thought of as bondlike because of their relatively hefty dividends, are likely to underperform if yields rise, Goldman Sachs said.

Not all stocks would necessarily suffer. A rise in Treasury yields could benefit bank stocks by increasing the gap between what they pay on deposits and

charge on loans, according to Goldman Sachs research.

The bond market's reaction to Fed pullbacks suggests how difficult the task is. In four of five occasions when the central bank has ended or begun reducing a stimulus program since 2010, the yield on the benchmark 10-year Treasury note was lower three months later as the economy struggled.

More recently, investors dumped global government bonds this summer after comments from the ECB, Bank of

## SINA

*Continued from the prior page*  
Mr. Chao, Aristeia said its team met with him and other Sina board members in Hong Kong last month after submitting two nominees for election as independent directors to the company's board, the person said. They left feeling frustrated at what they perceived to be Mr. Chao's and others' dismissiveness of their positions.

Among options the hedge fund believes would create value are a potential sale or merger of Sina; a reverse merger in which Weibo would acquire Sina; a spinoff of Weibo shares to Sina shareholders; a sale of Sina's Weibo stake and distribution of proceeds; or a repurchase of Sina's shares.

Aristeia believes the company's governance poses a problem, with Mr. Chao holding a permanent seat and the

four other board members—of which only one comes up for re-election each year—having longstanding ties to the company.

The company has made unnecessary stock issuances to related parties, including Mr. Chao, and excess cash from the issuances still sits on its balance sheet, Aristeia argues.

Sina dismissed Aristeia's concerns about its governance, adding, "Aristeia is interested only in implementing a short-term and self-serving agenda."

Shanghai-based Sina was founded in 1999 from the merger of Stone Rich Sight Information Technology Co., a Beijing software company, and Sinanet.com, a California-based company that ran internet sites aimed at Chinese abroad. Sina started and previously owned all of Weibo and spun it out in 2014. The Chinese internet giant Alibaba Group Holding Ltd. held a 31% stake in Weibo as of

June 30.

Sina's share performance lately has been good, especially compared with other U.S.-traded equities. Its shares are up 105% so far this year, according to FactSet, compared with a 12% climb in the S&P 500. Weibo's share price,

meanwhile, has risen 158%, and Aristeia argues that all of Sina's gains have come from its stake in Weibo, according to people familiar with the matter.

Weibo shares are trading at 39.5 times the company's forward earnings, while Weibo is trading at 55 times its forward earnings, according to S&P

Activist investors targeted 38 companies in Asia in the first half of the year, according to the research firm Activist Insight, which projects a total-year tally of 65 companies being targeted. That is up from 40 for all of 2014, but it is down from 78 last year. And activists have successfully pushed for change in 40% of the companies they have opposed in Asia since 2013, according to Activist Insight.

Proxy fights are rare in Asia—especially cases of Western firms agitating at companies based on China's mainland—but have grown more common in recent years as outsiders have sought to penetrate a tightknit investing culture characterized by close ties between local shareholders and family or government-owned companies.

Activist investors targeted 38

## BUSINESS NEWS

# Toys 'R' Us Files for Bankruptcy

Chain joins retailers unable to adapt to changing market; some stores to close

BY LILLIAN RIZZO  
AND SUZANNE KAPNER

Toys 'R' Us Inc., the rainbow-colored toy emporium that for decades was the go-to spot for birthday and holiday gifts, filed for chapter 11 bankruptcy protection late Monday, undone by its hefty debt load and the rapid shift to online shopping.

As part of the restructuring process, Toys 'R' Us plans to close some underperforming stores, according to people familiar with the matter. Its remaining locations would be reconfigured to be more experienced-based, incorporating amenities such as in-store play areas, they said.

The company expects most of its stores will be open for the holidays, using \$3 billion in bankruptcy financing to continue buying merchandise and funding its operations, the people said.

The U.S. company, which operates about 1,600 stores around the world, was a classic example of a "category killer," a huge specialty store with low prices that squeezed independent shops. It swallowed up several rivals that themselves filed for bankruptcy protection, including FAO Schwarz and Kay Bee Toys, a mall-based chain that liquidated hundreds of stores before it was sold.

"They are the last major free-standing toy retailer in the U.S.," said Jim Silver, the chief executive of TTPM, a website that reviews thousands of toys each year for consumers. As the testing ground for new products, Toys 'R' Us often identified hits before rivals, as it did with Zhu Zhu pets in 2009, Mr. Silver said.

But like many other big-box chains, including now-defunct Borders, Circuit City and Sports Authority, Toys 'R' Us struggled with the rise of discounters like Wal-Mart Stores Inc. and Target Corp., and more recently, Amazon.com Inc. It was late to develop and expand its e-commerce business and placed big bets on licensed toys for "Star Wars" and Lego movies that missed expectations.



The big-box chain succumbed to competition from Wal-Mart, Target and more recently Amazon. A Toys 'R' Us in New York's Times Square.

Monday's filing in U.S. Bankruptcy Court for the Eastern District of Virginia was triggered by vendors and suppliers tightening terms with Toys 'R' Us ahead of the important holiday selling season, which accounted for 40% of its \$11.5 billion in revenue last year. For the past several years, the company has been unprofitable in each quarter except the holiday quarter.

"None of the suppliers want this company to disappear, but they have a fiduciary responsibility to their own shareholders," said a person familiar with the situation.

The toy industry is in tumult. Lego AS earlier this month reported its first quarterly sales decline in 13 years and announced plans to cut 8% of staff. Mattel Inc., the maker of Barbie and Hot Wheels, replaced its chief executive earlier this year after weak holiday sales.

Shares of Mattel and Hasbro Inc. fell Monday after The Wall Street Journal and others reported last week that Toys 'R' Us was preparing to seek bankruptcy protection before the holidays.

### Toy Makers Adjust To Retailer's Woes

The fallout from Toys 'R' Us Inc.'s bankruptcy filing might be limited for big toy makers, analysts said.

The retailer plans to continue operating most of its locations, the bankruptcy isn't expected to spark widespread liquidation sales, and manufacturers can shift sales to other retailers.

Toys 'R' Us is "not as big a sales channel for toy companies as many think, though still material," said BMO Capital Markets analyst Gerrick John-

Mattel and Hasbro are among Toys 'R' Us's biggest unsecured creditors. Mattel is owed more than \$135 million, while Hasbro is owed \$59 million, according to court papers.

Toys 'R' Us was purchased for \$6.6 billion in 2005 by Vornado Realty Trust and private-equity firms Bain Capital and KKR & Co., and remains heavily indebted from the buyout:

son in a research note Tuesday. According to Mr. Johnson, the retailer accounts for 9% of Hasbro Inc.'s sales, 11% of Mattel Inc.'s, 12% for Jakks Pacific Inc. and 15% for Spin Master Corp.

Mattel and Hasbro, as well as Lego A/S, are also among Toys 'R' Us's biggest unsecured creditors.

Uncertainty surrounding Toys 'R' Us's future led suppliers to hold off on shipments, Mr. Johnson wrote, so the \$3 billion in bankruptcy financing the company has lined up now gives them confidence to resume them in time for the holiday shopping season.

Jefferies, in a research note Tuesday, said that toy compa-

nies are already redirecting business to big-box stores and online retailers such as Amazon.com Inc., Wal-Mart Stores Inc., Target Corp. and Costco Wholesale Corp.

"We expect, the near-term Toys 'R' Us industry disruption could be less than feared," wrote analysts at Wells Fargo Securities.

"We will continue to support Toys 'R' Us as they restructure their business," said Spin Master Chief Operating Officer Ben Gadbois in an emailed statement, adding that Toys 'R' Us is "an important part of the toy industry."

—Michelle Ma and Saabira Chaudhuri.

cial constraints that have held us back will be addressed in a lasting and effective way."

After going private in 2005, Toys 'R' Us experienced several years of sales growth and the company filed for an IPO in 2010. But those plans were withdrawn as its financial performance weakened. Sales have fallen each year since fiscal 2012 and profits have been uneven.

# Clariant Merger Faces Activist Dissent

BY BRIAN BLACKSTONE

ZURICH—A group of U.S. activist investors threatened to vote against the proposed merger between Swiss chemicals company Clariant AG and U.S.-based Huntsman Corp. unless alternatives are explored, jeopardizing a deal that would create a \$15 billion chemicals giant.

"We remain convinced, and increasingly so, that the proposed merger is detrimental to Clariant shareholders," said the controlling investors in White Tale—which owns 15.1% of Clariant, making it the largest shareholder—in an open letter to the company's board.

White Tale comprises investment funds 40 North Latitude Master Fund Ltd., controlled by U.S. investors David Winter and David Millstone; and Corvex Master Fund Ltd., controlled by well-known activist investor Keith Meister—all of whom signed the letter.

Tuesday's move injects further uncertainty into the proposed trans-Atlantic tie-up between Huntsman and Clariant, which was announced in May amid a period of consolidation in the chemicals industry as companies seek to cut costs by eliminating overlapping operations and products.

Clariant has said it expects the deal to close around the end of the year. However, the share prices of the two companies appear to signal some doubts among investors about whether the deal will ultimately go through.

The combined entity would offer an array of chemicals such as polyurethanes, pigments, automotive fluids, additives and resins that are used across industries from aerospace to agriculture to household cleaning.

White Tale said the proposed merger "both significantly destroys existing Clariant shareholder value and prevents Clariant from pursuing multiple alternative and immediate opportunities to unlock value for its shareholders." It noted, for instance, that Clariant could sell its plastics and coatings business "at an attractive valuation with minimal tax leakage."

White Tale also took aim at claims by Clariant and Huntsman that the merger would generate about \$400 million in cost savings. It said that around three-quarters of that target "could be achieved by Clariant alone through a robust cost optimization plan without giving away nearly half of that value to Huntsman shareholders."

