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Heir to the British Throne Is Christened

Associated Press

Prince William and the Duchess of Cambridge were at St. James's Palace, London, with their son, Prince George, for his christening Wednesday. The 3-month-old is third in line to Britain's throne.

Euro Zone Is Failing in Push For Closer Ties

Europe's quest to ensure the euro's long-term survival by forging a deeper political union is fizzling out.

By Marcus Walker in Berlin and Gabriele Steinhauser in Brussels

A European Union summit starting Thursday was meant to pave the way for tighter coordination of economic policies, but now is expected to make little progress. Many European officials say they are losing hope of reaching a deal in the next year to build elements of a common government for the 17 countries that use the euro, including shared spending, borrowing and support for banks and depositors.

Germany is leading the resistance. In Vilnius, Lithuania, last month, German Finance Minister Wolfgang Schäuble orchestrated a revolt against a proposal to let EU officials decide when euro-zone banks should be wound down or restructured.

The proposal was part of a "banking union" in which Europe as a whole would stand behind its lenders. Many countries favor the concept because it would take pressure off weaker countries to support their banks alone. But German officials see parts of it as a green light for EU bureaucrats in Brussels to spend Germany's money to rescue banks in Ireland or Spain. Mr. Schäuble mustered a coalition in Vilnius to block the proposal, recruiting EU members such as the U.K. that don't use the euro and don't want more powers for Brussels.

The quest for a deeper union was born last year at the height of financial-market panic in Europe, when fear was widespread that the euro might collapse. The crisis showed that sharing one currency among 17 countries with separate policies is an unstable formula. Although financial markets have calmed since then, the euro zone still is struggling with debt, unemployment and impaired banks, especially in Southern Europe.

European countries already have taken many steps

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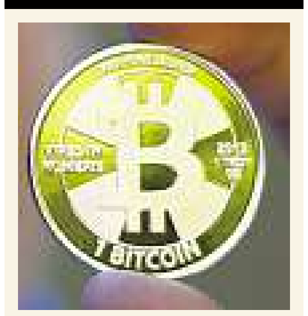

China's President Praises Group of Global Executives

By Laurie Burkitt

BEIJING—China has spent the past year telling foreign companies to clean up their acts. Names ranging from Apple Inc. to Starbucks Corp. to Volkswagen AG have come under intense scrutiny from government-controlled media for the way they treat Chinese customers.

So executives at some of the world's biggest multinational companies could perhaps be forgiven if they felt a sense of whiplash on Wednesday, when the country's top Communist Party official publicly sought their advice.

"Many of you are renowned entrepreneurs and business leaders in the world today and you all have profound insight on the global economy, so that is why we attach great importance to the suggestions you offer," Chinese President Xi Jinping told a group of nearly two dozen top foreign executives gathered in a building where Beijing entertains its most exalted guests. "Your suggestions are a very important source of inspiration for the Chinese government."

It wasn't clear whether the group had a chance to discuss business issues in the world's No. 2 economy—reporters were ushered out of Beijing's Diaoyutai State Guesthouse after Mr. Xi's remarks. But the remarks made in public were supportive. "You have all made positive contributions to China's education of economic management," he said. "I highly appreciate what you have done."

Mr. Xi spoke before a gathering of the advisory board of **Tsinghua University School of Economics and Management**, which includes executives from around the world intended to be a sounding board for business issues in China. Attendees from consumer-brand names included Coca-Cola Co. Chairman and Chief Executive Muhtar Kent, Wal-Mart Stores Inc. Chief Executive Mike Duke, PepsiCo

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Business & Finance

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■ **Retailers signed** safety pacts in the wake of the deadly Rana building collapse in Bangladesh, but an agreement on compensation for victims and their families is taking much longer. **9**

■ **GM and Peugeot** are having second thoughts about one of their joint projects, Peugeot said, warning their alliance may not produce the $2 billion in annual cost savings they had expected. **15**

■ **Orange reported** a further slide in profit in the third quarter, hit by a price war in its home French market that it expects to be felt into next year. **15**

■ **Caterpillar promised** a "lock-down" on costs after reporting a surprisingly steep 44% drop in third-quarter earnings. **15**

■ **Hollywood is losing ground** in China, the world's fastest-growing film market, accounting for 42% of receipts so far this year. Last year, American movies accounted for more than half. **17**

Agence France-Presse/Getty Images

HUH?!: A woman on a bicycle watches a life-size replica of a mammoth being pulled through the streets of the Czech town of Uherské Hradiště on Wednesday as it is moved to a building at the Museum of Moravian Slovakia. The area around the town in the country's southeast is known for archaeological discoveries.

■ **HTC is considering** outsourcing production to other companies as the Taiwanese smartphone maker looks for ways to cut costs and return to profitability. **18**

■ **Investors are seeking** at least $5.75 billion from J.P. Morgan in a bid to recover losses from mortgage-backed securities sold to them before the 2008 financial crisis. **19**

■ **Nasdaq's CEO said** his company is a credible buyer for NYSE Euronext and possesses the expertise and capacity to take on big European exchange deals. **19**

■ **Boeing said** its third-quarter earnings rose 12% as strength in its commercial-aircraft business offset weaker profit at its defense division. **20**

■ **China took** a significant step to deal with an explosion of borrowing among local governments by allowing more of them to issue short-term debt to help pay off maturing bonds and loans. **20**

■ **Glaxo's sales** of pharmaceuticals and vaccines dropped 61% in China in the third quarter in the wake of Beijing's investigation into alleged bribery. **20**

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■ **Debt-laden Puerto Rico has** paid Wall Street securities firms, lawyers and others about $1.4 billion in fees tied to $61 billion in bond deals since 2006. **22**

* * *

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■ **An Italian court ordered** Berlusconi to stand trial on corruption charges for having allegedly bribed a senator to switch political parties, a move that contributed to the fall of a center-left government in 2008. **3**

■ **Pope Francis suspended** a German bishop whose $42 million home renovation stirred outrage in Germany and highlighted the hidden wealth of the country's Catholic institutions. **4**

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■ **The Obama administration** turned to Zients to help fix the problems plaguing its online health-insurance marketplace, tapping someone with a reputation in the White House as a crisis manager. **7**

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ECB to Review Banks
europe.wsj.com

'[The bank review] is an important step forward for Europe and for the future of the euro area economy.'

ECB President **Mario Draghi**.

WorldStream

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Best of the Blogs

Currency traders and investors love trends. When a major currency picks out a clear direction and pretty much sticks to it, they rake it in. So presumably, they are jumping for joy about the rise and rise of the euro?

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EUROPE NEWS

Berlusconi Faces New Trial for Bribery

By Manuela Mesco

MILAN—An Italian court Friday ordered conservative leader Silvio Berlusconi to stand trial on corruption charges for having allegedly bribed a senator to switch political parties, a move that contributed to the fall of a center-left government in 2008.

The new trial, slated to start Feb. 11 in Naples, is the latest of many legal troubles for Mr. Berlusconi and adds to mounting questions about the 77-year-old media mogul's political future.

Although facing a two-year ban from holding public office following a tax-fraud conviction, the three-time former premier still heads the center-right People of Freedom party—whose support Prime Minister Enrico Letta depends on for the survival of his fragile government.

In the new trial, Naples prosecutors allege that Mr. Berlusconi—who was in the opposition at the time—paid €3 million ($4.1 million) to then-senator Sergio De Gregorio, whose small party was supporting the center-left government at the time, led by Romano Prodi.

Prosecutors allege that the aim of the payments, made in 2007 and 2008, was to convince Mr. De Gregorio, who is from Naples, to throw his support to Mr. Berlusconi's center-right party, thereby eroding Mr. Prodi's razor-thin majority in the Senate.

Mr. Berlusconi denies the charges of corruption, but admits having paid €1 million to Mr. De Gregorio's party in 2007. He said that the sum was a political contribution given in exchange for Mr. De Gregorio's support. Mr. Berlusconi maintains that this payment was legal.

Prosecutors allege that Mr. Berlusconi paid another €2 million as a bribe to convince Mr. De Gregorio to withdraw his support from Mr. Prodi's government. This was allegedly given to Mr. De Gregorio in cash by an associate, Valter Lavitola, prosecutors say.

Mr. Berlusconi denies having paid the €2 million. He and Mr. Lavitola will stand trial together.

Mr. De Gregorio has admitted to having received the €3 million bribe and was given a 20-month suspended sentence, meaning he will serve no jail time provided he exhibits good behavior for five years.

During a preliminary hearing Wednesday, Mr. Lavitola admitted having given money to Mr. De Gregorio but denied knowing that the money was a bribe. He claimed the sum was related to other businesses and was unconnected to Mr. Berlusconi, said Mr. Lavitola's lawyer, Guido Iaccarino.

Mr. De Gregorio became the first of a number of senators to abandon the center-left coalition led by Mr. Prodi—a longtime nemesis of Mr. Berlusconi.

The Prodi government fell in February 2008 and Mr. Berlusconi won the subsequent election, serving then as prime minister until 2011.

Latest Possible U.S. Spy Target: Merkel

By *Anton Troianovski* in Berlin and *Jared A. Favole* in Washington

Germany said it believed that U.S. intelligence agencies may be spying on Chancellor Angela Merkel's cellphone, an intrusion that it said would constitute a "grave breach of trust" between the long-time allies.

Ms. Merkel called President Barack Obama on Wednesday and made clear that such surveillance among allies would be "fully unacceptable," her spokesman, Steffen Seibert, said in a statement released late Wednesday in Berlin.

Mr. Obama assured the German leader that the U.S. isn't monitoring her communications, a White House spokesman said. It was unclear whether such surveillance may have occurred in the past, however.

"The government has received information that the mobile phone of the chancellor may be under surveillance by U.S. agencies," the German government's statement said. "We have made an urgent inquiry to our American partners and have asked for an immediate and comprehensive explanation."

Mr. Seibert said Ms. Merkel expected U.S. agencies to explain their overall surveillance practices against Germany, "questions that the German government asked months ago."

Germany's highly unusual statement and strong words came as Der Spiegel, a German weekly, was working on a related story, the publication reported on its website.

Der Spiegel didn't say what sources its research was based on, but the magazine has published a series of articles in recent months based on documents from former National Security Agency contractor Edward Snowden.

The White House said Mr. Obama assured Ms. Merkel in a call Wednesday that the United States "is not monitoring and will not monitor the communications of Chancellor Merkel."

"The United States greatly values our close cooperation with Germany on a broad range of shared security challenges," White House spokesman Jay Carney said.

Ms. Merkel's spokesman used sharp language in describing the possible surveillance.

In her call with Mr. Obama, Ms. Merkel said she "unequivocally deplores such practices and sees them as completely unacceptable," according to Mr. Seibert.

"Between close friends and partners, as Germany and the United States have been for decades, such surveillance of the communications of heads of government cannot exist," Mr. Seibert said. "This would be a grave breach of trust."

Ms. Merkel sends text messages frequently, sometimes in public.

European Pressphoto Agency

The official residence in Limburg of Bishop Franz-Peter Tebartz-van Elst, where the cost of renovations hit €31 million.

Vatican Puts 'Bishop of Bling' On Suspension Over Spending

By Anton Troianovski

BERLIN—Pope Francis suspended a German bishop whose $42 million home renovation stirred outrage in Germany and highlighted the hidden wealth of the country's Catholic institutions.

The Vatican said the suspension of Limburg Bishop Franz-Peter Tebartz-van Elst would be indefinite, pending an investigation into who bore responsibility for dramatic cost overruns at his official residence.

The Limburg diocese, home to some 650,000 Catholics in a swath of western Germany that includes Frankfurt, disclosed two weeks ago that the cost of the renovation and reconstruction of the bishop's residence had risen from an original budget of €5.5 million to €31 million, or $42 million.

The disclosure sparked a firestorm as tabloids detailed the costly items, such as a €15,000 bathtub, allegedly ordered by a man they dubbed "the Bishop of Bling." Der Spiegel, the leading newsmagazine, put him on its cover wearing a bishop's robe digitally modified to look like a pink 500-euro note.

But beyond the ridicule directed at Bishop Tebartz-van Elst, who has been out of the public eye since a brief audience with the pope on Monday, Germans are questioning the way religious institutions in the country are financed and whether the German church's wealth fits with the example of humility being set by the new pope.

"There has been a massive loss of trust," said Alois Glück, president of the largest organization of lay German Catholics. "There is too little transparency in too much of the church."

Catholic and Protestant institutions are funded in part by taxes paid by people who declare they are members of those churches. The Catholic Church in Germany took in €5.2 billion that way last year.

But many dioceses including Limburg also control significant wealth acquired over centuries in real estate and other assets, which they aren't required to detail publicly.

The spotlight on wealth has been especially jarring in the context of the modest style of the new pope. Pope Francis has urged bishops to avoid "the psychology of princes" and prefers being driven in a Ford Focus; the magazine Stern reported this week that of Germany's 27 bishops, 15 ride in BMWs, four in Audis, and three in Mercedes.

In Wiesbaden, a city of about 300,000 in the Limburg diocese, people have been officially quitting the church in unusually large numbers in recent weeks, according to Martin Blanke, president of the local district court. On a single day last week, 25 people quit their church—more than in a typical week last year.

"Over and over again, without anyone asking, people kept telling us, 'We're here because of the bishop,' " Mr. Blanke said.

He said that while the people cutting their church ties last week were overwhelmingly Catholics, the incidence remained elevated this week—and included roughly equal numbers of Catholics and Protestants.

Mr. Glück called church exits only "the tip of the iceberg" in looking at the damage done by the Limburg scandal. He said his organization would work with the German Bishops' Conference to possibly put together new guidelines to encourage dioceses to be more transparent about their wealth.

Prominent Catholic critics, including a member of the committee that oversees the diocese's assets, have accused Bishop Tebartz-van Elst of having been dishonest about the plans and of ordering exorbitantly expensive furnishings, such as €350,000 built-in closets.

The diocese has declined to comment on many of the claims, but noted that the bishop's new residence includes a conference room and offices as well as the bishop's living quarters.

—Liam Moloney in Rome contributed to this article.

ECB Begins Bank Review In First Test of New Powers

By Brian Blackstone and Christopher Lawton

FRANKFURT—The European Central Bank has launched a planned yearlong review of the balance sheets of more than 100 euro-zone financial institutions from Estonia to Germany to Portugal.

The central bank said that its aim is to bolster confidence in European banks, which should in turn spur new lending to the private sector, helping the economy heal.

"A single comprehensive assessment, uniformly applied to all significant banks...is an important step forward for Europe and for the future of the euro-area economy," ECB President Mario Draghi said Wednesday.

Previous attempts to shed light on the resilience of euro-zone bank balance sheets, including a stress test in 2011 by the London-based European Banking Authority and a separate capital exercise by the EBA last year, failed to quell doubts. The stress tests in particular were heavily compromised by the lack of political will to provide money to cope with capital shortfalls. A number of banks passed those tests only to collapse shortly afterward.

Despite record-low ECB interest rates and abundant cash in the banking system, lending to the private sector continues to shrink in the euro zone. Small businesses in recession-ravaged Southern Europe pay far higher interest rates on loans than do their German counterparts, weighing on investment and hiring.

The ECB has a powerful incentive to identify any problems banks may have hidden on their balance sheets. Once it has completed its review, it will start supervising the banks itself in late 2014—and will also have to take responsibility for any problems that subsequently appear on their balance sheets.

The central bank said the asset review will include sovereign, institutional, corporate and retail exposures. The ECB will examine the banking and trading books of financial institutions, as well as on-balance-sheet and off-balance-sheet exposures such as credit derivatives.

As part of the planned asset-review exercise and stress tests, the ECB said it would ask banks included in the assessment to set aside 8% of their risk-adjusted capital as buffers against losses. However, it signaled it wouldn't rely entirely on the risk-weightings banks themselves assign to their assets.

It gave itself the power to make "any necessary adjustments" to risk weights, and it also said it would assess banks' leverage ratios as a cross-check. Leverage ratios are a simple measure of assets relative to capital, unadjusted for any subjective decisions on risk. The central bank will also use a common definition provided by the EBA to determine when loans turn bad.

But the ECB will cut banks some slack in assessing their capital. It will take the definition provided in the European Union's latest Capital Requirements Directive, which incorporates some generous transitional arrangements before a stricter and more harmonized definition comes into force in 2018. Many euro-zone banks still rely on forms of capital that get either limited or no recognition under the so-called Basel III accords.

Shares of European banks fell after the ECB announcement. Traders attributed some of the losses to profit-taking after a string of gains, though confirmation of the 8% buffer appeared to have played a role.

8%

Amount of risk-adjusted capital banks will need as buffers against losses

The effort is particularly pressing because banks play a much larger role in passing money to the real economy in the euro zone than they do elsewhere. Not only do companies in the euro zone generally operate with higher proportions of debt than in the U.S., they also get more of that debt from banks, rather than from bond markets.

But some analysts question whether the central bank's review will restore trust, noting that governments have yet to create a decisive, publicly funded backstop as the U.S. did four years ago, raising doubts about where the money will come from to recapitalize weak banks. Under its plan, any uncovered capital holes should first be plugged by banks raising funds in the private sector. Euro-zone governments have agreed to make up to €50 billion ($69 billion) available for recapitalizations, but they remain at odds over the conditions under which such funds will be granted.

Under parallel European proposals, shareholders and some debtholders would have to suffer losses before any taxpayer funds could be mobilized.

—Christopher Lawton and Michael Denzin contributed to this article.

Left to right: Getty Images, Agence France-Presse/Getty Images (2)

Germany's Angela Merkel, left, and Wolfgang Schäuble, right, are leading the resistance to plans for closer ties advocated by European Council President Herman Van Rompuy, center.

Push for Closer Union Eludes the Euro Zone

Continued from first page

to bolster their currency union, establishing a permanent bailout fund, new rules to prevent fiscal profligacy, and a stronger European Central Bank that can stabilize bond markets and will soon supervise big banks across the bloc.

But advocates of tighter integration believe that the euro zone needs to go further by borrowing elements from the American system of federalism. Many proposals reflect a belief that the euro zone needs to partially mimic the U.S., where the dollar works well across all states partly because of budgets, bonds, financial oversight and depositor protection at the national level.

Jörg Asmussen, a German executive-board member at the European Central Bank, says the debt crisis showed the monetary union wasn't finished. "If we don't complete it, we will remain vulnerable to shocks," he says.

Over the past year, however, the political winds have shifted. Interviews with more than a dozen officials across Europe reveal how plans for deeper integration have run aground as financial markets have calmed and mistrust has simmered between power centers including Berlin, Brussels and Paris.

The push to build a more stable currency union arose from a May 2012 dinner, when Europe's leaders charged top EU officials with figuring out a plan. European Council President Herman Van Rompuy, a Belgian conservative who writes haikus in his spare time, led the effort.

At the time, massive capital flight from Italy and Spain was threatening to unravel the euro. Observers on both sides of the Atlantic were saying the euro zone needed an "Alexander Hamilton moment," akin to the 1790 move by the U.S. Treasury secretary to take over states' debts, which turned the U.S. into a deeper economic and political union.

During the summer of 2012, Mr. Van Rompuy and his colleagues worked on proposals that echoed the view of many economists in the U.S. and Europe: The euro zone needed to become a little more like America by replicating some of the functions of U.S. federal authorities.

To work properly, the EU officials believed, the euro zone needed a central budget or "fiscal capacity," which would help cushion crisis-hit countries, for example, by funding some of the rising cost of unemployment benefits in a slump. The "fiscal capacity" would eventually be able to borrow money by selling bonds guaranteed by the euro zone collectively.

In a written report, the group led by Mr. Van Rompuy also proposed a banking union, with a common safety net for stricken banks, and federal deposit insurance. It called for closely aligning euro members' economic policies and said Europe's strengthened central authorities should be either elected or accountable to elected officials.

In late June, the European federalists won their first big victory: German Chancellor Angela Merkel agreed to deploy the bloc's collective financial strength to save ailing banks, relieving pressure on cash-strapped nations facing a banking crisis. In return, the bloc agreed to unify supervision of the region's lenders.

By fall, the European Central Bank's pledge to intervene massively in bond markets had calmed the financial-market panic. The move bought time for governments to address the euro's flaws. But it also reduced the pressure to take politically unpopular steps.

Mr. Schäuble, the German finance minister, fought to water down the banking union that Ms. Merkel had assented to in June under pressure from France, Italy and Spain. Those three countries saw their "victory in battle" undone by German-led "guerrilla attacks," a senior Italian official said.

One such incident occurred that September, when Mr. Schäuble met with his Finnish and Dutch counterparts at a country mansion outside Helsinki. Without consulting other euro members, the three finance ministers issued a statement that said: "Legacy assets should be under the responsibility of national authorities." It was a refusal to pay for cleaning up Southern European banks.

A summit meeting in December in Brussels proved a turning point for the proposed fiscal union. Before flying to the gathering, Ms. Merkel described Mr. Van Rompuy's report—supposedly the blueprint for the euro's future—as merely a "background document."

When she arrived, Ms. Merkel rejected Mr. Van Rompuy's euro-zone budget. She said she was prepared to offer small-scale funding for economic reforms—but not for Europe-wide unemployment insurance or stimulus spending to fight recessions, according to people who were there. Germany had already shown enough "solidarity" by supporting the bloc's bailout fund, she told her counterparts over dinner.

Germany saw the European Commission as too eager to spend Germany's money and too soft on indebted Southern European countries.

Mr. Van Rompuy thought he could count on French support. Signals from Paris had led him to believe that President François Hollande would help push Ms. Merkel to soften her stance, people familiar with the matter say.

But when Mr. Van Rompuy sought the Frenchman's backing, Mr. Hollande kept quiet, officials familiar with the discussion say. Other EU officials were left scratching their heads. French officials say their leader had concluded that fiscal union was realistic only as a long-term aspiration.

This year, Ms. Merkel changed her tone on the "political union" she had called for in 2012. The lingering economic crisis had turned public opinion against EU institutions such as the European Commission, the bloc's executive arm. Germany, the most powerful euro member, saw the commission as too eager to spend Germany's money and too soft on indebted Southern European countries.

Ms. Merkel backed away from a major rewrite of EU treaties, instead pushing for a limited change only to allow more economic-policy controls. This summer, she said she opposes more rights for the commission or the European Parliament. German officials have begun talking about taking some powers back from the EU.

The split between Berlin and the euro-zone majority was readily apparent in Brussels on the morning of Oct. 3, when top aides to European leaders, known as "Sherpas," gathered to prepare this week's EU summit.

Ms. Merkel's adviser on Europe, Nikolaus Meyer-Landrut, argued that further integration should focus on a limited goal: enforcing stiffer discipline in the economic policies of member counties to improve their competitiveness. He proposed that EU leaders attending the meeting agree on a set of indicators, such as rising labor costs, that would signal when a country's economy is veering off course. He also said national governments should sign binding promises on economic overhauls the EU leaders would monitor.

The German proposal found no takers. French presidential aide Philippe Leglise-Costa argued that the focus shouldn't be on only competitiveness, and that monitoring of countries' performance should also include "social cohesion." Other countries, meanwhile, insisted that any further handover of economic control would have to come with financial incentives.

Southern European countries were interested only in Germany's money, one Northern European delegate said after the Oct. 3 meeting. "They had dollar signs in their eyes," he said. A delegate from Southern Europe, meanwhile, said Berlin wants European unity based only on discipline and controls, which the official called "politically and economically unsustainable."

Guntram Wolff, director of Brussels think tank Bruegel, said that across a range of issues, "Germany thinks more and more that we should move back to a model where countries are responsible on their own." Without a fiscal, political and banking union, he argues, "we will have a euro that just survives, but not one that functions well."

—Gabriele Parussini and William Horobin in Paris contributed to this article.

Export Problem: Someone Has to Import

[Capital]

By David Wessel

Now that Washington has reopened the government and averted potential default, the global spotlight will shift back to the euro zone.

Europe has a way of making the U.S. economy look good. In the U.S., the unemployment rate is a still-high 7.2%. In the 17 countries that share the euro, it's 12%, ranging from 5.2% in Germany to 26.2% in Spain.

Neither the U.S. nor Europe has a compelling strategy to boost the slow pace of economic growth. But Europe in particular has stumbled onto a short-term approach that can't last: Make the rest of Europe more like frugal Germany, relying heavily on exports rather than on domestic consumer spending and business investment.

Any one economy can prosper by exporting to the rest of the world, even a large one. Germany has proven that. By International Monetary Fund estimates, the broadest measure of Germany's trade balance, the current account, will be a 6% surplus. That's big. China, the much-feared export powerhouse, will run a 2.5% surplus.

But not every economy can be a net seller to the rest of the world; someone has to be the buyer. For a long time, it was the borrow-and-spend U.S. consumer. That chapter is closing.

The euro zone was created for several reasons, not all economic. A big one was the fervent desire of European wise men to bind Germany and France together so they'd never again go to war. One economic argument was to meld national economies into a "single market" resembling the U.S., a big economy that makes most of what it consumes and consumes most of what it makes and, thus, is a little less vulnerable to the ups and downs of the rest of the world.

For a time, the euro zone as a whole seemed to be pulling it off. Its trade with the rest of the world was roughly in balance, sometimes a small surplus, sometimes a small deficit. Internally, it was a different story: Germany exported a lot and lent money mainly to Southern Europe, which imported a lot.

The global financial crisis ended that: Spain, Italy, Greece, Portugal and Ireland couldn't keep borrowing, which meant they couldn't keep importing. They were told to get more competitive—to increase productivity, or output per hour of work, and reduce wages and prices to make their exports more attractive.

To some extent the weaker economies took the advice. Spain's central bank says the country eked out quarter-over-quarter growth of 0.1% in the third quarter, marking the end of two years of recession. Domestic demand accounted for minus 0.3 percentage point and exports for a positive 0.4 percentage point. Exports are running 6.6% ahead of last year.

"This approach is full of risk," says Paul de Grauwe of the London School of Economics. "You want to improve your competitive position by reducing wages. That will improve your competitiveness but it takes a while and by reducing wages, you reduce purchasing power and domestic consumption."

What's more, much of the increase in Spain's exports isn't to Europe. "External demand from the rest of the world has so far been the main driver of export performance," the International Monetary Fund notes. It estimates that between 40% and 50% of the upturn in exports from Germany and Spain since late 2008 came from outside the euro zone; for Portugal, all of it was from outside the euro zone.

As a result, the euro zone's trade surplus with the rest of the world has gone from 0.8% of gross domestic product in 2011 to 1.3% in 2012 to 2.2% in the second quarter of 2013. Much of this is the inevitable consequence of Europe's lousy economy: When people buy less, their countries import less.

Exporting more outside Europe is certainly better than not exporting at all. But it isn't sustainable. The slowdown in some big emerging markets, including China, and the tepid pace of growth in the U.S. surely will constrain Europe's export growth at some point.

If Spain, Portugal, Italy and others are to export more, someone in Europe has to import more. With its usual delicacy, the IMF has lectured Europe on this point: "Stronger domestic demand in surplus economies"—that means you, Germany—"is critical to support stronger demand in the euro area as a whole and help sustain a rebound in exports from deficit economies."

Germany, suffering a public and private investment drought, can borrow at a 1.8% rate these days on its 10-year government bonds to invest more in infrastructure, energy, whatever, thus increasing demand in Europe. Those investments surely would yield a return better than 1.8%, but, Mr. de Grauwe says, "the German fear of debt in this case is irrational."