It urged Clariant to hire an investment bank to evaluate alternatives. "No shareholder should be asked to approve this merger without the board's full exploration of avenues to maximize shareholder value," the investors wrote, adding that they were willing to serve on Clariant's board.

A Clariant spokesman didn't respond to a request to comment.

# Fox News, Host Hit With Rape Allegation

BY JOE FLINT

Scottie Nell Hughes, a former on-air guest on the Fox News Channel and Fox Business Network, alleged in a lawsuit that she was blacklisted by the network and defamed after accusing an anchor of rape and assault.

The suit, filed Monday in federal court in New York, stems from her earlier allegation that she was raped and assaulted by Fox Business Network anchor Charles Payne, on whose show she often appeared.

Ms. Hughes also claims that after making a formal complaint to a law firm retained by Fox News, the network leaked her name to the media and disseminated emails that suggested she and Mr. Payne had a consensual relationship.

Besides Fox News and Mr. Payne, the suit's other defen-

dants include Fox News general counsel Dianne Brandi and spokeswoman Irena Briganti, and the cable channel's parent company, 21st Century Fox Inc.

Through his attorney, Mr. Payne denied the allegations.

"My client Charles Payne vehemently denies any wrongdoing and will defend himself vigorously against this baseless complaint. We are confident that when the evidence is presented in this case, Mr. Payne will be fully vindicated and these outrageous accusations against him will be confirmed as completely false," said Jonathan Halpern, a partner at the law firm of Foley & Lardner LLP.

The allegations by Ms. Hughes are the latest claim of sexual misconduct at Fox News. The suit was filed by attorney Douglas Wigdor, who has filed several other claims

against the network for clients alleging sexual harassment and discrimination.

Fox News denied that it retaliated against Ms. Hughes. Network spokeswoman Jessica Jensen said in a statement that covered all defendants: "The latest publicity stunt of a law-

rape, as alleged, happened in 2013, the events exposing Fox's liability exposure (as opposed to Payne) occurred less than 2 months ago when Fox Executives at the highest levels leaked Ms. Hughes's name to a tabloid."

21st Century Fox and Wall Street Journal parent News Corp share common ownership.

Ms. Hughes appeared as a network contributor from 2013 to 2016. She alleged that Mr. Payne made sexual advances toward her, and that in July 2013 he raped and assaulted her in a New York hotel room after pressuring his way in. The suit says she was too shocked and ashamed to speak out and didn't tell anyone about the alleged incident. Thereafter, she was coerced into a sexual relationship by him in exchange for career benefits, the suit alleges.

After Ms. Hughes broke off

about \$5 billion as of the end of April. That has limited its ability to invest in growth initiatives such as e-commerce.

Toys 'R' Us, based in Wayne, N.J., had hired restructuring advisers at law firm Kirkland & Ellis and was working with Lazard to try to refinance its debt. Chief Executive Dave Brandon said in a statement that "we expect that the finan-

cial constraints that have held us back will be addressed in a lasting and effective way."

After going private in 2005,

Toys 'R' Us experienced several

years of sales growth and the

company filed for an IPO in

2010. But those plans were

withdrawn as its financial per-

formance weakened. Sales have

fallen each year since fiscal 2012

and profits have been uneven.

the relationship, she claims her appearances on Fox News and Fox Business Network were reduced substantially and she says the network ultimately blacklisted her. She worked on CNN as a political analyst during the 2016 campaign.

When her manager raised

the matter this year with Paul

Weiss Rifkind Wharton, the

law firm working with 21st

Century Fox on such claims,

that set in motion a series of

events that led to a press re-

port leaking her identity and

reporting on a consensual af-

fair between her and Mr.

Payne, the suit alleges.

Fox News suspended Mr.

Payne from his Fox Business du-

ties in July. He was recently re-

instated to his anchor position,

after the network said it had

completed its review, providing

no further comment.

# CBS Raises Bid to Acquire Insolvent Australian Broadcaster

BY ROB TAYLOR

CANBERRA, Australia—Creditors of Australia's Ten Network Holdings Ltd. accepted an increased offer for the insolvent broadcaster from CBS Corp., rejecting a rival proposal from media moguls Bruce Gordon and Lachlan Murdoch, and handing the U.S. media giant a victory as it seeks to expand its international reach.

CBS sweetened its bid by offering more money to unsecured creditors, lifting the overall value of the deal to around 209.7 million Australian dollars (US\$166.9 million), according to Ten Network's administrator, insolvency specialists KordaMentha.

The creditors have had their vote and they have accepted a future for Ten with

execution risk, although Messrs. Gordon and Murdoch may still challenge the deal through a court appeal.

Ten Network last year posted losses of A\$157 million and was placed into voluntary administration in June, with debts of A\$609 million.

New York-listed CBS, Ten Network's biggest unsecured creditor, launched a bid for the company with plans to introduce its on-demand streaming service in Australia on a trial basis. The service, CBS All Access, is aimed at countering media challengers like Netflix, Amazon Prime and HBO.

The offer derailed a joint bid from Mr. Murdoch—21st Century Fox Inc.'s executive chairman and co-chairman of News Corp, which publishes The Wall Street Journal—and



Ten Network was placed in voluntary administration in June. CBS beat out a rival offer from Lachlan Murdoch and Bruce Gordon.

## TECHNOLOGY

# Venture-Capital Group Sues the U.S.

Complaint objects to delay of rule to help foreign-born startup founders stay in country

BY DOUGLAS MACMILLAN

A group representing U.S. venture-capital investors is leading a lawsuit against the Trump administration, claiming it took illegal steps to prevent an immigration policy that would have helped foreign-born founders stay in the U.S. to build startups.

In a legal complaint filed Tuesday, the National Venture Capital Association, along with other plaintiffs, claims the Department of Homeland Security violated

rules around administrative procedures when it delayed the start of the International Entrepreneur Rule one week before the regulation was scheduled to go into effect in July, according to a copy of the complaint reviewed by The Wall Street Journal.

The rule, enacted in the final days of the Obama administration, would have let foreign entrepreneurs apply to work in the U.S. if their startup raised \$250,000 from established U.S. investors, or showed other compelling evidence of potential for rapid growth. The DHS said July 10 that it would delay the effective date of the program by eight months, a period in which it said it would obtain public comment "regarding a

proposal to rescind the rule."

The venture-capital association's lawsuit, filed in the District Court of Washington, D.C., argues that the administration violated the Administrative Procedure Act by failing to solicit public comments before deciding to delay the foreign-founder rule. The group seeks to reverse the delay and permit all entrepreneurs meeting the rule's requirements to start applying for temporary work status to build startups in the U.S.

A spokesman for the Department of Homeland Security declined to comment on the pending litigation.

The agency said in July that it planned to rescind the rule, in part because managing a foreign-entrepreneur program

would take up resources it needs to carry out its existing immigration programs.

The lawsuit is the first against the government by the National Venture Capital Association, which represents hundreds of top VC firms. It reflects a widening rift between many technology-industry leaders and the Trump administration on immigration and other issues.

Scores of tech executives, including prominent tech investors John Doerr of Kleiner Perkins Caufield & Byers and Reid Hoffman of Greylock Partners, signed a letter issued last month urging President Trump to preserve Deferred Action for Childhood Arrivals, a five-year-old program that offers a reprieve

from deportation to nearly 800,000 people brought to the U.S. as children—known as "Dreamers." Mr. Trump earlier this month set an end date for that program, but he has since met with congressional leaders in hopes of passing legislation legalizing undocumented Dreamers.

The International Entrepreneur Rule had won bipartisan support, but its critics said it would grant a class of immigrants temporary "parole" rather than a visa, potentially creating confusion about their status, and raise risks around doing business with companies whose roots in the U.S. are uncertain.

The venture-capital association says that helping more young, foreign-born entrepre-

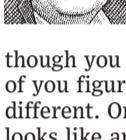
neurs through the International Entrepreneur Rule could lead to the creation of more jobs in the U.S.—jobs that could otherwise end up in other countries.

Nearly 3,000 people would be eligible to work in the U.S. under the International Entrepreneur Rule, according to a DHS estimate.

Among those who planned to apply for temporary parole status under the rule were Atma and Anand Krishna, co-founders of a business-payment startup called LotusPay, which recently completed the YCombinator accelerator program in Silicon Valley. The brothers are U.K. citizens but have primarily built their business in India, according to the complaint.

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

# iPhone 8: Only Incremental Improvement in an Upgrade



The iPhone 8 reminds me of the fifth Transformers movie—you know it's new, though you can't for the life of you figure out how it's different. On its face, the 8 looks like an iPhone from 2014.

And like another sequel, the best thing about the iPhone 8 is that it's entirely avoidable. Normally, iPhone owners have one decision to make: Is it an upgrade year or not? But this fall, you have real options. Apple's selling the \$700 iPhone 8, the jumbo \$800 iPhone 8 Plus and the totally redesigned \$1,000 iPhone X, not to mention five older (and cheaper) iPhones.

If you follow the Goldilocks Principle, an iPhone 8 might seem like a sensible choice. It has a new camera and processor, yet doesn't cost quite as much as the fancy-pants X.

But let's stop taking electronics advice from a girl who robs bears. Putting the iPhone 8 through its paces for the past week, I learned Apple should have called it the iPhone 7s. (The company skipped the "s" model this year, calling it a "new generation.") The iPhone 8 is a good smartphone, but only a slight improvement, mostly in the camera department.

Let me propose a different iPhone purchasing strategy:

Because of Apple's staggered rollout, I haven't had opportunity to test the iPhone X. But for anyone considering buying an iPhone 8, here is how it measures against an iPhone 7.