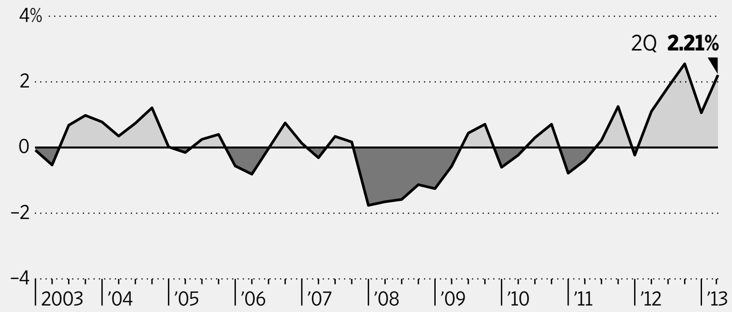
The rising euro, now at its highest level in nearly two years, is a threat, as well. It makes European wares more costly outside the euro zone. But a rising euro doesn't make Spanish olives, auto parts or hotels more costly to Germans—if only they were buying.

Without a shift in strategy, Europe is dooming itself to a decade or more of stagnation.

Europe's Reliance on Foreign Demand

By the broadest measure of trade balance, the euro zone has gone from small surpluses and deficits to a growing surplus.

Current-account deficit and surplus as a percentage of GDP



Source: European Central Bank

The Wall Street Journal

Spain's Growth Cheers Europe

Spain's central bank on Wednesday said a two-year recession in the euro zone's fourth-largest economy ended in the third quarter when it generated 0.1% growth from the previous quarter, in line with government projections.

*By **David Román** in Madrid, **Neelabh Chaturvedi** and **Paul Hannon** in London*

In the first official estimate for Spain's economic performance in the quarter, the Bank of Spain said the improvement was driven by stronger exports and lower imports, continuing trends in previous quarters.

"The data released today is evidence that Spain's economic recovery is slowly picking up the pace," Prime Minister Mariano Rajoy told a business conference in Barcelona.

A return to Spanish growth likely will feed hopes the euro-zone economy is emerging from a three-year crisis that was triggered by doubts about the soundness of Europe's banks and rising government debt.

The turnaround in Spain will add to expectations the euro-zone economy grew again in the three months through September, having expanded in the second quarter after 18 months of contraction.

And a survey of consumers in the currency zone on Wednesday showed a continued pickup in confidence that should support household spending in coming months.

"Psychologically speaking, the rise in Spanish gross domestic product, after more than two years of contraction, marks a turning point in the euro-zone crisis," said Nicholas Spiro, managing director at Spiro Sovereign Strategy.

But figures released by the European Union on Wednesday showed the euro zone has yet to get atop one of its most pressing problems, as government debt continued to rise in the second quarter. The combined debt of the 17 members of the euro zone rose to 93.4% of economic output in the second quarter, from 92.3% in the first and 89.9% a year earlier.

The Spanish economy's return to growth was cheered by financial markets, with 10-year Spanish government bond prices climbing to near their highest levels in over five months. The yield on the benchmark 10-year bond, which moves inversely to prices, fell 0.06 percentage point from Tuesday's close to 4.14% soon after the Bank of Spain's statement.

The extra yield demanded by investors to hold Spanish bonds instead of German Bunds—the euro-zone benchmark—shrank to 2.37 percentage points, the smallest in two years.

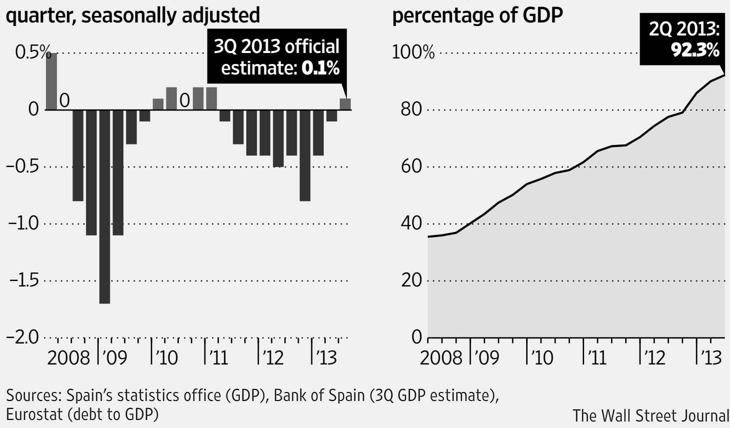
"This is another sign that the euro zone is doing the right things to come out of recession," said Iain Stealey, a portfolio manager at J.P. Morgan Asset Management, which has $370 billion in fixed-income assets under management, including Spanish government bonds.

Mr. Spiro, however, said Spain's economy "is hardly roaring back to life" and remains mired in a domestically driven downturn that must be left behind before the country sees a meaningful recovery.

Central bank data showed Spain's domestic demand contracted 0.3% quarter-to-quarter, the same as in the previous three months, largely due to lower government spending combined with a minor, though significant, pickup in household spending—the first such positive reading in six quarters.

The Good and the Bad

Spain's economy emerged from a two-year recession in the third quarter, but government debt in Spain, and across the euro zone, keeps rising.



Sources: Spain's statistics office (GDP), Bank of Spain (3Q GDP estimate), Eurostat (debt to GDP)

The Wall Street Journal

Russia Reduces Charges Against Oil-Rig Activists

By Paul Sonne

MOSCOW—Russian authorities scrapped piracy charges against a group of Greenpeace activists who tried to scale a Barents Sea oil rig and instead charged them with hooliganism, a crime that carries a punishment of up to seven years in prison.

The move came after strong international criticism over the piracy charge that carried a punishment of up to 15 years in jail. It also followed Russian President Vladimir Putin's remarks that the 30 people aboard the Netherlands-flagged Greenpeace vessel broke the law, but weren't pirates.

Earlier in the day, Russia's Ministry of Foreign Affairs refused to engage in arbitration that the Netherlands initiated at an international sea tribunal for the release of the vessel—named the Arctic Sunrise—and its crew.

The ministry said it wouldn't attend an arbitration hearing at the independent tribunal in Hamburg, Germany that adjudicates disputes among nations that have ratified the United Nations Convention on the Law of the Sea. But it said it was "open to settling the situation."

Meantime, the Russian federal body bringing the charges—known as the Investigative Committee—interviewed the activists in the northern city of Murmansk, where they have been held without bail since their arrival there Sept. 24.

The committee on Wednesday criticized the defendants for being unhelpful in interviews. Their refusal to provide evidence "gives the investigating bodies full cause to carefully check all the possible versions of events, including the seizure of the platform for motives such as financial gain, terrorism, illegal scientific research activities and espionage," the committee said.

And it said it wouldn't rule out the possibility of charging a select number of the defendants with using force against law-enforcement officers.

Late on Wednesday, Greenpeace said that the hooliganism charges are "wildly disproportionate" and that its activists "are no more hooligans than they were pirates."

"It represents nothing less than an assault on the very principle of peaceful protest," Vladimir Chuprov, a representative of Greenpeace Russia, said in the statement. He said the activists, who hail from countries including the U.S., Russia and the U.K., were protesting peacefully.

The charges stem from a Sept. 18 incident in which the Arctic Sunrise sailed close to the far-northern oil platform and allegedly dispatched activists onto inflatable boats to try to reach the facility.

A pair of activists allegedly began scaling the installation but were repelled by water cannon. The rest were intercepted by Russian officers who had boarded their own inflatable boats to ward off the activists.

The Prirazlomnaya platform is run by Russian state energy giant **Gazprom**. It is set to start pumping oil this year in what will mark Russia's first offshore Arctic output.

Greenpeace says drilling in the Arctic risks damaging animal habitats and questions whether authorities would be able to contain a spill in such a remote location.

U.S. NEWS

Obama Races to Fix Flawed Health Site

By Colleen McCain Nelson
And Louise Radnofsky

The Obama administration on Tuesday turned to Jeffrey Zients to help fix the widespread problems plaguing its online health-insurance marketplace, tapping a trusted adviser who gained a reputation in the White House as a crisis manager.

The move—the first shakeup of top personnel since the troubled rollout Oct. 1 of the federal government's HealthCare.gov website—comes a day after President Barack Obama acknowledged the site's poor functioning and said "nobody's madder than me" about it.

Mr. Zients, who previously served as acting director of the Office of Management and Budget, will face a steep challenge in fixing the federally run marketplace, which is designed to offer health-insurance choices to those who can't get coverage from their employer or a government program in 36 states that have declined to run their own exchanges.

The government has addressed some problems, including a technical flaw that had blocked most people from viewing their options, but others have emerged.


Getty Images
Jeffrey Zients, who has helped manage previous crises, has been picked to help.

The administration said Mr. Zients would provide "management advice and counsel" to the Health and Human Services team that is now scrambling to address the technical issues.

The appointment puts a face on the "tech surge" the administration announced last weekend, but much remains unclear. The administration declined to name other hires or spell out the organizational chart, but described some new team members as "veterans of top Silicon Valley companies."

Some Republicans have called for the resignation of Kathleen Sebelius, who as secretary of HHS ultimately oversees the new marketplace.

HHS said Mr. Zients was unavailable for comment on Tuesday.

The administration confirmed that a handful of presidential innovation fellows, technology experts who serve stints at government agencies, were among the reinforcements, but didn't say which ones. The Wall Street Journal reported Sunday that some fellows arrived Friday at the Herndon, Va., facility of **CGI Group** Inc., the lead contractor working on the exchange.

At the Office of Management and Budget from 2009 until April, Mr. Zients has acted as both the framer of the administration's budget message and a liaison to the business community.

The former Bain & Co. consultant played a key role, though largely behind the scenes, in previous budget battles with Republicans and in the administration's preparations for dealing with the so-called fiscal cliff.

During Mr. Obama's first term, Mr. Zients was called upon to help fix glitches with the website for the "cash for clunkers" program.

"He has the trust of the people in the White House, and he has been given difficult tasks before," said Kenneth Baer, a former associate director at the Office of Management and Budget. "He brings a set of approaches and tools that are de rigueur for corporate America but not for Washington."

Mr. Baer added: "Jeff is not going to get under the hood and be up all night coding—that's not his skill."

This will be a temporary assignment for Mr. Zients, who is slated to become the next director of the National Economic Council on Jan. 1. He left the White House earlier this year.

Larry Kocot, who helped set up the Medicare prescription-drug benefit in the George W. Bush administration, said he doubted personnel changes could quickly fix problems with the system and architecture. "I think they have some of the most competent people in government working on this already," he said. "I don't know that that's necessarily going to be the magic bullet."

Three weeks since the site's launch, the initially optimistic statements by officials—that fixes were relatively straightforward, and delays would only be temporary—have given way to more guarded statements. Officials now say they intend to have fixes as soon as possible.

WORLD NEWS

Bitcoin Poses Test to Law Enforcement

By Danny Yadron
And Devlin Barrett

The rise of Bitcoin, the little-regulated digital currency, is challenging law enforcement's ability to keep tabs on the criminal underworld.

The virtual currency is essentially encrypted computer code that is accepted as a form of payment among users, with a fluctuating value set by a market and not by any country or central bank. For those reasons and more, it can be extremely difficult to trace—similar to paying with cash—and thus could be attractive to criminals. In a number of cases, the use of bitcoin has made it harder for police to track financial transactions or seize criminal profits, law-enforcement officials said.

"Law enforcement has to figure out a way to deal with it," said one senior law-enforcement official, who also acknowledged Bitcoin has legitimate uses. (Currency investors and some Web-services sites have adopted it, among others.)

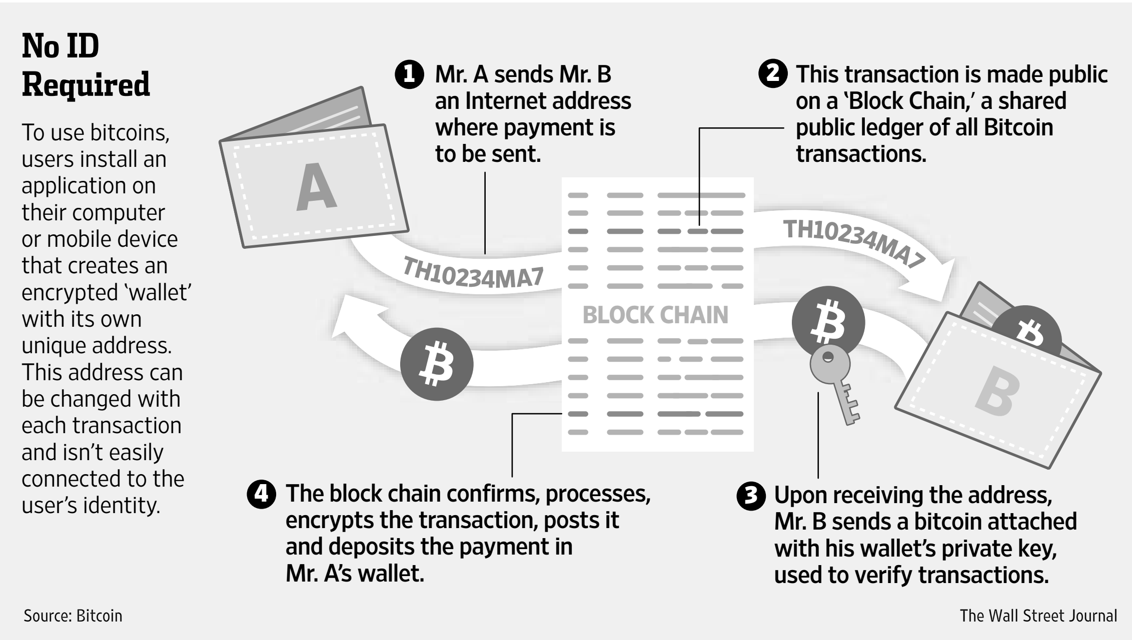
In April, the Drug Enforcement Administration, in the first-known federal bitcoin seizure, took 11.02 bitcoins—or nearly $2,200 at current rates—from a hospitality worker who lives in South Carolina, but they haven't charged him with a crime. Eric Daniel Hughes, who the DEA says was also known as Casey Jones, says the bitcoins didn't belong to him, his lawyer David Aylor said.

The Los Angeles office for the DEA, which made the seizure, hasn't made public what it contended Mr. Hughes was doing with the bitcoins, and says only that the seizure is part of a continuing investigation. (Mr. Hughes also faces state drug-possession charges following a June raid on his apartment. He has pleaded not guilty in that case, which his attorney says is unrelated to the bitcoin seizure.)

A larger case involving an online drug market that relied on the virtual currency, unsealed this month, has put Bitcoin under even more of a microscope. Federal agents shuttered the online market known as Silk Road, which has hundreds of thousands of participants, according to the criminal complaint. Despite seizing the website's servers, federal agents have been unable to access much of the alleged ringleader's encrypted bitcoin fortune. At current exchange rates, Silk Road took in more than $120 million in commission while the government has announced seizing $5.2 million worth of bitcoins.

A spokeswoman for the U.S. attorney's office in the Southern District of the New York, which is pursuing the case, declined to comment. Joshua Dratel, defense lawyer for alleged Silk Road administrator Ross Ulbricht, said in an interview that the government will have to prove that bitcoins it seized from a Silk Road account were controlled by his client. "That is a hurdle that the government is going to have to address," Mr. Dratel said. Mr. Ulbricht remains in custody and denies all charges.

"Bitcoins seek to be virtually untraceable, leaving the buyers and sellers of drugs seemingly hidden from law enforcement," said DEA spokesman Lawrence Payne. "As for investigations, law enforcement is keeping up with every new method criminals are using to evade authorities."



Bitcoins also can be bought on online exchanges, similar to a stock market. The currency traded at a six-month high on an exchange this week. Late Tuesday afternoon, one bitcoin was trading at $197.55.

It is unclear how much of the overall $2.4 billion Bitcoin market could be tied to crime. Advocates say the majority of Bitcoin transactions don't involve illicit goods.

Backers say virtual currencies offer advantages for legitimate uses. There are no bank holidays or foreign-exchange rates. More businesses, including the dating website OKCupid, run by Rainbow Humor Inc., accept bitcoins. A unit of Baidu Inc., the Chinese search giant, said last week it will now accept bitcoins as payment for some services.

Bitcoin supporters say that following the breakup of Silk Road, consumers will stop associating the currency with illegal activity. "We can move on from that," said Brian Armstrong, CEO of Coinbase, a Bitcoin exchange service based in San Francisco. "Silk Road got shut down. The bad guys lost."

But Bitcoin appears to have maintained popularity in online drug deals. One Bitcoin e-commerce site selling drugs, guns and malicious software, Black Market Reloaded, has seen a surge in activity since the drug market closed. The self-described administrator of the site, who goes by the username "backopy" on the site's forum, said in a message to The Wall Street Journal that "a certain level of anonymity is achieved by middleman, like myself."

Law enforcement has had some successes tracking Bitcoin crime. For instance, it can be easy for law enforcement to track down inexperienced Bitcoin users, said Scott Dueweke, a senior associate at Booz Allen Hamilton who has advised U.S. agencies, including the DEA, on virtual currencies. But, Mr. Dueweke added, "If you're sophisticated, which criminals are...then I think it is very anonymous."

India, China Sign Agreement to Ease Border Fray

By Niharika Mandhana

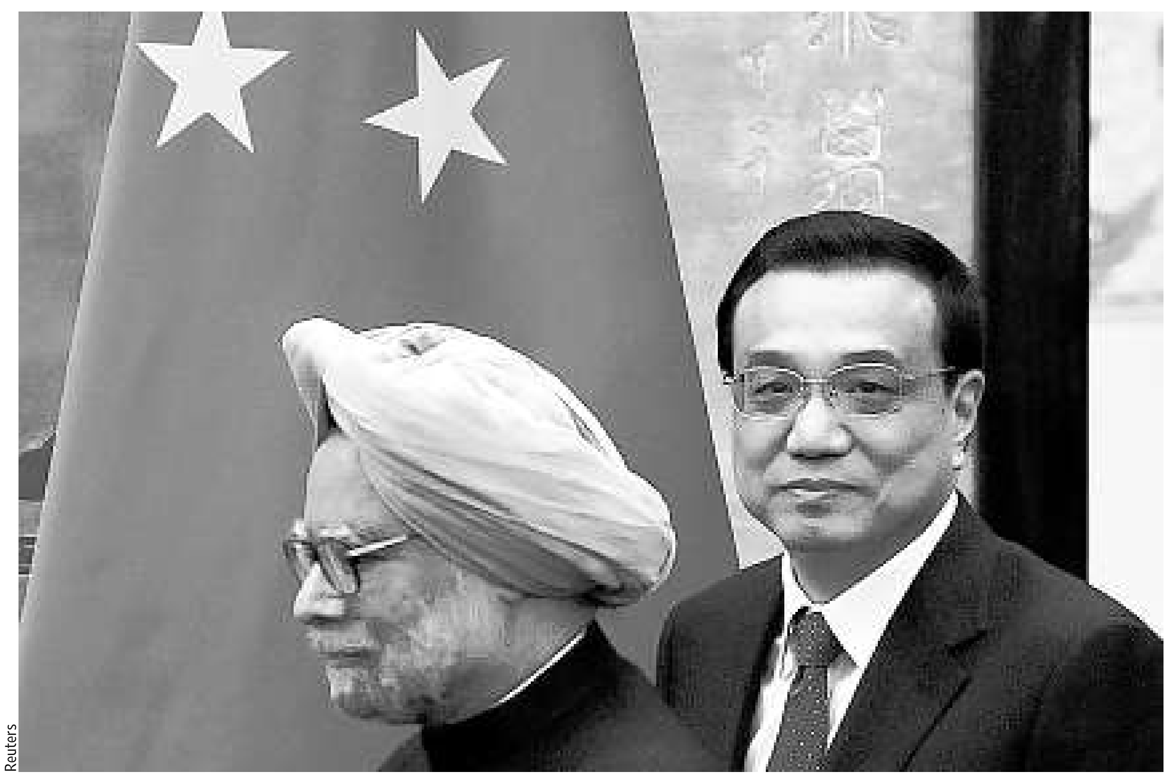
NEW DELHI—India and China signed an agreement aimed at easing hostilities on their disputed border, even as the nuclear-armed neighbors continue to build up military capabilities there.

The pact was signed Wednesday during Manmohan Singh's visit to Beijing, where the Indian prime minister said peace and tranquility on the border must remain the foundation for growth in the countries' ties.

Ties between India and China have long been characterized by mistrust. Tensions boiled over into a brief war in 1962, following which China gained control of a 14,600 square mile territory known as Aksai Chin. China claims an additional 35,000 square miles in Arunachal Pradesh, a state in India's northeast.

Relations slumped in April when Indian authorities accused Chinese troops of pitching tents inside India's territory in the remote Himalayan region of Ladakh. Opposition politicians in India lambasted New Delhi's policy toward China as "cowardly" and "incompetent." China denied the allegations its troops set up camp in India.

Wednesday's agreement reiterates earlier commitments and is aimed at ensuring that patrols along the ill-defined border don't escalate into military confrontations. It includes assurances to exercise "maximum self-restraint" and "not use force" should the militaries of the two sides come face to face on the disputed border, known as the Line of Actual Control. The pact also aims to stop both armies from tailing each other to minimize confrontation.


Reuters
Chinese Premier Li Keqiang, right, together with India's Prime Minister Manmohan Singh in Beijing on Wednesday.

The pact also lays the groundwork for establishing a hotline between the military heads of the two nations, and for joint tactical exercises and military training.

Chinese Foreign Ministry spokeswoman Hua Chunying said the pact shows that relations between the two countries have matured. But some analysts remain skeptical about how far it will go in soothing tensions.

"Most of the measures either repeat earlier promises or denote an intention to implement, rather than marking any definitive step forward," said Srikanth Kondapalli, a professor of Chinese studies at Jawaharlal Nehru University in New Delhi. "So again, whether the pact will be implemented will depend on the state of bilateral relations."

Since the 1962 war, neither nation has shown any inclination to return to armed conflict, but both have strengthened border security. China has steadily developed infrastructure along the disputed border for the smooth movement of goods and troops. In July, the Indian government took steps to create a military corps of 50,000 war-ready troops and has planned new air bases in the area. In August, the Indian Air Force landed a C 130J-30 Super Hercules on an airstrip in the border area with China, which the Defense Ministry in New Delhi called a "significant capability demonstration."

"On the one hand, you have a pact to de-escalate tensions and on the other, there is a steady enhancing of military capabilities," Mr. Kondapalli said. "This shows a deep wariness."

Earlier this month, China angered India by issuing special stapled paper visas—rather than standard ones—to two Indian archers from Arunachal Pradesh, preventing them from traveling to China for a tournament.

India is also concerned about China's plans to sell nuclear-power reactors to its longtime rival Pakistan, as well as Beijing's port-building projects in Sri Lanka and Pakistan.

Still, relations have improved on the back of economic ties. The countries hope to increase bilateral trade from $70 billion to $100 billion by 2015. But much of the trade is in China's favor. India runs a large trade deficit of $40 billion with China, data from India's Ministry of Commerce show.

Mr. Singh said Wednesday that the two sides will pursue the establishment of a Chinese industrial park to attract Chinese investment. Agreements were also signed on the sharing of river waters and building of roads.

"When India and China shake hands, the world takes notice," Mr. Singh said.

—Wayne Ma in Beijing contributed to this article.

WORLD NEWS

Drug-Resistant TB A Crisis, WHO Says

By Betsy McKay

Drug-resistant tuberculosis has become a public-health crisis, the World Health Organization declared Wednesday, with the number of people diagnosed with the deadly airborne disease rising so fast that some countries don't have enough drugs or medical staff to treat them all.

And the vast majority—around four-fifths—of drug-resistant TB cases are still going undetected, the United Nations public-health agency said in its latest annual report on TB, calling targets for diagnosing and treating the disease "far off-track."

Overall, about a third of cases of all forms of tuberculosis—about 2.9 million illnesses—were undiagnosed or unreported in 2012, the agency said.

The United Nations' public-health agency estimates about 450,000 people contracted MDR-TB last year.

New, rapid molecular tests are helping doctors and public-health authorities diagnose drug-resistant TB more widely and effectively than ever before, producing a sharp rise in the number of cases in 2012, the WHO reported. But the surge is overwhelming some countries that didn't stock enough drugs, it said, calling on countries using the new tests to make sure they have enough medications and trained medical cadres to manage the complicated, lengthy and painful treatment of drug-resistant patients.

"This is a public-health crisis," said Mario Raviglione, director of the WHO's global TB program. "You cannot afford to make a diagnosis and not be able to treat patients. We consider that an ethical issue."

The WHO estimates that about 450,000 people contracted MDR-TB in 2012, and others believe the disease is even more widespread, citing recent regional studies that have found levels of TB or drug-resistant TB that are far above what authorities originally believed.

But only a portion are diagnosed: 94,000 new cases of drug-resistant and multidrug-resistant tuberculosis were diagnosed in 2012, up from 62,000 diagnosed cases in 2011, the WHO said.

Of that new total, 77,000 were put on antibiotic regimens in 2012. The remaining roughly 17,000 were in waiting lines for treatment, Dr. Raviglione said. The waiting lines may be growing this year, other TB experts said, as more diagnostic tests are used.

Meanwhile, the number of people diagnosed with XDR-TB, a highly drug-resistant form of the disease with few treatment options, also rose sharply, to 2,230 cases in 2012, from 1,464 in 2011.

Some 88 countries have procured new molecular tests such as the Xpert MTB/RIF, which can diagnose tuberculosis and a common form of resistance in 100 minutes—the first major advance in tuberculosis diagnostics in more than a century. The WHO said about 3.2 million of the Xpert MTB/RIF tests, manufactured by **Cepheid**, a U.S. company, had been procured by those countries as of June 2013. South Africa has adopted it as its primary diagnostic test for TB, the WHO said.

Waiting lists for drugs persist or are growing in numerous countries, and were particularly acute in South Africa, China and Pakistan in 2012, whose ratio between the number of patients diagnosed with MDR-TB and the number enrolled in treatment rose by more than 10%, the WHO said. In several African countries, only 51% of detected cases were enrolled in treatment in 2012, the agency said.