### Glass Back

From the front, it's harder to tell the difference between the 7 and 8 than to ID an Olsen twin. But look on the back, and you will see it's made of glass rather than metal.

The glass might remind you of the iPhone 4, one of the most iconic Apple designs. But I'm not sold. The iPhone 7's glossy black finish gives it a contiguous surface, like a pebble smoothed by the ocean. The iPhone 8 shows seams where the glass touches the aluminum band, making it feel a little like a knockoff. And there's no denying it looks dated compared with the curved glass on rival Samsung's Galaxy S8 (\$720), which takes the screen all the way to the edge.

### Wireless Charging

There is a practical reason for the glass: It enables the 8's standout new capability, wireless charging. No, you can't beam power to it from across the room. You have to place it on a Qi-compatible charging pad, sold separately for \$40 and up.

It works...just OK. While convenient, it isn't fast. The \$60 Mophie brand pad I tested required me to put the phone in just the right spot. One time, I plopped it down and later found my battery almost depleted because the phone was sitting slightly off-center. Apple's working on improving that with a new design, but it won't arrive until next year.

I have long criticized Apple for not embracing wire-



The iPhone 8's glass back enables wireless charging, but it requires exact placement on the pad.

MARCO JOSE SANCHEZ/ASSOCIATED PRESS

less charging. Hopefully, now that it has, the tech will become more widely available.

How about battery life? Apple claims there is no improvement. In my stress tests versus the iPhone 7, I squeezed about 15 more minutes out of the 8—for a total of 10 and three-quarter hours. The 8 Plus lasted about 11 hours.

### New Cameras

Perhaps you spotted me last weekend running around San Francisco taking the

same photo on four different phones: the dual-camera 8 Plus, 7 Plus and Samsung Note 8 as well as Google's older single-camera Pixel XL. Some 1,500 shots later, I preferred most of the ones from the rear iPhone 8 Plus camera, which is similar (though not exactly the same) to the one on the iPhone X.

A larger, faster, sensor and new processing helps the iPhone 8 capture more saturation and contrast—sunsets are less hazy and faces look sharper. In low-light situations, it retains

more detail than the Note 8. It was as if all the shots had been given a boost in Instagram. And while I have avoided using the flash on past iPhones, the 8's was smart enough to actually improve my shots.

### Faster Processor

I'll spare you the details about the iPhone 8's 6-core A11 Bionic CPU, which it shares with the iPhone X. Just know this: In some benchmarks, it scores as well as Mac laptops.

What can you do with a phone that fast? Those new camera tricks, plus high frame-rate 4K video, wouldn't be possible without it. And it never hurts to try to futureproof the computer you use most. But the bottleneck on the apps I use most often is internet speed, not the processor. Aside from some 3-D games, I couldn't find many apps that require so much horsepower today.

Apple is pushing hard into visually intense augmented-reality apps, but all the ones I tried worked nearly as well on the iPhone 7 running iOS 11.

### Hard to Justify

How many of those changes really matter to you? Few of them address my core smartphone concerns, including screens, battery life, privacy protection and nonstop distraction. That is what is frustrating about the iPhone 8: In the past, Apple rarely raised prices when it made a better phone with more storage. This time, it releases an incremental update and charges \$50 more. It's the first time the most basic new iPhone costs \$700.

The virtues I see in the iPhone 8 are niche improvements: I'm glad you don't have to spend \$1,000 to get an improved camera and processor and even wireless charging, if that matters to you. But Apple's confusing iPhone family now includes three pairs of practically identical phones: the regular and Plus versions of the iPhone 8, 7 and 6s. Don't buy the spendiest one.

# Uber Lawsuit Alleges Fraud By Dentsu Mobile Ad Agency

BY SUZANNE VRANICA AND ALEXANDRA BRUELL

**Uber Technologies** Inc. filed a lawsuit against Fetch Media Ltd., a mobile ad agency owned by ad giant **Dentsu** Inc., alleging the agency misrepresented the effectiveness of its mobile ads, failed to prevent ad fraud and didn't return rebates owed to Uber.

The ride-hailing company is suing Fetch for breach of contract, fraud and negligence, among other allegations.

In the complaint, Uber said it hired Fetch to purchase and place mobile ads that direct potential new riders and drivers to download the Uber app. Uber said it pays only for ads that lead to app installations, new sign-ups or first trips.

Fetch coordinated multiple ad networks to purchase ad inventory from a variety of publishers on behalf of Uber, according to the suit.

The complaint, filed Monday in the U.S. District Court for the Northern District of California, claims that Fetch misrepresented the effectiveness of its mobile media strategy by failing to "prevent and remediate fraud among the networks and publishers."

The suit alleges that Fetch caused monetary damage to Uber of at least \$50 million. While the complaint doesn't

specify how much Uber is seeking in damages, Uber said separately it will be seeking at least \$40 million.

Uber alleges that Fetch "squandered tens of millions of dollars" purchasing nonexistent, nonviewable or fraudulent ads and that it "concealed those facts from Uber."

"With Fetch, we learned the age-old lesson 'buyer beware' the hard way," Uber said in a statement. "Fetch was running

a wild west of online advertising fraud, allowing Uber ads on websites we wanted nothing to do with, and fraudulently claiming credit for app downloads that happened without a customer ever clicking on an ad."

In a statement, Fetch Chief Executive James Connelly denied the allegations.

"We are shocked by Uber's allegations which are unsubstantiated, completely without merit, and purposefully inflammatory so as to draw attention away from Uber's un-

professional behavior and failure to pay suppliers. Fetch terminated its agreement with Uber months ago after Uber stopped paying invoices for services provided by over 50 small business suppliers," he said.

Dentsu, which wasn't named in the suit, didn't respond to a request to comment.

In addition, the suit says Fetch failed to "pass back to Uber volume rebates, commissions, or discounts received from networks and publishers, causing Uber to overpay for mobile inventory and Fetch's commission."

Uber's suit also alleges that the fraud issues stem in part from Fetch failing to disclose material conflicts of interest.

Uber became aware of alleged fraud with its ads in early 2017, according to court documents, when consumers began complaining that Uber ads were appearing on sites that the company had previously requested Fetch ads not be placed on. While clicks on Uber ads were reported as coming from placements such as "Magic\_Puzzles" and "Snooker\_Champion," the clicks actually came from conservative news site Breitbart.com, the complaint said. Uber had instructed that no ads be placed on that site.

**\$50M**

Amount of monetary damage that Uber's lawsuit alleges

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FUND NAME	GF	AT	LB	DATE	CR	NAV	%RETURN-2YR
VP Class-Q Units	AS	EQ	HKG	09/18 USD		158.47	38.3 29.2
VP Class-Q Units	AS	EQ	HKG	09/18 USD		19.87	37.5 28.3
VP Class-C Units AUD H	AS	EQ	HKG	09/18 AUD		16.28	36.3 26.6
VP Class-C Units CAD H	AS	EQ	HKG	09/18 CAD		15.89	37.2 27.9
VP Class-H Units HKD H	AS	EQ	HKG	09/18 HKD		13.58	37.9 29.2
VP Class-I Units NZD H	AS	EQ	HKG	09/18 NZD		16.64	38.0 29.9
VP Class-C Units RMB H	AS	EQ	HKG	09/18 CNY		13.58	41.3 33.1
VP Multi-Asset Fund Cls A HKD	OT	OT	HKG	09/18 HKD		10.85	12.8 9.9
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	09/18 USD		10.93	11.9 9.1
VP Multi-Asset Fund Cls A USD	OT	OT	HKG	09/18 USD		20.61	23.0 23.4

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## MANAGEMENT

# Common Traits Of Best Team Leaders

BY FRANCESCA FONTANA

Many managers say they want to foster a collaborative spirit among their teams, but doing so while keeping employees focused and productive is difficult.

The Institute for Corporate Productivity asked managers and workers about the collaborative practices of more than 1,000 organizations, including government and academic institutions.

The research revealed four common traits of leaders who are able to get the best collaborative efforts from their teams.

The majority of respondents at high-performing companies said successful collaboration comes down to a few key behaviors: modeling collaborative action, building strong networks among employees, encouraging collaboration across departments and structuring work effectively.

"These are key things companies can do that are not expensive and easily implemented," said Kevin Martin, the institute's chief research officer and co-author of the report.

**Managers must make sure workers can form trusting relationships with their teams.**

As many companies move away from hierarchical structures to more team-based work, the most effective managers make sure workers have a clear purpose and the ability to form trusting relationships with their teams, Mr. Martin said. Managers, for instance, reported that their teams worked together best when members felt comfortable reporting their own work overload, the research found.

Managers of the best-performing teams, the survey found, help members understand their roles and clearly designate the person who has the final say on decisions.

"Confusion can cause problems or infighting," Mr. Martin said.

Workers also say they became frustrated on teams where their opinions weren't being heard and in situations where they didn't understand what they were working toward, Mr. Martin noted.

These concerns are especially intense for workers who collaborated with others infrequently and those who were on teams with people they didn't know particularly well.

# New in Boardrooms: Buddy System

Mentors can help newcomers figure out cultural norms, power brokers—and even the right place to sit

BY JOANN S. LUBLIN

Amy Chang got unusually frank feedback when the new director of **Cisco Systems** Inc. walked out of her first board meeting last December. Longtime board member Carol Bartz chided the then-39-year-old tech executive for apologizing when she posed questions during the meeting.

"You have the right to ask questions," said Ms. Bartz, a Cisco director since 1996.

Ms. Chang says the guidance helped her understand how things worked on the networking giant's board, though she had been a corporate director elsewhere.

More boards are pairing new members like Ms. Chang with seasoned mentors like Ms. Bartz as they scramble to improve their oversight of management in the face of intensified investor scrutiny.

Board buddies can help newcomers figure out the boardroom's cultural norms, power brokers—and even the right place to sit.

Mentors make sure "you don't come in as a bull in a china shop," observes Steven R. Walker, managing director of the board services group at the National Association of Corporate Directors.

A 2016 survey conducted by the association found that 33 of 296 U.S. companies with orientation programs for directors choose an experienced board member to guide their latest member.

Other businesses with formal mentoring efforts include Foot Locker Inc., Applied Materials Inc. and Nasdaq Inc.

The boardroom buddy system was virtually unheard of five years ago, governance specialists say. "We could see at least 50 Fortune 500 companies with new director mentor programs by 2020," predicts Rusty O'Kelly, head of the board consulting and effectiveness practice at recruiters Russell Reynolds Associates Inc.

Boards that integrate new members sooner should "make better decisions and produce better results for shareholders," Mr. O'Kelly



**Amy Chang, left, and Carol Bartz at Cisco headquarters. Foot Locker, Applied Materials and Nasdaq also have formal mentoring efforts.**

adds. But the concept is so new that there is little concrete evidence that they actually accelerate the impact of newcomers.

Ms. Bartz, Cisco's independent lead director, became its first mentor when Ms. Chang joined the board last October. Ms. Bartz says "the biggest benefit is having an effective board member faster."

The best mentors counsel new directors before and after board meetings for at least six months, governance experts say. Without such hand-holding, new directors typically take about nine months to assimilate.

"It's a really efficient and practical way to assure that the new directors get the most out of the early meetings," says Dick Johnson, chief executive of Foot Locker. The sports retailer began a board mentorship program when the latest two members arrived in 2016.

Cisco directors endorsed the idea partly because some prior board recruits "weren't

a good culture fit," says Cassandra Frangos, vice president of global executive talent.

Ms. Chang, a former Google Inc. executive who runs privately held tech firm Accompany Inc., spoke with Ms. Bartz for several hours before her inaugural Cisco board meeting. They met three times in the glass-roofed conservatory of Ms. Bartz's suburban San Francisco mansion.

"She really took the time to walk me through things," Ms. Chang says. Ms. Bartz described the context for several board colleagues' beliefs, the complex global risks facing Cisco and the importance of observing board committees for months before Ms. Chang took a committee seat.

Ms. Bartz, former chief executive of Yahoo Inc. and Autodesk Inc., also recommended where the newcomer should sit in the boardroom "so I literally wouldn't be taking anyone's seat at the table," Ms. Chang says. "That's the tiniest thing, but it is important."

Following her initial board meetings, Ms. Chang usually asked Ms. Bartz, "How did I do?" Ms. Bartz says her briefings and feedback brought Cisco's youngest-ever female director up to speed quickly.

Brent Saunders, a Cisco director since March, says he especially appreciates being mentored by industry veteran Michael Capellas. Like Ms. Bartz, Mr. Capellas has led big tech businesses.

"I come into Cisco certainly having very strong experience running public companies (though) not with a tremendous grasp of technology," says Mr. Saunders, CEO of drugmaker Allergan PLC. "They have a different vernacular."

Over a glass of wine this spring, Mr. Capellas briefed Mr. Saunders about why Cisco developed a new security service just before the board discussed the service's imminent launch. The mentor also talked about Cisco products, such as its switches—a technical term for networking hardware

that puzzled Mr. Saunders. He told Mr. Capellas he had seen the word in board briefing materials, but "didn't know what it was."

That mentoring session persuaded Mr. Saunders to propose a formal board buddy program for Allergan.

Board mentoring relationships sometimes take time to develop, especially when programs aren't highly structured. That proved true for Judy Bruner, a former finance chief who joined the board of semiconductor maker Applied Materials in 2016. Its mentorship effort is fairly informal, she says.

Ms. Bruner and her mentor, Dennis Powell, say they have forged a relationship, mainly through casual chats after board and committee meetings. She says companies should "make sure the mentor and mentee have connected appropriately." This summer, she arranged a mentoring lunch with him.

Informality "is just the beauty of this kind of program," Mr. Powell adds.

## BUSINESS WATCH

VOLVO

### Auto Maker Raises Its Bet on U.S. Sales

Swedish auto maker **Volvo** is doubling its investment in its first U.S. plant to a total of \$1 billion, a bet that its nascent comeback in the U.S. market has staying power.

Volvo will add a second production line to a factory now under construction near Charleston, S.C., a spokesman for Volvo said.

The auto maker plans to make the S60 sedan at the plant starting in late 2018 along with another unnamed vehicle.

The expansion will add 1,900 jobs to the 2,000 already planned for the plant.

Volvo, acquired by China's **Zhejiang Geely Holding Group** Co. in 2010, is using the South Carolina factory as the anchor for its U.S. growth bid. The U.S. was Volvo's fastest-growing market last year, posting an 18% increase in sales to 82,726 vehicles. Sales have cooled this year, slipping 7% to about 49,000 vehicles through August.

—Adrienne Roberts

TPG TELECOM

### Profit Increases 9%, But Dividend Is Cut

**TPG Telecom** Ltd. slashed its final dividend and warned of pressure from the rollout of Australia's national broadband

network even as it reported a 9% rise in annual profit.

Fixed-line residential broadband margins will be squeezed as the federal government's network continues to roll out, the telecommunications company said Tuesday. It added that while it was in favor of increasing dividends over time, it decided to hold on to a greater proportion of profits to help fund the company's planned development of mobile networks in Singapore and Australia.

TPG said its net profit rose to 413.8 million Australian dollars (US\$329.4 million) for the year through July from A\$379.6 million the year before, while revenue rose 4.3% to A\$2.49 billion. Earnings the prior year

were boosted by A\$90.7 million in one-time gains. TPG said it planned to pay a final dividend of 2 cents a share, a cut of 73% from the prior year, for a full-year payout of 10 cents.

—Robb M. Stewart

AEROSPACE

### U.K., Canada to Put Pressure on Boeing

The prime ministers of the U.K. and Canada vowed Monday to join forces and press **Boeing** Co. and the Trump administration to bring an end to the aerospace company's pursuit of a trade complaint against Montreal's **Bombardier** Inc.

The dispute between the

North American aircraft makers, over allegations that Bombardier unfairly benefits from Canadian government support, prompted Canadian Prime Minister Justin Trudeau to issue his most direct threat regarding Boeing's behavior at a joint press conference involving the two Group of Seven leaders.

Mr. Trudeau said a failure to resolve the matter could prompt Canada to scrap previously announced plans to buy roughly \$5 billion in Boeing jet fighters.

U.K. Prime Minister Theresa May has been drawn into the dispute because it could affect a factory in Northern Ireland that makes parts for Bombardier's 100-plus-seat C Series aircraft.

—Paul Vieira

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## FINANCE & MARKETS

# Equifax's Work Goes Far Beyond Credit

BY MICHAEL RAPORT  
AND ANNA MARIA ANDRIOTIS

Equifax Inc., the U.S. credit-reporting firm that suffered a far-reaching breach of consumer data, also supplies identity verification services to the Social Security Administration and works with the federal Centers for Medicare and Medicaid Services to verify eligibility for health-insurance subsidies.

The government work, which generates more than \$20 million in revenue for Equifax annually according to federal procurement data, highlights how deeply rooted Equifax is in the financial life of the country—helping establish the basic credentials of identity for citizens.

That broad reach is now cause for concern given the company's announcement earlier this month of a breach that disclosed vital personal information of potentially 143 million Americans. That information included Social Security numbers, along with names, addresses and dates of birth.

The attack is being probed by the Federal Bureau of Investigation, while the company is facing inquiries from regulators and Congress.

At the Social Security Administration, Equifax has supplied identity-verification services for the agency's "my Social Security" portal. This helps consumers do things like check their benefits and request replacement Social Security cards.

The CMS uses employment and income data from Equifax's "Work Number" database business to verify people's eligibility for subsidies to buy health insurance under the Affordable Care Act.

The CMS business, with annual contracts around \$20 million, has been worth a total of about \$104 million to Equifax from its inception in 2013 through next March, according to procurement data. Equifax



Equifax's credit-reporting division accounts for a declining share of its overall revenue.

reported \$3.15 billion in revenue last year.

There is no indication that Social Security Administration or CMS systems have been compromised due to the Equifax hack. When the company announced the breach on Sept. 7, it said only "certain files" were affected, adding, "The company has found no evidence of unauthorized activity on Equifax's core consumer or commercial credit reporting databases."

Following news of the breach, the Social Security Administration posted a statement that said, "Although we sometimes use Equifax to help verify your identity when setting up a mySocial Security account, Social Security never shares Social Security numbers with Equifax." The SSA on Monday didn't respond to a request for additional comment.

A Equifax spokesman said the company doesn't comment on the terms of customer contracts. But he said the company provides identity verification and authentication "through various methods for the my Social Security system." He added

that Equifax doesn't provide website or portal security.

Separately, it emerged Monday that Equifax suffered a data incident in March that was separate from the hack that led to the widespread exposure of consumer data. In a statement, Equifax said it had retained Mandiant, the cyber investigations division of FireEye Inc., to look into the incident but didn't elaborate further. Mandiant also was called in to investigate the data hack discovered in late July. "The two events are not related," Equifax said. The earlier March incident was previously reported by Bloomberg.

Late last week, Sens. Sherrod Brown (D., Ohio.) and Bill Cassidy (R., La.) wrote to the Social Security Administration's acting commissioner saying the Equifax breach "raises serious questions as to whether the personal data SSA maintains on behalf of all Americans may be at risk of identity theft or other cybersecurity threats."

The senators asked the agency for assurances it could provide that data was being safeguarded and whether it

would be willing, if warranted, to cancel the Equifax contract.

The CMS didn't respond to a request for comment.