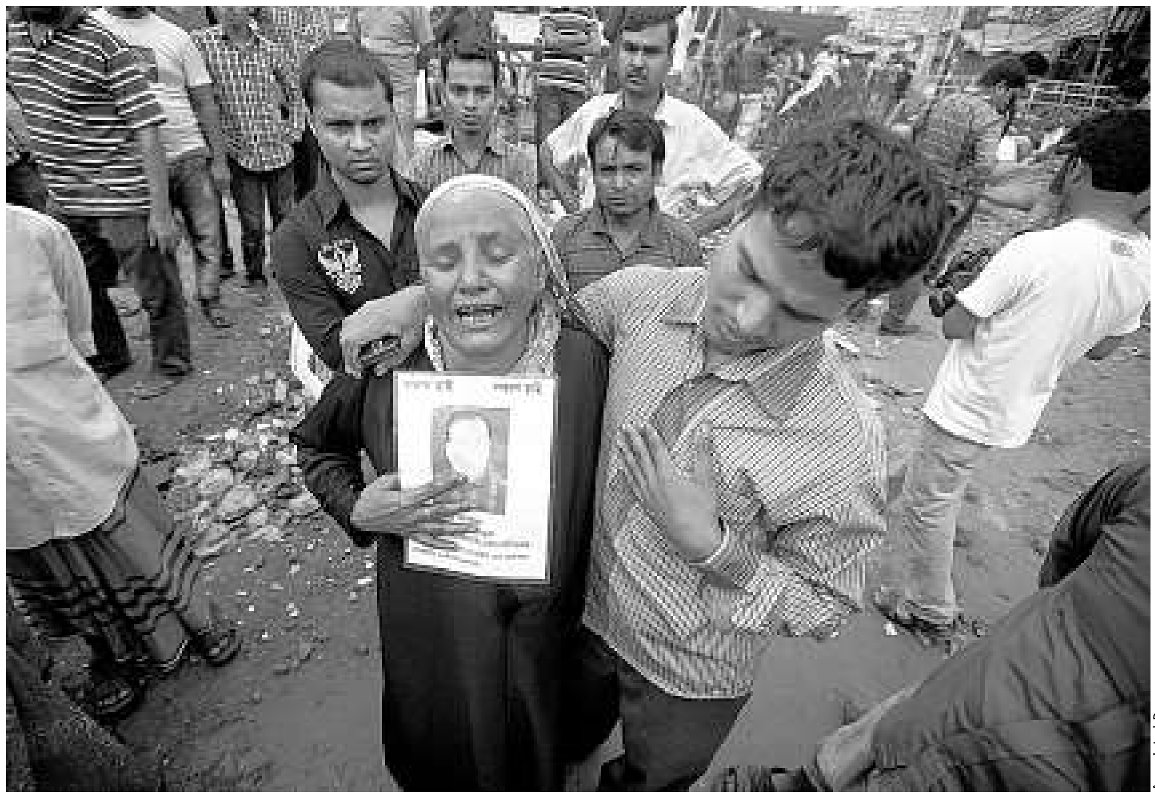
While a lack of drugs is problematic, so too is a shortage of medical staff trained to treat drug-resistant patients, who must take multiple drugs daily for as long as two years, said Lucica Ditiu, executive secretary of the Stop TB Partnership, a network of organizations involved in TB. "There are not enough people to give the drugs," she said. "Who will do it? Who is available and trained?"

An estimated 8.6 million people contracted tuberculosis and 1.3 million died from it in 2012, including 320,000 people who were infected with HIV, the virus that causes AIDS and makes people more susceptible to TB infection. While the estimated number of new cases per year has been falling steadily for a decade, the annual rate of decline of about 2% a year is too slow, the WHO said. Millions of cases have gone undiagnosed every year. In 2012, 31% of missed cases were in India, Dr. Raviglione said.

"This disease should be a disease of the past," Ray Chambers, a U.N. special envoy for health financing, said. "We have to find those three million people and test and treat them," he said of the undetected TB cases, calling for more trained community health workers in rural areas.

Associated Press

A London homeless man waits for a TB X-ray, which was negative, this month.



Associated Press

At the site of the Rana Plaza collapse Wednesday, a Bangladeshi woman holds a photo of her still-missing son.

Compensation Is Slow In Bangladesh Collapse

Shahida Begum's 18-year-old daughter Shanta was one of the more than 1,100 people who died in the collapse of the Rana Plaza garment factory six months ago. She received 20,000 taka ($250) from the Bangladeshi government.

By ***Syed Zain Al-Mahmood*** *in Dhaka, Bangladesh, and* ***Christina Passariello*** *in Paris*

"It was barely enough to bury my daughter," Ms. Begum said at a vigil outside Dhaka this week close to the half-year anniversary of the collapse. As others held placards demanding compensation and justice near a jagged hole where the eight-story building once stood, she worried how she would support the rest of her family without Shanta's income.

"God only knows how I will get by," she said, clutching a small photograph of her daughter. "My daughter is gone, and all my hopes also disappeared with her."

Less than a month after the April collapse—the worst industrial disaster in Bangladesh's history—retailers signed a legally binding pact to inspect factory safety in the country and to commit to fixing dangerous sites. But reaching an agreement on compensation for victims and their families is taking much longer.

Labor groups including IndustriALL Global Union are seeking more than $74 million for survivors and families of the deceased. They have asked retailers to pay $34.6 million of that amount, with the government and factory owners contributing the rest. A small group of retailers is in the early stages of talks, but no agreement has been reached.

Roy Ramesh Chandra, general secretary of IndustriALL in Bangladesh, says the compensation plan takes into account loss of earnings, pain and suffering, as well as medical and funeral costs and other family expenses. It is based on a plan developed after the Spectrum Sweater factory collapsed near Dhaka in 2005, killing 64 people.

Last month, IndustriALL and the International Labor Organization invited 28 brands that sourced products from Rana Plaza to a meeting in Geneva to discuss compensation. Representatives from fewer than 10 showed up, IndustriALL said.

"It's shocking that companies that were expressing their profound grief after the Rana Plaza tragedy are now failing to turn up to compensation talks," said Kalpona Akter, executive director of the Bangladesh Center for Workers Solidarity. "It brings into question the brands' sincerity in helping workers who suffered death and injury while making clothes for Western stores."

There are some recent signs of movement. Four of the retailers invited to the Geneva meeting decided to work together to find common ground on a payoff for the victims. Italy's **Benetton Group** SpA, **Loblaw** Cos. of Canada, Spanish chain **El Corte Inglés** SA and discount retailer **Primark**, part of **Associated British Foods** PLC, have formed a committee to create an accident fund, according to a report published Wednesday by the Clean Clothes Campaign, a workers' rights group.

The committee sees a potential compensation pact taking the form of a broad agreement involving other companies, two people involved in the negotiations said. But they haven't addressed how to engage those that have declined to participate.

A few retailers have taken steps to compensate Rana Plaza victims and their families. Primark has paid the equivalent of six months' wages to surviving Rana Plaza workers and the families of the deceased, regardless of whether they made clothes for the company or not, according to a Primark spokeswoman.

Rights activists have also expressed concern at what they view as the slow pace of the legal steps taken by Bangladeshi authorities. There are 21 people being held in jail in connection with the April 24 disaster, but no one has been charged.

An investigation into the collapse is almost complete, Bijoy Krishna Kar, assistant superintendent of police at the Bangladesh Criminal Investigation Department, said Wednesday. He is heading the investigation into the Rana Plaza collapse. He said police hope to file formal charges by December and that some of those in custody would be charged with the maximum punishment of culpable homicide, which carries a potential sentence of life in prison. He declined to give any names.

"So many lives have been lost," he said. "We'll try to ensure maximum punishment under the law." He denied that police were moving slowly in their investigation.

Sohel Rana, the owner of Rana Plaza, has denied responsibility, telling local television channels after his arrest April 28 that garment factory owners put pressure on him to keep the building open so they could meet shipment deadlines.

A government committee set up to investigate the collapse accused Mr. Rana and owners of factories in the complex of culpable homicide, reckless use of heavy machinery—including generators on upper floors—and forcing workers into a risky building.

Lawyers representing the factory owners said their clients weren't responsible for the accident and blamed Mr. Rana for faulty construction. Mr. Rana is in custody. He hasn't been charged with any crimes. He doesn't have a lawyer, according to court records, and couldn't be reached to comment.

Among those in custody are three engineers who allegedly said the building was safe even after a crack was discovered, investigators say. Refayet Ullah, the mayor of Savar municipality, is also in custody. Police accuse him of giving permission for the construction of Rana Plaza without having the authority to do so. He hasn't been charged with any crime.

All four denied responsibility during bail hearings. Others include several people suspected of helping Mr. Rana evade police before he was arrested on the Indian border.

IN DEPTH

Lives of the Mentally Ill, Police Collide in America

Narrowing Range of Treatment Options Shifts More Responsibility to Law-Enforcement Officers

By Gary Fields
Hilliard, Ohio

It was near the intersection of Fishinger and Smiley that Tony LaRosa's life careened into Billy Lane's mental illness.

A police dispatcher had sent Officer LaRosa to what seemed like a routine accident call. When he arrived, Mr. Lane, 25 years old, was outside his wrecked SUV, bloodied, holding a butcher's knife and threatening passersby. Mr. Lane advanced relentlessly on the police officer, who shot him four times. Mr. Lane died on the spot.

The physical confrontation, according to the Hilliard police radio recording, lasted 10 seconds. The aftermath, for Officer LaRosa, has lasted two years, five months and counting.

Officer LaRosa, now 30, thinks often about the man he killed and about someone else closer to home. Mr. Lane suffered from bipolar disorder, just like the officer's older brother. He sees his own family's struggle with mental illness in the Lane tragedy. And he fears there might one day be a similar end for his own brother.

"I'm not going to sugarcoat it," Mr. LaRosa said. "I have thoughts come up, and it's giving me a hard time."

Law-enforcement professionals and mental-health advocates believe they are seeing an increase in fatal encounters between police and the mentally ill. They point to a narrowing range of treatment options that has shifted more responsibility for the mentally ill to law officers, jails and prisons.

"No police officer does well with shooting someone, let alone someone with mental illness," said Michael Biasotti, immediate past president of the New York State Association of Chiefs of Police and a mental-health and law-enforcement policy researcher. "That destroys a bunch of people at once."

Mr. Lane's family members are filled with regret over signs they think they missed, including the state of his condo, which they rarely visited, and the way Billy Lane had distanced himself from lifelong friends.

Officer LaRosa, for his part, is often overcome with tears when he thinks back on the incident. He said he feels closer to his own brother, Shawn, and understands his symptoms and moods better than before.

He has imagined his brother holding a knife and ignoring an officer's command to drop it. He has pictured someone in uniform at his parents' front door telling them their oldest son is dead. And then some other officer would be left to deal with the emotional aftermath.

Anecdotal evidence suggests violent attacks on police officers by mentally unstable people have been increasing over the past decade, said James Pasco, executive director of the Fraternal Order of Police, which represents 330,000 law-enforcement officers. Definitive data are scarce, in part because mental-health records are restricted by federal regulations and state laws.

In recent weeks, the potential for harm has come to the fore after two deadly incidents in Washington, including the shooting rampage on Sept. 16 at the Washington Navy Yard that left 13 people dead including the gunman, who was shot and killed by police. Authorities said the man suffered from mental-health problems.


Lane family; Gary Fields/The Wall Street Journal

Billy Lane, left, was killed by Hilliard, Ohio, Police Officer Tony LaRosa. Officer LaRosa said he is often overcome with tears when he thinks back on the incident.

Earlier this month, police shot and killed a Connecticut mother who tried to ram her car through a White House barrier. In that instance, critics including the woman's family have suggested police may have overreacted. Police in Washington have said mental-health issues were involved, and they are reviewing the encounter and the use of deadly force.

The Federal Bureau of Investigation keeps track of instances of "justifiable homicide," which it defines as "the killing of a felon by a law-enforcement officer in the line of duty," but it doesn't note which of those involve mental illness. While crime rates nationally have fallen almost every year since the late 1990s, justifiable homicides by police officers have risen, from 297 in 2000 to 410 in 2012.

Hidden within that category is what is known informally as "suicide by cop," when a person intentionally provokes an officer into using lethal force. Chuck Wexler, executive director of the Police Executive Research Forum, in Washington, D.C., which researches law-enforcement issues, said he believes this type of suicide is increasing in frequency.

Jill Harkavy-Friedman, senior director of research at the American Foundation for Suicide Prevention, said there aren't many studies of suicides that involve law-enforcement officers. A small number of studies, based on police records, have found in at least half the cases the victim had a known psychiatric history, and in at least a fifth the victim was undergoing treatment for mental illness.

Regular police training teaches officers at a crime scene to employ a force continuum, which starts with the fact of the officer's presence and, depending on how the subject responds, moves through verbal commands and hand controls and then to the use of a nonlethal device like a baton or Taser.

Generally speaking, nonlethal devices are considered appropriate options when more than one officer is present. As soon as the subject has a weapon, though, "options to deal with the situation rapidly decrease," said Lance LoRusso, an Atlanta attorney and author of "When Cops Kill."

'If they have a gun or a knife, an officer only has a millisecond to debate this,' Hilliard, Ohio, Police Chief Douglas Francis said.

In contrast, mental-health training tells officers to approach a subject who is thought to be mentally ill in a nonthreatening way and to use a conversational manner rather than barking commands, said Lou Reiter, a former deputy chief of the Los Angeles Police Department and a nationally known consultant.

About half the U.S.'s population lives in places where officers don't receive training in dealing with the mentally ill, said Doris Fuller, executive director of the Treatment Advocacy Center.

Last year the Department of Health and Human Services reported that 44.7 million adults, or nearly a fifth of the adult population, experienced mental illness in the previous year, ranging from anxiety to extreme schizophrenia. That suggests an officer, on any given call, is reasonably likely to encounter a mentally ill person. Dispatchers try to give a heads-up if they suspect a call might involve someone with mental-health issues. Usually, though, it is just an officer and his or her instincts.

During a 2010 traffic stop in Portland, Ore., Officer Christopher Burley was trying to physically get Keaton Otis, 25, out of his car, after the young man had ignored police commands. Mr. Otis broke away, pulled a gun and shot Officer Burley twice. Mr. Burley's fellow officers responded by killing Mr. Otis. Later, they learned he suffered from a mood disorder marked by depression and paranoia.

Mr. Burley said it is easier to think that bad things happen only to bad people. Instead, he said, "it's a young guy who has been struggling with mental illness, and his family had been crying out for help." Mr. Burley is still an officer and now works with Mr. Otis's mother to raise awareness of the challenges faced by families of the mentally ill.

Boston Police Sgt. Detective Michael Talbot has flashbacks to the night, 21 years ago near Fenway Park, when he shot a mentally ill man who had ignored warnings and was advancing on him with a knife. "I re-

Deadly Results

Law-enforcement authorities say the rise in justifiable homicides by officers in the line of duty is due in part to police encounters with the mentally ill.

Source: FBI

The Wall Street Journal

member praying the whole night saying, 'God, don't let him die,' " the officer said. He did die, though, setting off a civil lawsuit, a year of limited duty, an investigation and emotional turmoil.