The SSA contract is detailed in the Federal Procurement Data System, showing successive one-year contracts between an Equifax subsidiary, Equifax Information Services LLC, and the SSA. The current contract, which was earlier reported by Salon, is scheduled to run until Feb. 24, 2018 and pays around \$4.5 million, the records show.

"This partnership will help protect the millions of online transactions the SSA manages annually," an Equifax official said in a February 2016 statement.

Until the breach disclosure this month, Equifax's arrangements with the two U.S. government agencies were small examples of what appeared to be a successful metamorphosis of the company under Chief Executive Richard Smith. Mr. Smith became CEO in 2005 when the company was almost entirely focused on maintaining and selling credit reports to lenders. He viewed that as a static

business, one that was producing meager growth for the company, according to remarks Mr. Smith made at the University of Georgia last month.

Though still one of the largest credit-reporting firms in the U.S., Equifax's credit-reporting division accounts for a declining share of its overall revenue. While the company doesn't break this out in its filings, about a year ago a then-company spokeswoman told The Wall Street Journal that credit reports accounted for around 30% of revenue, down from around 80% in 2006.

To gain an edge, Mr. Smith and his deputies moved to acquire more databases on Americans and then sell that data. Beyond selling data to lenders, Equifax added more employers and insurance companies to its client roster.

Equifax also has a trove of employment records in large part due to its acquisition of Talx Corp., a repository of employment and income data, in

2007.

The company also expanded the number of people covered by its credit reports. It paid \$1 billion in 2012 for Computer Sciences Corp.'s credit services unit, which had credit files in 15 states.

Even as it was investigating the extent of the data breach, which was discovered in late July, Equifax continued introducing new, non-credit-reporting products.

Just two weeks before the hack was disclosed, Equifax and Fidelity National Information Services, a financial-technology company, teamed up to announce OnlyID, a new security product that allows consumers to gain access to multiple online accounts through a single login, which is protected via fingerprint or other identifiers.

A spokeswoman said Fidelity National "remains committed" to bringing the product to market, and that it has been advised by Equifax that OnlyID wasn't affected by the breach.

to "limited personal information" for some Canadian and U.K. residents.

"We apologize to Canadian consumers who have been impacted by this incident," said Lisa Nelson, Equifax Canada's president and general manager.

"We understand it has also been frustrating that Equifax Canada has been unable to provide clarity on who was impacted until the investigation is complete. Our focus now is on providing impacted consumers with the support they need."

Equifax Canada said it is working closely with Equifax in the U.S. and a cybersecurity firm in its investigation. Equifax confirmed last week that it is working in the U.S. with FireEye Inc.'s Mandiant cybersecurity group.

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## THE PROPERTY REPORT

# Strip Malls Fight the Chill

Landlords add skating rinks, fire pits, outdoor entertainment to prop up foot traffic

By ESTHER FUNG

Landlords of strip malls are trying to take the chill out of the air by adding outdoor entertainment programs, in hopes of attracting more shoppers in an era of declining foot traffic.

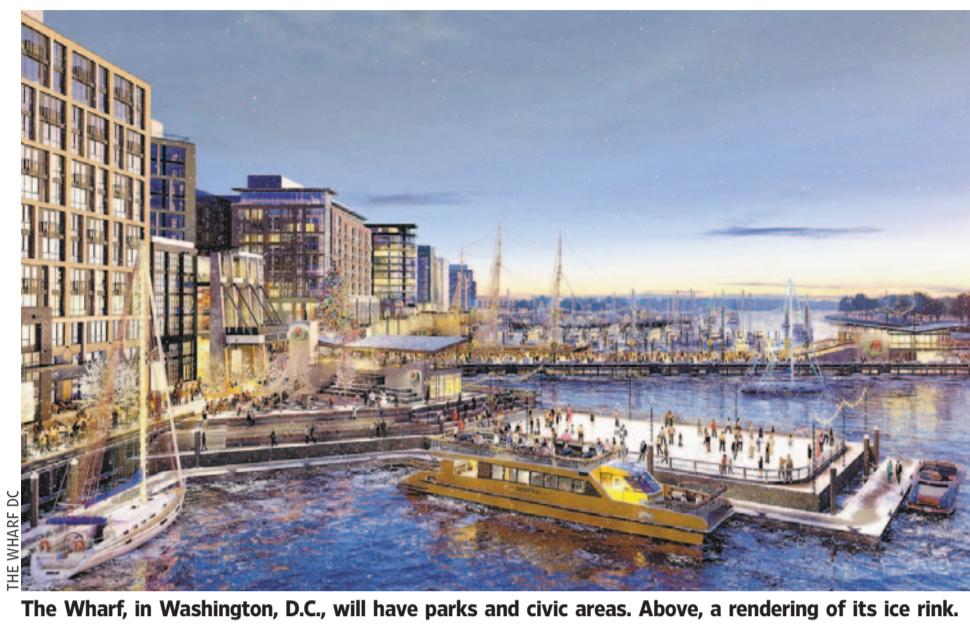
Come autumn, ice-skating rinks, fire pits and programmed entertainment such as tree-lightings will begin popping up in open-air centers across the Northern and Central U.S., landlords say.

Federal Realty Investment Trust, a Rockville, Md.-based retail center landlord, plans to install a 6,600 square-foot outdoor ice-skating rink at its open-air center in Baltimore next month that is scheduled to open in mid-November.

The rink at The Avenue at White Marsh will be its third. Federal Realty, which owns mixed-use shopping center and apartment complexes in the suburban D.C. market, already has two ice-skating rinks that offer lessons and can be rented out for birthday parties and corporate events through February.

While shopping centers typically attract shoppers focused on transactions during the fall and holiday seasons, more landlords want to create destinations for the local community that might not be entirely focused on buying something.

"You can still have a vibrant place even in the winter time," said Don Briggs, executive vice president of development at Federal Realty. "Planning, design and then the right programming is key," he said, adding that outdoor dining areas could be enclosed in the winter, and installing heaters



The Wharf, in Washington, D.C., will have parks and civic areas. Above, a rendering of its ice rink.

helps extend the time customers spend in its premises.

Brookfield Place New York, a luxury shopping center in Lower Manhattan, will install an ice-skating rink on the waterfront plaza this winter with programs run by former U.S. Olympic skaters.

The center has attracted New Yorkers and visitors with "high-caliber, year-round activations and events," said David Cheikin, executive vice president at Brookfield Properties. The rink at Brookfield Place has been a "particularly fun and popular draw during the winter months for the past four seasons, further enlivening the complex and attracting people of all ages seven days a week," he added.

The moves come at a time when bigger shopping center landlords are investing more to cater to changing consumer lifestyles as shoppers handle more transactions online.

The strategies don't have to be limited to retail real estate. Publicly listed open-air center developers such as Federal Realty, Regency Centers and Kimco Realty Corp. have been

focusing their development efforts on high-growth markets with transit links.

With online shopping on the rise and apparel companies closing stores, landlords are bringing in more restaurants, entertainment and other types of tenants that are focused on recreation that would draw communities.

The downside for owners is less space to draw rental revenue. The areas can also be expensive, especially when there are sizable fountains or rinks to build and operate.

"You're giving up that land you can build on to get rent," said Stephen Coslik, chairman of the Woodmont Company, a Fort Worth, Texas-based retail property services, brokerage and asset management firm. "It's all about the experience, whether they're fire pits, music venues, play areas for kids. The view is: It will bring people to the center."

Many landlords with big properties can afford to install outdoor rinks, but those running smaller centers often are on a tighter budget, especially since tenants typically don't

chip in for such collective marketing expenses.

"A lot of it is tenant relations," said Jeff Donnelly, an analyst at Wells Fargo.

Real-estate investment management and operating company Madison Marquette Inc. is opening the first phase of a \$2 billion mixed-used waterfront development in Washington, D.C., in October that includes residences, hotel, office and 335,000 square feet of restaurant and retail space.

Located adjacent to the National Mall, the project, known as The Wharf, will have 10 acres of parks, open spaces and civic areas, as well as a fire pit and a temporary ice-skating rink on two of its three piers. Madison Marquette will also organize free concerts and fireworks at its expense.

"Over time, we're actually interested in working with our tenants so that they become part of the programming," said Amer Hammour, chairman of Madison Marquette. The events could eventually become profitable for the people who stage them, Mr. Hammour added.

# Housing Sags In Connecticut

By JOSEPH DE AVILA

As Connecticut's economy continues to trail its neighbors, the state's housing market is now falling behind.

The contrast between Connecticut and Massachusetts is stark. Home construction permits in Connecticut fell 26% through July 2017 from the same period last year, according to federal data. Massachusetts permits rose 26% during that time.

Median home sales prices in Connecticut edged up 1% through July 2017 from a year earlier, according to the Warren Group, a real-estate information firm. Massachusetts prices rose 6%.

The travails in Connecticut's housing market highlight the state's difficulty digging itself out of the losses from the recession. Connecticut has regained 78% of the 119,100 jobs it lost during the recession.

Every other New England state has recovered all posi-

tions it lost. Massachusetts has added more than three times the numbers of jobs it lost during the downturn.

Connecticut's economy has been buffeted by a parade of corporate departures. General Electric Co. left for Boston last year, and Aetna Inc. said this year that it would move its headquarters to New York.