The Suffolk County prosecutor ruled the shooting was justified and the civil case was decided in the officer's favor. Still, if faced with the same scenario, he said, "I'd hesitate before I'd ever do it again."

Officer LaRosa's May 11, 2011, shift began routinely. He was driving his patrol car away from the office at 6:37 p.m. when he got the call that an SUV had crashed into a concrete pillar on Smiley Road.

Mr. Lane, 25, had been diagnosed six months earlier with bipolar disorder, which is characterized by extreme mood swings and sometimes-manic behavior. He had a breakdown and spent two weeks in a hospital, according to Dorothy Lane, his mother. Navigating the insurance and medical system and standing by their son became "the new normal," she said.

The day before Billy Lane's 26th birthday, the Lanes had dinner with their son at their home. He left, and at around 6:30 p.m. the couple was heading to a support-group meeting when they spotted his Jeep Grand Cherokee on the road. With no indication that he had seen them, the Lanes went on to their meeting.

Officer LaRosa, responding to the accident call, had barely turned on his siren when dispatch was back on the radio with an update: The driver was out of the vehicle. Seconds later another update came through: Witnesses said the driver was armed and threatening bystanders. A subsequent call reported the motorist had cut his throat.

Driving to the scene, Officer LaRosa wondered how an accident could have escalated so quickly. When he arrived, he saw bystanders backing away. As Officer LaRosa got out of his car, Mr. Lane, armed with a knife, started heading in his direction. Then, Mr. Lane turned and started to run, but, after a brief chase, he stopped and went toward Officer LaRosa again.

As Mr. Lane approached, the officer fired two shots and thought he missed. Mr. Lane was closing the distance between them with surprising speed. The officer fired twice more. Witnesses told police that Officer LaRosa had screamed repeatedly for Mr. Lane to stop, put down the knife and get on the ground, each time with more urgency. Mr. Lane didn't say a word, Officer LaRosa said. The autopsy report said he probably couldn't talk because of the self-inflicted neck wound.

Ten minutes after he had arrived, Officer LaRosa was sitting alone in a patrol car while paramedics tended to the man he had just shot. "It was the loneliest feeling in the world," he recalled.

Over the next few hours, Chief Douglas Francis took the young officer's service pistol, a standard procedure, and talked to Mr. Lane's father and brother, who had arrived on the scene. Officer LaRosa called his parents to tell them he had been involved in an incident. He was placed on administrative leave pending the outcome of an investigation by outside law-enforcement officers and the Franklin County grand jury.

The grand jury asked questions like those raised by community members and news media. Why did the officer fire so many shots? Why didn't he use a Taser? Someone asked why he didn't shoot the knife out of Mr. Lane's hand.

The grand jury declined to press charges. Several months later, the department investigation concluded Officer LaRosa had conducted himself properly. He returned to duty in late May 2011 and was monitored for several months. In 2011, the year of Mr. Lane's death, 8% of police incidents in Hilliard that involved use of nonlethal force, such as control holds, also involved mental illness, Chief Francis said. That rose to 26% in 2012.

Since the Lane shooting, Chief Francis has sent more officers to crisis-intervention training and acquired more Tasers. He doesn't think any of that would have made a difference in the Lane case, though.

When Mr. Lane didn't drop the knife and advanced on the officer, he crossed a threshold, the chief said. "If they have a gun or a knife, an officer only has a millisecond to debate this," he said.

Officer LaRosa replays the shooting in his mind: If faced with a similar situation, he would try to talk his way out—quickly. But given the same threat of violence, he thinks he probably would make the same call again.

"You go through the academy expecting Joe Bad Guy to bail out of a car and start shooting at us," he said. "They don't train us for Billy."

Officer LaRosa only recently overcame uncontrollable shaking that started after the shooting. "I found myself shaking on basic calls that would never bother me before," he said. "I never told anybody about it. I was afraid to tell people."

After the shooting, Officer LaRosa telephoned his brother and told him of his fears for him. Mr. LaRosa's father, Bob, called later to reiterate the message. With their father suffering from muscular dystrophy and their mother undergoing chemotherapy for breast cancer, the brothers have embarked on difficult conversations about their future.

"Shawn takes a lot of patience, and Tony never really had the patience to deal with it," said the officer's mother, Rusty. "But since this shooting, I think Tony understands more that a lot of what's happening to Shawn is not under his control."

Mr. Lane's parents haven't spoken to Officer LaRosa, but they said they don't blame him. "That was his job," Mrs. Lane said. "We read these stories in the paper just like anybody else, and we're so thankful our son didn't shoot a bunch of people."

The Lanes wrote a letter to the Hilliard police department, which said in part, "We are saddened by the circumstances Hilliard and Upper Arlington police encountered yesterday evening. We hold no ill feelings and extend our sympathy to the unfortunate officer forced to fire on Billy. We are convinced Billy achieved his desired outcome."

Sitting in the chief's office reading the letter, Officer LaRosa's eyes teared up. At one point he put a fist to his mouth as he thought of his brother: "All I can hear is my mom blaming herself...and the pain she has come through."

Court-Appointed Monitors Sought

BY SEAN GARDINER

Attorneys for families of three men killed in confrontations with police are seeking court-appointed monitors to overhaul how the New York Police Department and two other local law-enforcement agencies handle calls involving emotionally disturbed people.

The attorneys, Randolph McLaughlin and Debra Cohen, want the police to create crisis-intervention teams that make mental-health professionals available when officers are responding to disturbed people.

Mr. McLaughlin and Ms. Cohen sued the city of New Rochelle in federal court Tuesday for wrongful death on behalf of the family of Samuel Cruz, 48 years old, an artist and former teacher diagnosed with schizophrenia and bipolar disorder. He was fatally shot May 26 by police who said he was wielding a knife inside his home.

The lawsuit, which seeks $21 million in damages, also seeks an injunction ordering New Rochelle police to change their training and guidelines—and add a monitor to oversee those changes.

The lawyers have previously sued on behalf of the families of two other men shot by police, a White Plains man and Mohamed Bah, a Harlem man shot in 2012 by NYPD officers.

The demands for monitors comes two months after a federal judge appointed one to oversee the NYPD's stop-and-frisk program. In Mr. Bah's lawsuit, the attorneys ask that the role of the NYPD monitor be expanded to oversee the agency's policies on responding to calls involving the emotionally disturbed.

White Plains police declined to comment Tuesday, and New Rochelle police didn't return calls seeking comment. Neither New York City nor New Rochelle has responded in court to the lawsuits, but the city of White Plains has asked in court filings that the suit against it be dismissed, citing grounds including officer immunity.

However, officials from those police departments and the NYPD said immediately after the shootings in media reports that their officers responded properly and that their training for dealing with emotionally disturbed people was adequate.

John McCarthy, the NYPD's chief spokesman, declined to comment on the lawsuit's demand for a monitor. He said all NYPD officers are "trained extensively on how to recognize and respond to emotionally disturbed persons."

Officers in the Emergency Services Unit and the Hostage Negotiation Team, which respond to barricaded people, also "receive intensive training from mental-health professionals," he said.

The NYPD isn't dismissive of making health-care professionals available to officers in the field. But Mr. McCarthy said they have "logistical concerns with this proposal." The NYPD responds to more than 100,000 emotionally disturbed person calls each year.

At an event last month to mark one year since Mr. Bah's death, several New York City Council members joined a coalition of health-care providers outside City Hall calling for the NYPD to adopt the crisis-intervention team approach.

Democratic State Sen. Kevin Parker, who represents a Brooklyn district, has said he planned to introduce legislation to create a pilot program in New York City.

The so-called Memphis model has the crisis-intervention team as its centerpiece. It requires officers to initially receive 40 hours of specialized training. At least 30% of a police department must receive training for the program to work effectively. The trained officers then are deployed as leads in calls involving emotionally disturbed people. Mental-health professionals are on call to advise the officers.

The teams are used by more than 2,600 departments in the U.S.—including some big ones, such as Chicago—said Randolph Dupont, the University of Memphis professor who helped develop the idea in 1988.

Attorneys in one lawsuit ask that the role of the NYPD monitor be expanded to oversee the agency's policies on responding to calls involving the emotionally disturbed.

The circumstances in all three fatal New York confrontations mirror each other.

Police were responding to calls for medical assistance. The men refused to leave their apartments and were alone. Decisions were made to knock down doors and forcibly take the men into custody. Before shooting, police used nonlethal alternatives such as Tasers.

"In each of the three cases the police have given no explanation as to why they felt there was some need to break the door down," Ms. Cohen said. "There has been no evidence given that any of these three men represented a danger to themselves or anyone else."

Mr. McLaughlin and Ms. Cohen represent the family of Kenneth Chamberlain, 68, of White Plains, who was shot to death in 2011 by White Plains officers who said he was wielding a knife inside his apartment.

That suit seeks $21 million in damages.

The incident involving Mr. Bah, 28, began after his mother, concerned about his mental state and physical appearance, called an ambulance, his mother, Hawa Bah, said. But police arrived first at the Harlem address.

"'You knocked on the wrong door,'" Ms. Bah said her son told the officers. "'Go away. I don't need the police.'"

An officer then tried to push his way into the apartment, Ms. Bah said, but her son shut the door, locked it and announced he was going back to bed.

Led outside the building, Ms. Bah watched as many officers arrived. She said one carried a shield and another a large hammer. She said she told officers she could talk her son into coming out but was told her help wasn't needed.

According to the police, Mr. Bah came at officers with a foot-long kitchen knife. They used a Taser to stun him, shot him with a rubber bullet and stunned him again with a Taser. He slashed one officer's protective vest and punctured the first-aid kit attached to another officer's uniform.

The lawsuit claims Mr. Bah was shot at least eight times. Police haven't specified the number of times Mr. Bah was shot.

Ms. Bah said she was ridden with guilt that her call for help led to her son's death: "He was just a sick person who needed medical assistance."

OPINION: REVIEW & OUTLOOK

A Bank-Bailout Union?

The European Central Bank lifted the lid Wednesday on its upcoming "comprehensive assessment" of the Continent's biggest banks, which will pave the way for the ECB to become the euro zone's top bank supervisor in November 2014. It's not the first time since the crisis began that European regulators are subjecting the banking system to a "thorough," "transparent" checkup, and the latest review will take place in the shadow of the notable lapses of those earlier exercises. Remember Dexia?

The ECB is taking care to avoid some of the shortcomings of the European Banking Authority's 2010 and 2011 stress tests. But if anything, the higher stakes surrounding the ECB's assessment make it vulnerable to even larger failures. The exercise's aim is to lay bare the state of banks' balance sheets, thereby promoting confidence, unfreezing lending to the real economy and encouraging economic recovery.

Yet if the ECB assessment is too penetrating and reveals too many nasty surprises, then it risks inflaming crisis fears anew. Threading this needle will require the central bank to live up to official assurances that it can rise above the politics and deliver a credible review.

Wednesday's overview of the ECB assessment leaves a lot of open questions. Standardized definitions of nonperforming loans and debt forbearance will preclude the sort of balance-sheet trickery that has allowed banks in the periphery not to book losses on long-overdue loans. But relying on lenders' own calculations of capital adequacy, based on internal models à la Basel III, is a recipe for fiddling.

Another Basel practice that the ECB would do well to lose is the treatment of sovereign debt as risk-free. Spanish banks today hold more than a third of Madrid's outstanding borrowing; Italian banks hold a fifth of Rome's. The ECB and EBA still haven't decided how sovereign bonds will be handled in next year's stress tests, the third stage of the exercise.

'Public backstops' are another way of saying 'Germany pays.'

The other big unknown is what happens if the ECB review turns up serious, urgent capital shortages. French, Spanish and Italian banks—which make up a third of the 130 or so institutions on the ECB's list—are the likeliest problem children, though by no means the only ones. What if these lenders can't raise new capital quickly enough on their own to cover previously hidden losses? Can the European Stability Mechanism (ESM), for instance, act as a safety net?

If all this sounds familiar, it's because the EU already had a version of this debate earlier this year. June's European Council agreement on bank resolution requires that private creditors take write-downs in bank rescues before governments can intervene. These "bail-in" rules don't formally kick in until 2018, but there's little reason not to start honoring their principles before then.

The risk for the ECB's assessment is that if there's still too much uncertainty about recapitalizing stricken banks by the time the exercise wraps up next October, then the central bank might be less willing to flunk those institutions for fear of igniting panic. "For the success of the exercise, the ex ante availability of backstops is critical," Wednesday's ECB note says. Mario Draghi reiterated Wednesday that national capitals committed in June to putting their own backstops in place by next year.

But it's still not clear whether troubled banks will have recourse to ESM capital if national funds aren't enough. Berlin hasn't objected, at least in principle, to the creation of a rescue fund to support the proposed single bank-resolution mechanism. German officials have sounded tougher of late, however, vowing that they will veto any use of the ESM to directly recapitalize troubled banks before creditors are fully written down.

We'd take it one step further: If Europe is serious about using bail-ins to keep taxpayers from paying for lenders' bad behavior, then the very existence of a common safety net will only provide an excuse not to apply the bail-in rules diligently. Setting aside money always creates the temptation to spend it. We'd take the ESM off the table for bank rescues altogether.

Whether Berlin can prevail is a question of how much political capital it's willing to spend. The Süddeutsche Zeitung reported Wednesday that Chancellor Merkel is preparing a broad EU reform offensive for her third term, of which strict conditions on bank rescues are only a part. More centralized control over national budgets is also reportedly back on Germany's near-term agenda. Mrs. Merkel's bigger-ticket reforms would probably require EU treaty change.

All of which means the next 12 months will be eventful. The ECB's bank assessment is the latest test of whether Europe is creating a banking union or a bank-bailout union.