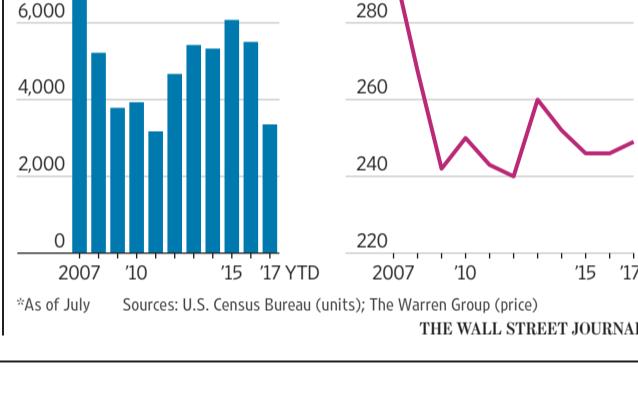
Don Klepper-Smith, chief economist for consulting firm DataCore Partners LLC, said the differences between the housing markets in Connecticut and Massachusetts come down to jobs. "You can't have meaningful traction in the local housing market without traction in the labor market," he said.

Some single-family home builders are sitting on the sideline as a result. Kevin Santini, co-owner of Santini Homes, said his company owns land in the northeast section of the state and is waiting for demand to pick up before starting construction on more single-family homes.

## Sluggish State

Connecticut's housing market is struggling, with some home builders taking a wait-and-see approach.

### Number of new housing units authorized by building permits



\*As of July Sources: U.S. Census Bureau (units); The Warren Group (price)

THE WALL STREET JOURNAL.

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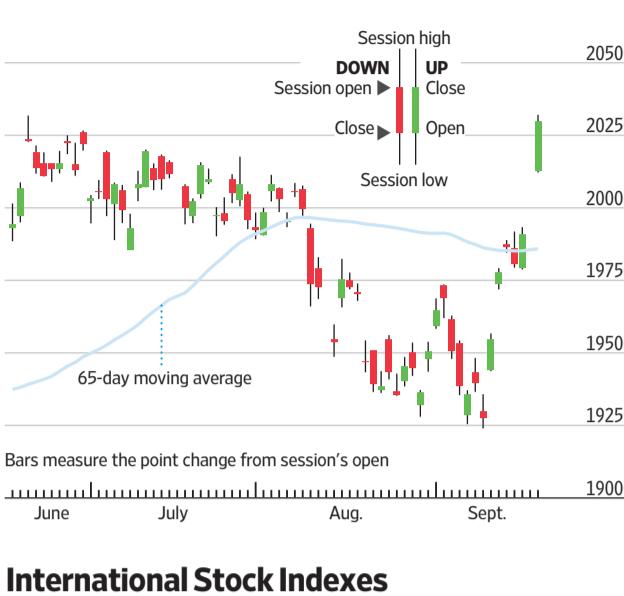
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## MARKETS DIGEST

### Nikkei 225 Index

**20299.38** ▲ 389.88, or 1.96%

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

**382.12** ▲ 0.17, or 0.04%

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



### S&P 500 Index

Data as of 12 p.m. New York time

Last 24.11 Year ago 24.47

Trailing P/E ratio 24.11 24.47

P/E estimate \* 19.10 18.25

Dividend yield 1.99 2.14

All-time high: 2503.87, 09/18/17



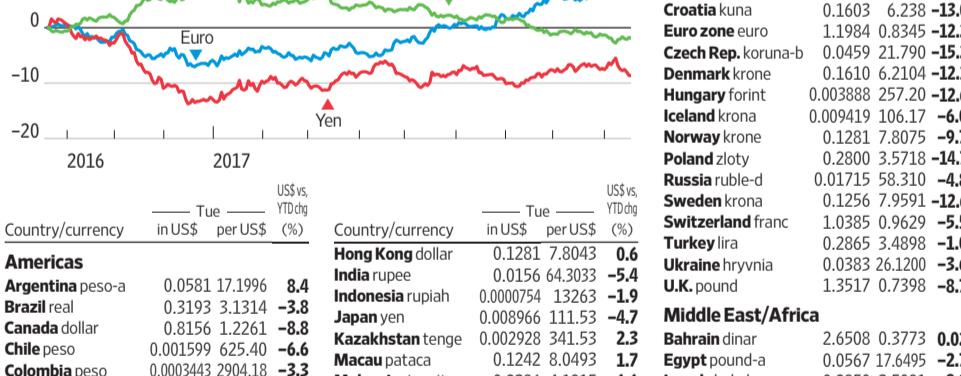
### International Stock Indexes

Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2907.29</b>	11.22	<b>0.39</b>	2386.93	2907.75	2907.75	15.0	
	<b>MSCI EAFE</b>	<b>1978.30</b>	11.81	<b>0.60</b>	1614.17	1970.23	1970.23	15.3	
	<b>MSCI EM USD</b>	<b>1108.92</b>	-4.00	<b>-0.36</b>	838.96	1113.67	1113.67	39.6	
<b>Americas</b>	<b>DJ Americas</b>	<b>605.13</b>	0.50	<b>0.08</b>	503.44	605.29	605.29	12.0	
Brazil	Sao Paulo Bovespa	75390.30	-600.10	-0.79	56828.56	76403.58	76403.58	25.2	
Canada	S&P/TSX Comp	15300.65	63.98	<b>0.42</b>	14468.03	15943.09	15943.09	0.1	
Mexico	IPC All-Share	50166.62	-91.80	<b>-0.18</b>	43998.98	51772.37	51772.37	9.9	
Chile	Santiago IPSA	3950.05	...	Closed	3120.87	3959.34	3959.34	22.6	
<b>U.S.</b>	<b>DJIA</b>	<b>22364.97</b>	33.62	<b>0.15</b>	17883.56	22375.78	22375.78	13.2	
	<b>Nasdaq Composite</b>	<b>6466.36</b>	11.73	<b>0.18</b>	5034.41	6477.77	6477.77	20.1	
	<b>S&amp;P 500</b>	<b>2507.20</b>	3.33	<b>0.13</b>	2083.79	2508.32	2508.32	12.0	
	<b>CBOE Volatility</b>	<b>10.05</b>	-0.10	<b>-0.99</b>	8.84	10.05	10.05	28.4	
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>382.12</b>	0.17	<b>0.04</b>	328.80	396.45	396.45	5.7	
	<b>Stoxx Europe 50</b>	<b>3113.47</b>	3.48	<b>0.11</b>	2720.66	3279.71	3279.71	3.4	
France	<b>CAC 40</b>	<b>5237.44</b>	8.12	<b>0.16</b>	4324.64	5442.10	5442.10	7.7	
Germany	<b>DAX</b>	<b>12561.79</b>	2.40	<b>0.02</b>	10174.92	12951.54	12951.54	9.4	
Greece	<b>ATG</b>	<b>762.86</b>	2.07	<b>0.27</b>	556.70	859.78	859.78	18.5	
Israel	<b>Tel Aviv</b>	<b>1419.90</b>	-5.06	<b>-0.36</b>	1346.71	1490.23	1490.23	-3.5	
Italy	<b>FTSE MIB</b>	<b>22425.42</b>	60.68	<b>0.27</b>	15923.11	22425.42	22425.42	16.6	
Netherlands	<b>AEX</b>	<b>528.66</b>	-0.65	<b>-0.12</b>	436.28	537.84	537.84	9.4	
Russia	<b>RTS Index</b>	<b>1108.71</b>	-10.43	<b>-0.93</b>	956.36	1196.99	1196.99	-3.8	
Spain	<b>IBEX 35</b>	<b>10378.40</b>	40.00	<b>0.39</b>	8512.40	11184.40	11184.40	11.0	
Switzerland	<b>Swiss Market</b>	<b>9093.20</b>	45.09	<b>0.50</b>	7585.56	9198.45	9198.45	10.6	
South Africa	<b>Johannesburg All Share</b>	<b>56011.16</b>	-38.94	<b>-0.07</b>	48935.90	56896.89	56896.89	10.6	
Turkey	<b>BIST 100</b>	<b>104917.77</b>	-1616.83	<b>-1.52</b>	71792.96	110530.75	110530.75	34.3	
U.K.	<b>FTSE 100</b>	<b>7275.25</b>	21.97	<b>0.30</b>	6676.56	7598.99	7598.99	1.9	
<b>Asia-Pacific</b>	<b>S&amp;P/ASX 200</b>	<b>5713.60</b>	-7.00	<b>-0.12</b>	5156.60	5956.50	5956.50	0.8	
Australia	<b>Shanghai Composite</b>	<b>3356.84</b>	-6.01	<b>-0.18</b>	2980.43	3385.39	3385.39	8.2	
Hong Kong	<b>Hang Seng</b>	<b>28051.41</b>	-108.36	<b>-0.38</b>	21574.76	28159.77	28159.77	27.5	
India	<b>S&amp;P BSE Sensex</b>	<b>32402.37</b>	-21.39	<b>-0.07</b>	25765.14	32575.17	32575.17	21.7	
Indonesia	<b>Jakarta Composite</b>	<b>5901.33</b>	16.72	<b>0.28</b>	5027.70	5915.36	5915.36	11.4	
Japan	<b>Nikkei Stock Avg</b>	<b>20299.38</b>	389.88	<b>1.96</b>	16251.54	20299.38	20299.38	6.2	
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1776.66</b>	-7.00	<b>-0.39</b>	1616.64	1792.35	1792.35	8.2	
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7764.53</b>	5.82	<b>0.08</b>	6664.21	7879.46	7879.46	12.8	
Philippines	<b>PSEI</b>	<b>8162.70</b>	-131.44	<b>-1.58</b>	6563.67	8294.14	8294.14	19.3	
Singapore	<b>Straits Times</b>	<b>3225.95</b>	-15.90	<b>-0.49</b>	2787.27	3354.71	3354.71	12.0	
South Korea	<b>Kospi</b>	<b>2416.05</b>	-2.16	<b>-0.09</b>	1958.38	2451.53	2451.53	19.2	
Taiwan	<b>Weighted</b>	<b>10576.14</b>	-55.43	<b>-0.52</b>	8931.03	10631.57	10631.57	14.3	
Thailand	<b>SET</b>	<b>1672.59</b>	2.39	<b>0.14</b>	1406.18	1672.59	1672.59	8.4	