90 Million Americans Not Working

Maybe the U.S. Bureau of Labor Statistics should have skipped a month, because the belated September jobs report it issued Tuesday after the government shutdown wasn't worth the wait.

Payrolls rose a humdrum 148,000 in September, the unemployment rate fell a tick to 7.2%, and wages were up slightly. But once again the number that stands out is the 136,000 Americans in September (following the 516,000 in August) who joined those "not in the labor force." The labor force participation rate stayed at its lowest level since the 1970s at 63.2%.

The U.S. now has 90.6 million "non-institutionalized" men and women over the age of 16 not working—an all-time high. That's 10 million above the 80.5 million when President Obama took office. With total employment at 144.3 million, for every three Americans over the age of 16 earning a paycheck there are two who aren't even looking for a job.

Demographics is about half the explanation, as about six million baby boomers have turned 65 since 2008. Another is that young people are staying in school longer. Both trends are reinforced by the bearish job market. Even among those in their prime working years between 25 and 64, the number not working has increased by about 1.8 million since 2008. That is on top of the 11.3 million who are officially unemployed.

Easy access to expanded government welfare benefits that substitute for work—unemployment insurance, disability, food stamps and soon ObamaCare—also contribute to the decline.

To get more private jobs requires faster economic growth, and the Obama Administration could do worse than listen to those who do most of the hiring in America. According to the National Federation of Independent Business, two big concerns are regulation and ObamaCare. "Consumers and small business owners are pessimistic," concludes NFIB from its latest survey. They aren't "expecting a 'crash' in the economy, just accepting the notion that growth is going to be sub-par and that their government is likely to continue in dysfunctional mode." Q.E.D.

The French Collection

For the second time in four months, the Europeans are shocked to find American espionage going on in their country. In a telephone conversation with President Obama Monday evening, François Hollande called the latest revelations of NSA spying in France "unacceptable between friends and allies." The French President then quickly changed the subject. Long live Claude Rains.

The faux Gallic gall came in response to stories this week in the Paris daily Le Monde, co-produced with activist Glenn Greenwald and based on the secret National Security Agency files stolen by Edward Snowden. According to Le Monde, the NSA intercepted 70.3 million telephone calls and text messages in France over a 30-day period in late 2012 and early this year, and it spied on French companies and diplomats.

U.S. Director of National Intelligence James Clapper objected to "inaccurate and misleading information" in the article. He added that the allegation that the NSA "collected more than 70 million 'recordings of French citizens' telephone data' is false."

Let's stipulate that even friendly countries spy on each other, a practice as old as the profession. The problem is that details divulged by Le Monde via Snowden-Greenwald are politically discomfiting for the U.S. and French governments and may undermine covert programs intended to protect both countries.

America spies on its allies, and vice-versa.

Le Monde reports that the NSA focused on calls placed from certain numbers and also kept cellphone text messages that contained certain keywords. No doubt anything related to terrorism was supposed to get caught in this electronic web. According to the paper, the U.S. also surveilled France's missions at the U.N. and in Washington.

U.S. Secretary of State John Kerry, who was in Paris this week on other business, offered the usual political assurances about seeking "the right balance between protecting the privacy and security of our citizens." He came closer to the truth noting that "lots of people out there [are] seeking to do harm to other people," and both the U.S. and France face a "very complicated, very challenging task" to defend themselves. As for the revelations of American spying on French diplomats and companies, Mr. Kerry—a francophone—can point out that espionage is originally a French word.

France's own robust spying in the U.S. is no secret, and Le Monde reported this summer that the French government runs a domestic electronic surveillance program similar to the NSA's. The two countries' spies have worked closely on counterterrorism since 9/11, and the French have battled home-grown Islamist terror since the 1980s. By muting his outrage and seeking to limit the political backlash, Mr. Hollande signaled a desire to continue this trans-Atlantic cooperation.

The trouble here isn't the NSA's global snooping, which is legal and subject to more domestic oversight than France's program. The NSA or any other government agency can't tap phones in America without court approval. Overseas, this requirement is impractical and unnecessary. Telephone calls aren't recorded as possible evidence in a future criminal case. They're a national security tool to prevent terrorist attacks.

The real danger is the Greenwald-Snowden view that portrays America as the greatest threat to world freedom. Yet for all of their stolen secrets, they haven't turned up a single example of lawbreaking or misuse of the collected metadata. The greatest threat to American, and for that matter French, liberty would be if their revelations lead to the end of the NSA's intelligence gathering in an increasingly dangerous world.

OPINION

The ObamaCare Con Job

[Business World]

By Holman W. Jenkins, Jr.

The panic of American liberals is not unfounded.

The young and healthy will not persevere through a balky ObamaCare website to buy overpriced insurance policies. Older and sicker shoppers have the biggest incentive to try 63 times (as one journalist did) to register. President Obama is right. For these customers, ObamaCare is a very good deal: hundreds or thousands of dollars a month in health care for as little as $0 a month in premiums after direct subsidies.

Voilà, the insurance death spiral.

Three lessons jump to mind. ObamaCare's disastrous launch is not just a programmer's bad hair day but deeply implicated in the central con of ObamaCare.

Secondly, ObamaCare did not need to be founded on misdirection and hidden taxes on the young. It actually would have been a better program and cheaper for the country if it hadn't been.

Finally liberals hate to be told their hardball policy aim is to make more Americans dependent on government. But in a year or two, thousands or millions of older, sicker ObamaCare customers may find their premiums soaring when the young and healthy didn't show up to subsidize their care. Then what?

Bad hair day: One reason for the snafu-laden rollout is that the administration apparently delayed in setting key rules and specs so no discussion drafts would be floating around before the 2012 election. Why? Because the media would then inevitably dig into the question of who wins and loses under ObamaCare's thicket of explicit and implicit subsidies.

A second reason for the pestilential rollout is complexity created by the requirement that users enter and confirm their personal information before they begin shopping. Some speculate the administration's goal was simply to ensure those customers who are entitled to big discounts aren't scared off by seeing only unsubsidized prices. But success depends on signing up enough *unsubsidized* customers. A likelier motive was to make the healthy and affluent, once they enrolled, fearful of unwanted IRS attention if they didn't follow through on their mandated duty to buy overpriced insurance to keep the scheme afloat.

With enough time and unlimited resources, the government can invent the atom bomb or deliver men to the moon with 1960s technology. Fixing the exchange websites, though, won't fix the fact that ObamaCare depends on noneconomic enthusiasm to drive enlistment of people for whom ObamaCare is an objectively bad deal—the "marks" in grifter terminology.

President Obama talks up his health-care law in the Rose Garden, Oct. 21.

Reuters

The mandate is too weak. The penalties are too light to give ObamaCare's juiciest marks a rational incentive to buy. Yet with enough tweets from celebrities; with enough cloying talk urging 20- and 30-somethings to "have Obama's back"; with enough blather about "young invincibles," as if a young person's reluctance to overpay for health insurance is somehow a blind spot; the hope was that enough young, healthy, low-risk applicants could be gulled into paying through the nose to subsidize the high-risk.

This is what's actuarially known as wishful thinking.

ObamaCare did not need to be a con job. Insurers could have been allowed to offer the young and low-risk the sensible, affordable policies that insurers already sell them in voluntary transactions. The older and sicker customers whom ObamaCare wishes to subsidize could have been subsidized directly with tax dollars.

Yes, the visible budgetary cost would have been higher, but only because the program would have to funded with honest, visible taxes rather than a surreptitious tax on young people. And the actual cost would have been lower for two reasons. A lot more low-risk people would have signed up. Secondly, under ObamaCare as now designed, any low-risk customer who signs up has an incentive to overconsume health care to recoup his mandated investment in overpriced health insurance.

We come now to the last redoubt of the defenders—the claim that, yes, the young and low-risk are being asked to pay up now, but they will benefit from the generational cross subsidy as they get older.

This is a lie. Politicians are in no position to deliver generational equity. Think about Social Security and Medicare. In response to the incentives that actually guide their behavior, politicians have repeatedly jacked up the taxes paid by today's working Americans to supply benefits to those already retired, on terms that absolutely guarantee that similarly generous benefits won't be available to today's workers when they retire.

Democrats like Harry Reid, who favors a single payer system, and Republicans like Ted Cruz, who favors something or other, have one important thing in common. Both have figured out that ObamaCare can't fix the U.S. health-care system and that new fights over "reform" lie in the not-distant future.

The Irrational Fear of GM Food

By Marc Van Montagu

Farmers can now produce more crops in an environmentally sustainable way at a lower cost thanks to the efforts of hundreds of scientists over the past half-century. Seeds are developed in a laboratory and then field tested to enhance nutritional value or resistance to drought, disease and herbicides. Genetically modified crops are now planted on nearly a quarter of the world's farm land by some 17.3 million farmers. More than 90% of those farmers are smallholders who harvest a few acres in developing countries.

Society, the economy and the environment have benefited enormously from GM crops. India has flipped from cotton importer to exporter because of insect-resistant cotton. Herbicide-tolerant GM crops have stimulated no-tillage farming, reducing soil erosion and greenhouse gas emissions. Insect-resistant GM crops have cut insecticide sprayings by more than 25%—and as much as sevenfold in some parts of India. In developing countries, GM crops have helped ensure food security and bolster incomes for farmers, allowing parents to focus more resources on other priorities, such as educating their children.

Such remarkable achievements are only the beginning. Dozens of better GM crops are in the pipeline from companies, universities and public agencies around the world. Crops in development include virus-resistant cassava, a starchy root otherwise known as tapioca; nutritionally enriched rice that can help prevent blindness and early death among children; nitrogen-efficient crops that reduce fertilizer runoff; and many more.

These crops will continue to reduce hunger by bringing more bountiful and nutritious harvests. They will also help the environment by mitigating the impact of agriculture by conserving our precious, finite supply of fresh water; freeing up land for other uses, like carbon-absorbing forests; preserving topsoil; and reducing the use of insecticides and herbicides, thereby enhancing biodiversity.

Billions of people have eaten genetically modified food over the past two decades. Not one problem has been found.

These advancements are particularly timely given the environmental and demographic state of the 21st century. Between now and 2050, global population will rise by about one-third, to 9.6 billion from 7.2 billion, reducing arable land per capita. Almost all of that population growth will occur in the developing world, where about 870 million people are already suffering from hunger and malnutrition, according to the United Nations Food and Agriculture Organization. And 100% of it will happen during a period of greater climate volatility, which may place dramatic new stresses on agriculture.

The question of how to nourish two billion more people in a changing climate will prove one of the greatest challenges in human history. To meet it, we should embrace an agricultural approach that combines the best features of traditional farming with the latest technology.

Biotechnology offers an unparalleled safety record and demonstrated commercial success. Remarkably, however, biotechnology might not reach its full potential. In part, that's because outspoken opponents of GM crops in the U.S. have spearheaded a "labeling" movement that would distinguish modified food from other food on grocery store shelves. Never mind that 60%-70% of processed food on the market contains genetically modified ingredients. In much of Europe, farmers are barred from growing genetically modified crops. Even in Africa, anti-biotechnology sentiment has blocked its application. In Zambia, for example, the government refused donations of GM corn in 2002, even as its people starved.

Opponents of GM crops have been extremely effective at spreading misinformation. GM crops don't, as one discredited study claimed recently, cause cancer or other diseases. GM cotton isn't responsible for suicides among Indian farmers—a 2008 study by an alliance of 64 governments and nongovernmental organizations debunked that myth completely. And GM crops don't harm bees or monarch butterflies.

In fact, people have consumed billions of meals containing GM foods in the 17 years since they were first commercialized, and not one problem has been documented. This comes as no surprise. Every respected scientific organization that has studied GM crops—the American Medical Association, the National Academy of Sciences and the World Health Organization, among others—has found GM crops both safe for humans and positive for the environment.

As a plant scientist, neither I nor my fellow 2013 World Food Prize laureates, Dr. Mary-Dell Chilton and Dr. Robert T. Fraley, anticipated the resistance to genetic modification and biotechnology. After all, nearly everything humans have eaten though the millennia has been genetically altered by human intervention. Mankind has been breeding crops—and thereby genetically altering them—since the dawn of agriculture. Today's techniques for modifying plants are simply new, high-precision methods for doing the same.

Resistance to biotechnology seems all the more unbelievable considering that much of it comes from the same thoughtful people who tend to dismiss climate-change skeptics as "anti-science." It seems to me that much of the resistance to GM foods isn't based on science, but may be ideological and political, based on fears of "corporate profiteering" and "Western colonialism."

To note one irony: The extreme opposition to genetic modification has led to hyper-regulation of GM crops, which has raised the cost of bringing them to market. Now only multinational companies and large research entities can afford to comply with the rules. Smaller enterprises in developing countries are ultimately hurt much more than large conglomerates.

Anyone who cares about alleviating hunger and protecting the environment should work quickly to remove the bias against GM crops. A good first step is for educated, scientifically literate people to avoid being taken in by the myths about genetically modified food. These innovations have too much potential to empower individuals and feed the world to be thwarted by falsehoods and fear-mongering.

Dr. Van Montagu is founder and chairman of the Institute of Plant Biotechnology Outreach at Ghent University in Belgium. He is the co-recipient of the 2013 World Food Prize, along with Dr. Mary-Dell Chilton of Syngenta Biotechnology and Dr. Robert T. Fraley of Monsanto.

ObamaCare 2016: Happy Yet?

By Bradley Allen

Three years after the disastrous launch of America's Affordable Care Act, most of the website troubles finally have been ironed out. People are now able to log on to the government's ACA website and to most of the state health-insurance exchanges. The public has grudgingly come to accept higher insurance premiums, new taxes and increases in part-time workers who were formerly full-time. But Americans are irate anyway—because now they're seeing the health-care law's destructive effect on the fundamental nature of the way their care is delivered.

The website problems were finally solved. But the doctor shortage is a nightmare.