### Currencies

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



London close on Sept. 19

Country/currency	US\$ vs. in US\$	US\$ vs. per US\$ (%)
<b>Country/currency</b>	<b>US\$ vs. in US\$</b>	<b>US\$ vs. per US\$ (%)</b>
Hong Kong dollar	0.1281	7.8043
India rupee	0.0156	64.3033
Indonesia rupiah	0.000754	13263
Japan yen	0.08966	111.53
Kazakhstan tenge	0.002928	3413.53
Macau pataca	0.1242	8.0493
Malaysia ringgit-c	0.2386	4.1915
New Zealand dollar	0.7322	1.3657
Pakistan rupee	0.0095	105.400
Philippines peso	0.0196	50.921
Singapore dollar	0.7427	1.3465
South Korea won	0.0008842	1130.95
Sri Lanka rupee	0.0065300	153.14
Taiwan dollar	0.03319	30.132
Thailand baht	0.03023	33.080

WSJ Dollar Index 85.27 -0.12 -0.15 -8.25

Sources: Tullett Prebon, WSJ Market Data Group

### Key Rates

Latest 52 wks ago

Cur	Stock	Sym	Last	% Chg	YTD% Chg	Cur	Stock
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## FINANCE & MARKETS

# Brevan to 'Seed' New Macro Fund

BY LAURENCE FLETCHER

**Brevan Howard Asset Management LLP**, one of the world's biggest hedge-fund firms, plans to inject \$300 million to \$400 million into a new fund run by one of its star traders, according to two people familiar with the matter, as it battles to revive its fortunes.

Brevan's assets under management have tumbled from about \$40 billion to \$11.6 billion in recent years amid weak returns from its flagship fund. It is injecting the cash as "seed" money that will help the new fund, run by trader Alfredo Saitta, get up and running.

The investment is a significant one at a time when new hedge-fund launches often

struggle to attract investors' interest.

Once, a new fund by a star trader could attract \$1 billion or more. Now, a fund that raises a few hundred million dollars is considered successful, with many failing to get off the ground or folding quickly after starting.

Brevan's billionaire co-founder Alan Howard, who recently moved back to London from Geneva, is personally investing in the fund, one of the people said.

The new fund for Mr. Saitta is set to be launched in coming months and will trade short-dated interest rates, as well as currencies and stocks, said one of the people.

Like many macro funds—which trade bonds, currencies and other assets—Brevan's main fund has struggled in recent years. Many managers have found it hard to predict asset prices because of stimulus measures from central banks.

Brevan's main fund lost money in two of the past three calendar years and is down 3.8% this year through August, according to a letter to investors. Hedge funds overall are up 4.1% this year on average through Sept. 14.

PRENSA INTERNACIONAL/ZUMA PRESS



Brevan co-founder Alan Howard will invest in the fund.

# Insurers Aim to Sell Stakes

BY YANTOULTRA NGUI  
AND P.R. VENKAT

Several foreign insurers are preparing to sell large stakes in their Malaysian operations to comply with a central-bank mandate requiring the country's insurance companies be at least partially owned by domestic investors, according to people familiar with the matter.

British life insurer **Prudential PLC** and Japan's **Tokio Marine Holdings Inc.** are talking to bankers about how to sell close to a third of the shares in their Malaysian subsidiaries, the people said. The options being considered include stake sales or initial public offerings in Malaysia.

The share sales by these and other foreign insurers could raise almost \$3 billion in total over the next nine months, one of the people said.

Foreign insurance companies are facing a June 2018 deadline to comply with the rules, which were set by Bank Negara Malaysia, the country's central bank.

Many insurers started wholly owned subsidiaries in Malaysia years ago on the understanding that they would eventually comply with a 2009 rule that capped foreign ownership of domestic insurance



LUCIE MACGREGOR/BLOOMBERG NEWS

Prudential, under CEO Mike Wells, is talking to bankers about how to sell about a third of its shares in its Malaysian subsidiary.

companies at 70%. The government earlier granted various foreign insurance companies exemptions from the rule.

In July, the central bank said foreign insurers operating in Malaysia will need to honor the promises they made when they originally applied for entry into the market. It said it "expects adherence to these agreements and will play a facilitative role to ensure these commitments are met."

Prudential, which has operated in Malaysia since 1924 through a subsidiary called

**Prudential Assurance Malaysia Bhd.**, has yet to decide on the structure of its share sale, people familiar with the matter said. A 30% stake sale of its unit could fetch close to \$1 billion, the people said. Prudential is the third-largest life insurance company in Malaysia based on net premiums.

Singapore's **Great Eastern Holdings Ltd.**, one of Malaysia's oldest life insurers and its second-largest by net premiums, has engaged at least one Malaysian bank to explore similar moves, which one per-

son familiar with the matter said could also raise close to \$1 billion.

Separately, Tokio Marine is considering an IPO in Malaysia that could raise \$100 million, while Switzerland-based property-and-casualty insurer **Chubb Ltd.** is also looking to sell a 30% stake that could raise up to \$50 million, the people said. These firms have no domestic shareholders.

A Prudential spokesman said the company remains committed to expanding its business in Malaysia, but declined to comment further. A Tokio Marine representative said the company is exploring options for complying with Malaysia's rules, but wouldn't comment further. Great Eastern and Chubb declined to comment.

Buyers of the foreign insurance-company stakes could include Malaysia's largest state pension fund, the **Employees Provident Fund**, as well as state asset manager **Permodalan Nasional Bhd.**, investment bankers say.

A pension-fund spokeswoman said "should the right opportunity arise, we will go through the EPF investment decision framework to ensure that it fits EPF's risk-return profile." Permodalan didn't respond to requests for comment.

# U.S. Agency Fines Two Groups Over Private Student Loans

BY YUKA HAYASHI

**WASHINGTON**—The Consumer Financial Protection Bureau said Monday that it has fined a large holder of private student loans and its debt collector, alleging they sought to go after debts based on false or misleading legal documents.

In a case that could potentially affect numerous student-loan borrowers, the regulator ordered the National Collegiate Student Loan Trusts to

audit the more than 800,000 loans in its portfolio and cease all collections for loans that are found to lack proper documentation.

The agency ordered the trusts to pay at least \$19.1 million, including \$3.5 million in refunds to borrowers who had been sued without documentation proving they actually owed the debts.

The National Collegiate Student Loan Trusts are 15 Delaware statutory trusts that hold loans originally extended by

major banks such as J.P. Morgan Chase & Co. and Bank of America Corp. Between 2001 and 2007, the trusts bought such loans and securitized them, selling notes secured by the loans to investors.

Donald Uderitz, founder of **Vantage Capital Group**, a private-equity firm that is the trusts' ultimate owner, said in a news release he "welcomed the intervention of the CFPB to help us put an end to these appalling practices." Mr. Uderitz put the blame on the

trusts' quasigovernmental loan servicer, called the Pennsylvania Higher Education Assistance Agency, which the trusts sued last year.

A PHEAA spokesman said the company was still reviewing Monday's news release from Vantage Capital but referred to a previous statement in which PHEAA stated it wasn't a party to any proceedings against the National Collegiate Student Loan Trusts' student-loan borrowers for default.

Mr. Uderitz said the combined assets of the trusts, one of the nation's largest investment pools of student loans, stand around \$8 billion.

The CFPB also ordered Transworld Systems Inc., which collected debts on behalf of the trusts, to pay a \$2.5 million penalty.

Transworld, of Lake Forest, Ill., said in a news release it was disappointed by the regulator's action, adding it disagreed with "the CFPB's characterizations, and with many

of the alleged facts in the consent order."

The CFPB alleged the National Collegiate Student Loan Trusts filed more than 2,000 lawsuits against consumers in violation of consumer financial protection laws and collected approximately \$22 million in judgments against consumers. In many of these lawsuits, the trusts didn't have or couldn't find the documentation to prove that the borrowers actually owed the debts, according to the CFPB.

WSJ TALK

/ EXPERIENCE / OFFER / GETAWAY



# Tennis Legends: Up Close with Chris Evert

Join Dow Jones EMEA Managing Director and Australian rugby legend Michael Lynagh for an exclusive conversation with women's tennis legend Chris Evert. Get insight into her key career learnings with a candid discussion about her professional experiences and serving as a role model.

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# MARKETS

## Talk of Vote Fuels Nikkei

BY SURYATAPA BHATTACHARYA

TOKYO—The Nikkei Stock Average rose above 20,000 on Tuesday and closed at its highest level in more than two years, spurred by talk of a parliamentary election that could reassure investors about Japan's growth prospects.

Prime Minister Shinzo Abe, whose approval ratings have climbed in recent weeks after falling as low as 30%, hinted Monday that he would call for an election of the lower house of Parliament. Local media said it would likely take place Oct. 22.

The Nikkei rose 389.88 points, or 2%, its best day in more than four months, to close at 20299.38, its best finish since Aug. 18, 2015.

"Historically, Japanese equity tends to do well around a general election," said Shusuke Yamada, a currency strategist with Bank of America Merrill Lynch in Tokyo. The election could be Mr. Abe's chance to "restore political capital and stability" at a time when the economy is on a healthy footing after growing for six consecutive quarters, Mr. Yamada said.

Japan's markets aren't expected to soar as they did in the election years of 2012—which brought Mr. Abe's party back to power—and 2014, when the last lower-house election was held and a coalition led by Mr. Abe's Liberal Democratic Party won more than two-thirds of the seats.

Japan no longer has much scope for monetary-policy expansion, so "I think it's different from those years, even though the bias could be upside," Mr. Yamada said.

Analysts say the Liberal Democratic Party-led government is likely to stay in power, and overseas investors have already started to adjust positions to price in an Abe win.

"Optimism is back in terms of government continuity," said Kyoya Okazawa, head of



Japan's stock market still is at only a little more than half its peak level in 1989.

global markets for Asia-Pacific with BNP Paribas, although he said profit-taking could kick in soon.

Mr. Abe's grip on power appeared threatened earlier this year when opposition parties pressed allegations that his government was helping friends with favors, particularly in one case where an old friend of the prime minister won permission to open a veterinary school. Mr. Abe said he wasn't involved in that decision and denied wrongdoing generally.

The wrangling raised the prospect of political disarray, or even a change of government that could upset Mr. Abe's stock-market-friendly policies such as loose monetary policy and pursuit of shareholder-driven corporate governance. But recently the scandals have died down.

Japan's markets were closed Monday for a national holiday when the yen started to weaken against the U.S. dollar. That added to the strength in stocks when the Nikkei opened Tuesday.

The yen was trading at about ¥110.50 to the U.S. dollar when Japan stock trading ended last week, and the greenback was as high as

### Election Hopes

The Nikkei Stock Average marked its highest closing level since August 2015.



Source: WSJ Market Data Group

THE WALL STREET JOURNAL

¥111.88 on Tuesday in Tokyo.

A weaker yen is often good for Japanese stocks because it raises the value in yen terms of the dollars earned by Japanese exporters overseas.

The Nikkei has done well this year even without help from currencies. While the dollar has weakened against the yen by about 4.5% this year, the Nikkei is up 6.2%.

Tokyo stocks were further helped by an overnight rally in the U.S. Japanese stocks have

been closely correlated with the U.S. over the past year.

Some support also comes from the Bank of Japan's ultraloose monetary policy. The central bank buys about ¥6 trillion (\$54 billion) worth of exchange-traded funds a year, helping prop up stock prices. The BOJ is expected to stand pat on its main policies after it concludes a two-day policy meeting Thursday.

Japan's market has long been a laggard and still is at only a little more than half its peak level in 1989, while the Dow Jones Industrial Average in the U.S. has repeatedly set records this year. In the past few sessions, however, Japan has outpaced U.S. indexes.

The Nikkei is less than 600 points from closing at its 2015 peak, which was the highest since 1996.

Analysts see sound medium-term fundamentals, including corporate profits, but also risks such as a possible further escalation in North Korea-related tensions or a U.S. economic slowdown that would hit Japanese companies.

"I don't know if 20000 will hold in the short-term, but beyond short-term Japanese equity still has an upside," said Mr. Yamada, the Bank of America Merrill Lynch strategist.

## U.S. Stocks Keep Inching Upward

BY MARINA FORCE  
AND MICHAEL WURSTHORN

U.S. stocks inched higher as investors braced for the Federal Reserve's policy decision this week.

The Dow Jones Industrial Average gained 43 points, or

0.2%, to 22374

TUESDAY'S MARKETS by early afternoon in New York. The S&P 500

added 0.1%

while the Nasdaq Composite rose 0.2%.

Major U.S. indexes have mostly drifted higher in recent trading sessions, with the S&P 500 and Dow industrials rising to records together Monday.

Some analysts attributed the lull in the stock market to investors holding off on bets ahead of the Fed's upcoming policy announcement. Many expect the central bank to announce Wednesday afternoon on the U.S. East Coast that it will keep rates unchanged and that it will start slowly unwinding its \$4.5 trillion balance sheet.

The Stoxx Europe 600 added less than 0.1%, posting its eighth advance in the past 10 trading sessions. Markets in Asia closed mixed, with Japan's Nikkei Stock Average jumping 2% to its highest close since August 2015 and Hong Kong's Hang Seng Index falling 0.4%.

"It's a really quiet market. People are in a wait-and-see mode ahead of the Fed meeting," said Bret Chesney, a senior portfolio manager at Alpine Global Management. "With the things I'm trading today, just nodding at the stock moves prices."

Still, any comments from the Fed that depart from expectations could shake up the markets, traders said.

"We could get some volatility tomorrow afternoon if the statement is considerably dif-

ferent from what we're expecting," said Thomas Wright, director of equities at JMP Securities.

The S&P 500 telecommunications sector jumped 2% on Tuesday, among the biggest gainers in the broad index, after CNBC reported that T-Mobile and Sprint were in active talks about a merger. Sprint rose 8%, while T-Mobile gained 4.4%.

Shares of health-care stocks lagged behind, sending the S&P 500 health-care sector down 0.6%. Insurer Aetna and kidney care company DaVita lost nearly 3% apiece.

Meanwhile, U.S. government-bond prices strengthened. The yield on the benchmark 10-year U.S. Treasury note slipped to 2.214%, according to Tradeweb, from 2.230% on Monday. Yields fall as bond prices rise.

Looking forward, investors hope to get more details on how quickly the Fed is likely to increase rates. Many have been skeptical the Fed will raise rates again soon, citing subdued inflation readings and concerns around the economic toll of major summer storms.

"The data that has been coming out from the U.S. has been a bit of a mixed bag...so I think it is maybe time for the Fed to take a break," said Trip Miller, managing partner at Gullane Capital Partners, who doubts the central bank will increase rates this year.

However, data last week showing a bigger-than-expected jump in U.S. consumer prices gave a fresh boost to investor expectations for one more rate rise in 2017.

Federal-funds futures, used by investors to place bets on the Fed's rate-policy outlook, showed Tuesday a 57% chance that the central bank will raise interest rates again by December, according to CME Group data, up from 41% a week ago.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

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## Why U.S. Oil Output May Surprise

### DUC Soup

Drilled but uncompleted wells in the Permian Basin



Source: U.S. Energy Information Administration

THE WALL STREET JOURNAL

search firm tallied the same drilling rigs tracked by the widely watched Baker Hughes North America Rig Count. Typically oil production follows changes in rig counts some months later. Between the end of July 2016 and the end of July 2017, the U.S. rig count mushroomed

by 107%, though it has since retreated slightly.

But the crucial step between drilling wells and producing oil—completion—has lagged behind. That means that the backlog of drilled but uncompleted wells, or DUCs, has risen and oil production may be lower than expected in the coming months. In the prolific Permian Basin alone, the number of DUCs was 2,330 in July, according to the EIA—an all-time high and an increase of 94% compared with a year earlier. Since that figure is now nearly two months old, the number might have continued moving higher even as the rig count declined.

The official estimates of production cuts has helped push up U.S. benchmark crude prices by about 8% to just under \$50 over the past

two months, with Brent rising even more. Restraint by shale drillers unable to generate decent cash returns is a bullish sign for oil prices.

Yet the buildup of DUCs is also bearish since it creates latent supply. Because the incremental cash cost to start pumping crude is low for a DUC, the payback period for an oil company is only a year or so. Even for wells not drilled, analysts at Citigroup estimate the break-even cost to drill and complete a well is just \$29 a barrel on a production-weighted basis for the drillers they cover once the costs of acreage and sunk capital costs are excluded.

Higher prices could get some of these wells pumping. Oil bulls need to get their DUCs in a row.

—Spencer Jakab

## In Pirelli's IPO, Are Costly Tires Worth It?

Car tires can be glamorous. But investors may be better off waiting before buying into Pirelli.

The

Milanese manufacturer

is due to relist its

shares early next month, less than two years after Chinese state-owned chemical group

ChemChina

took it private.

The

pricing bracket

announced last week values the

company at between €6.3

billion and €8.3 billion (\$7.5

billion and \$9.9 billion).

Pirelli supplies brands like

Ferrari and Lamborghini,

but it also specializes in the

extra-wide tires sold with SUVs

and on premium cars like

Mercedes and BMW.

This

business in particular has

been racing, underpinning a

business plan that forecasts

annual revenue growth at or

above 9% until 2020.

The

disproportionate

growth of more profitable

high-end tires should boost

Pirelli's

margins.

That

is all well and good,

but the latest results don't

play into management's

pitch:

Profits rose less than

1%.

Rising rubber costs

pushed Pirelli's raw-materials bill up 28.6% in the first

half compared with the same

period last year, squeezing

margins. The company will eventually pass most of the extra cost onto customers, but this could weigh on growth if some trade down to cheaper tires.

New ventures were another headwind. The company is developing "smart" tires with sensors that can feed data back to the driver. As the industry competes with Silicon Valley technology, notably electric and self-driving cars, such costs may become more common.

The bigger risk for investors is judging just how different Pirelli is from other tire makers. Most cover a wider range of price points and markets. The €8.3 billion valuation works out to about nine times next year's earnings before interest, taxes, depreciation and amortization. Michelin, Goodyear and Bridgestone all trade at about five times. Far ahead is Nokian, a Finnish company adept at feeding the replacement market for lucrative winter tires in Russia, at 10 times earnings.

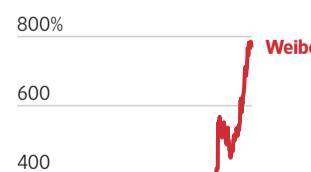
It could take time for the market to work out what premium Pirelli deserves. Cautious investors should wait.

—Stephen Wilmot

## How to Cash In on Chinese Internet

### Follow Me

Share-price performance



Sources: FactSet; Reuters (photo)

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Sina owns 46% of Weibo.

measures to raise the price, just perhaps not as energetically as Aristea wants. It distributed some of its Weibo shares—worth around \$1.5 billion—in October and July.

Sina could definitely do more, such as using some of its cash to buy back Sina shares. It is sitting on a net \$1.3 billion, a substantial lever for a company valued at \$8.2 billion. Sina could also distribute more Weibo shares. Sina could maintain control of Weibo even if it distributed almost half of its stake. Its shares are Class B, which have voting rights equivalent to three of the Class A shares that other investors own. It won't likely go to such an extreme, but this push by Aristea could nudge it