Even before the ACA's launch in 2013, many physicians—seeing the changes in their profession that lay ahead—had begun talking their children out of going to medical school. After the launch, compensation fell, while nothing in the ACA stopped lawsuits and malpractice premiums from rising. Doctors must now see many more patients each day to meet expenses, all while dealing with the mountains of paperwork mandated by the health-care law.

The forecast shortage of doctors has become a real problem. It started in 2014 when the ACA cut \$716 billion from Medicare to accommodate 30 million newly "insured" people through an expansion of Medicaid. More important, the predicted shortage of 42,000 primary-care physicians and that of specialists (such as heart surgeons) was vastly underestimated. It didn't take into account the ACA's effect on doctors retiring early, refusing new patients or going into concierge medicine. These estimates also ignored the millions of immigrants who would be seeking a physician after having been granted legal status.


David G. Klein

It is surprising that the doctor shortage was not better anticipated: After all, when Massachusetts mandated health insurance in 2006, the wait to see a physician in some specialties increased considerably, the shortage of primary-care physicians escalated and more doctors stopped accepting new patients. In 2013, the Massachusetts Medical Society noted waiting times from 50 days to 128 days in some areas for new patients to see an internist, for instance.

But doctor shortages are only the beginning.

Even before the ACA cut \$716 billion from its budget, Medicare only reimbursed hospitals and doctors for 70%-85% of their costs. Once this cut further reduced reimbursements, and the ACA added stacks of paperwork, more doctors refused to accept Medicare: It just didn't cover expenses.

Then there is the ACA's Medicare (government) board that dictates and rations care, and the board has begun to cut reimbursements. Some physicians now refuse even to take patients over 50 years old, not wanting to be burdened with them when they reach Medicare age. Seniors aren't happy.

Medicaid in 2016 has similar problems. A third of physicians refused to accept new Medicaid patients in 2013, and with Medicaid's expansion and government cuts, the numbers of doctors who don't take Medicaid skyrocketed. The uninsured poor now have insurance, but they can't find a doctor, so essentially the ACA was of no help.

The loss of private practice is another big problem. Because of regulations and other government disincentives to self employment, doctors began working for hospitals in the early 2000s, leaving less than half in private practice by 2013. The ACA rapidly accelerated this trend, so that now very few private practices remain.

When doctors are employed like factory workers by hospitals, data from the Medical Group Management Association and others indicate, their productivity falls—sometimes by more than 25%. They see fewer patients and perform fewer timely procedures, exacerbating the troubles caused by physician shortages. Continuity of care also declines, since now a physician's responsibilities end when his shift is over.

Of those doctors still in private practice, many have taken refuge from the health-care law by going into concierge medicine, where the patient pays an annual fee (typically \$500-\$3,000 a year per individual) to a primary-care physician. This doctor provides enhanced care, grants quicker appointments and spends more time with each patient, working with a base of 300-600 patients instead of the 3,000-5,000 typical in the ACA era. Doctors and patients who can afford it love concierge medicine: It allows treatment to be administered as the doctor sees fit, instead of as if the patient is on an assembly line with care directed on orders from Washington.

Patients who can't afford concierge medicine but have seen their doctor take that route are out of luck: They have been added to the swelling rolls of patients taken care of by the shrinking pool of physicians. So even people with "private" insurance have found that the quality of their health care declined. Nowadays, many are forced instead to see a nurse or other health-care provider. The traditional doctor-patient relationship is now reserved primarily for those who can pay extra.

Concierge-type care was easily expanded to specialists. The top surgeons now simply opt out of Medicare or become "out of network" providers, allowing them to bill patients directly. Many have joined the plastic surgeons and ophthalmologists who work on a straight fee-for-service basis.

Equally important: With the best and most successful doctors disappearing into concierge medicine or refusing new Medicare and Medicaid patients, replacing these experienced physicians with bright young doctors to work with the "general public" has become difficult. Why? Because such doctors are hard to find—going into medicine doesn't have the professional allure it once did.

With an average of \$300,000 in student loans, eight years of college and medical school, and three to seven years as underpaid, overworked residents, a prospective physician in the ACA era would be starting a career at age 30 in a job that requires working 70-80 hours a week in an assembly-line fashion to earn perhaps \$100,000 a year. No wonder so many qualified individuals these days are choosing careers on Wall Street or in Silicon Valley instead of medicine.

It is also no wonder that three years ago members of the U.S. Congress got themselves exempted from the Affordable Care Act. They may have passed the law, but they're not stupid.

Dr. Allen, a pediatric heart surgeon, is a former professor and surgical director of the Children's Heart Institute in Houston.

Obama's Credibility Is Melting

[Wonder Land]

By Daniel Henninger

The collapse of ObamaCare is the tip of the iceberg for the magical Obama presidency.

From the moment he emerged in the public eye with his 2004 speech at the Democratic Convention through his astonishing defeat of the Clintons in 2008, Barack Obama's calling card has been credibility. He speaks, and enough of the world believes to keep his presidency afloat. Or used to.

All of a sudden, from Washington to Riyadh, Barack Obama's credibility is melting.

Amid the predictable collapse the past week of HealthCare.gov's too-complex technology, not enough notice was given to Sen. Marco Rubio's statement that the chances for success on immigration reform are about dead. Why? Because, said Sen. Rubio, there is "a lack of trust" in the president's commitments.

"This notion that they're going to get in a room and negotiate a deal with the president on immigration," Sen. Rubio said Sunday on Fox News, "is much more difficult to do" after the shutdown negotiations of the past three weeks.

Sen. Rubio said he and other reform participants, such as Idaho's Rep. Raul Labrador, are afraid that if they cut an immigration deal with the White House—say, offering a path to citizenship in return for strong enforcement of any new law—Mr. Obama will desert them by reneging on the enforcement piece.

When belief in the average politician's word diminishes, the political world marks him down and moves away. With the president of the United States, especially one in his second term, the costs of the credibility markdown become immeasurably greater. Ask the Saudis.

Last weekend the diplomatic world was agog at the refusal of Saudi Arabia's King Abdullah to accept a seat on the U.N. Security Council. Global disbelief gave way fast to clear understanding: The Saudis have decided that the United States is no longer a reliable partner in Middle Eastern affairs.

The Saudi king, who supported Syria's anti-Assad rebels before Islamic jihadists polluted the coalition, watched Mr. Obama's red line over Assad's use of chemical weapons disappear into an about-face deal with Vladimir Putin. The next time King Abdullah looked up, Mr. Obama was hanging the Saudis out to dry yet again by phoning up Iran's President Hasan Rouhani, Assad's primary banker and armorer, to chase a deal on nuclear weapons. Within days, Saudi Arabia's intelligence chief, Prince Bandar, let it be known that the Saudis intend to distance themselves from the U.S.

The president's partners are concluding they can't do business with him.

What is at issue here is not some sacred moral value, such as "In God We Trust." Domestic politics or the affairs of nations are not an avocation for angels. But the coin of this imperfect realm is credibility. Sydney Greenstreet's Kasper Gutman explained the terms of trade in "The Maltese Falcon": "I must tell you what I know, but you won't tell me what you know. That is hardly equitable, sir. I don't think we can do business along those lines."

Bluntly, Mr. Obama's partners are concluding they cannot do business with him. They don't trust him. Whether it's the Saudis, the Syrian rebels, the French, the Iraqis, the unpivoted Asians or the congressional Republicans, they've all had their fill of coming up on the short end with so mercurial a U.S. president. And when that happens, the world's important business doesn't get done. The world's affairs sit then in a dangerous and volatile vacuum.

The next major political event in Washington is the negotiation over spending, entitlements and taxes between House budget chair Paul Ryan and his Senate partner, Patty Murray. The bad air over this effort is the same one that Marco Rubio says is choking immigration reform: the fear that Mr. Obama will urge the process forward in public and then blow up any Ryan-Murray agreement at the 11th hour with deal-killing demands for greater tax revenue.

Then there is Mr. Obama's bond with the American people, which is at risk with the failed rollout of the Affordable Care Act. ObamaCare is the central processing unit of the Obama presidency's belief system. Now the believers are wondering why the administration suppressed knowledge of the huge program's problems when hundreds of tech workers for the project had to know this mess would happen Oct. 1.

Rather than level with the public, the government's most senior health-care official, Kathleen Sebelius, spent days spewing ludicrous and incredible happy talk about the failure, while refusing basic information about its cause.

Voters don't normally accord politicians unworldly levels of belief, but it has been Barack Obama's gift to transform mere support into victorious credulousness. Now that is crumbling, at great cost. If here and abroad, politicians, the public and the press conclude that Mr. Obama can't play it straight, his second-term accomplishments will lie only in doing deals with the world's most cynical, untrustworthy partners. The American people are the ones who will end up on the short end of those deals.

Write to henninger@wsj.com

Pound/Euro 0.8527 ▲ 0.39% **Yen/$** ¥97.28 ▼ 0.92% **Global Dow** 2408.92 ▼ 0.71% **Gold** 1333.90 ▼ 0.64% **Oil** 96.86 ▼ 1.46% **3-month Libor** 0.23835 **10-year Treasury** ▲ 9/32 yield 2.482%

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Peugeot Reviews Partnership With GM

By David Pearson

PARIS—**General Motors** Co. and **PSA Peugeot Citroën** are having second thoughts about one of their joint car projects, Peugeot said Wednesday, warning that the companies' alliance may not produce the $2 billion in annual cost savings they had expected.

Peugeot, Europe's No. 2 automotive group by sales behind Germany's **Volkswagen** AG, said the plan to jointly develop a new platform for subcompact vehicles with GM is under review.

"We haven't found the right equation that would ensure the project will be economically viable," a Peugeot spokeswoman said.

One person familiar with the matter said the project ran aground in the early summer, when GM expressed concerns.

Both companies are struggling to reduce costs in Europe. But with no sign of any significant improvement in the market seen over the medium term, they are battling to offset fixed costs at their underutilized factories. Peugeot and GM's Germany-based **Opel** unit are eliminating thousands of jobs and reducing production capacity, each closing a factory next year.

The review raises questions over the future of the two companies' cost-saving alliance, particularly as Peugeot is considering deepening a long-standing partnership with China's Dongfeng Motor Corp. The two companies are studying a possible plan to export cars from China, where they have a vehicle-making joint venture, to other Asian countries.

Dongfeng and Peugeot have also been in talks about a potential deal that could see the Chinese auto maker take a stake of under 30% of the French company as part of a capital increase, though those talks have moved slowly, according to a person familiar with the matter. Peugeot Chief Financial Officer Jean-Baptiste de Chatillon declined to comment on whether his company has approached Dongfeng about such a deal, reiterating that Peugeot is looking at potential industrial projects with different partners.

Peugeot's talks with Dongfeng have complicated the relationship with GM, according to people familiar with the situation. In particular, they have riled SAIC Motor Corp., the Chinese auto maker that is GM's partner in the country, they said. Shelving Peugeot's subcompact-car project with GM could facilitate Dongfeng's investment in Peugeot, with GM content to focus on a narrower alliance with Peugeot for the European market, these people added.

Peugeot and GM have been counting on the alliance to save $1 billion each annually through 2015, largely through more efficient procurement but also by jointly developing a new platform for subcompact vehicles. In automobile parlance, a platform is the underpinnings of a vehicle that can be used across several models and shared with other companies.

Peugeot is battling to cover fixed costs at its factories, which fell further below their full operating potential in the third quarter. Its factories in France and the rest of Europe operated at 64% and 73% of capacity

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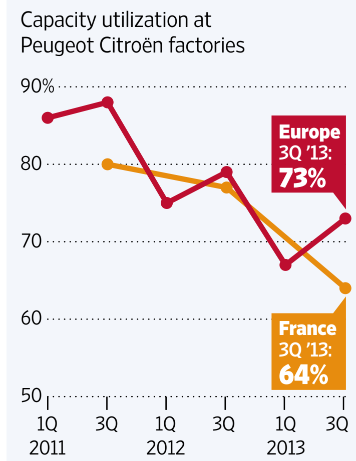

Caterpillar Attacks Costs as Profit Slides

By James R. Hagerty

When Doug Oberhelman took over as chief executive of **Caterpillar** Inc. in July 2010, one of his worries was that the company and its suppliers wouldn't be able to increase production fast enough to keep up with demand.

Now the big question is whether the world's biggest maker of construction and mining equipment can cut costs fast enough.

On Wednesday, Caterpillar announced a surprisingly steep 44% drop in third-quarter earnings, largely because of falling sales of mining equipment as mining firms struggle to reduce their own bloated costs.

"We have everyone here on a cost-lockdown binge," Mr. Oberhelman said during a conference call with analysts. He said incentive pay was falling, thousands of management employees had been laid off temporarily and more long-term "structural" cost reductions were in the works.

Though Mr. Oberhelman didn't discuss his own pay, it has become an issue over the past two years as the company has pressed some workers to accept pay freezes and reduced benefits. His total compensation jumped to $22.4 million in 2012 from $16.9 million in 2011 and $10.6 million in 2010. Mr. Oberhelman's pay is likely to take a hit in 2013 from a decline in incentive pay tied to corporate profit. A Caterpillar spokesman said the CEO was unavailable to comment but that his cash compensation was expected to be "significantly reduced" this year. Caterpillar has said executive pay is based on performance and was boosted by record results in 2012.

Caterpillar has repeatedly been forced to lower expectations this year as the slump in mining equipment proved worse than it expected.

Reuters

Caterpillar said its third-quarter earnings fell 44% as mining firms struggled. China offered a bright spot in the results.

Mr. Oberhelman increased the company's exposure to mining in 2011 with the $8.8 billion purchase of Bucyrus International Inc., a maker of bus-size shovels used to scoop ore. While many analysts like the long-term story on mining, they say Caterpillar paid a premium for Bucyrus because it made the purchase near the top of an upswing in demand for mining equipment.

During the investor call, Mr. Oberhelman conceded that there was no sign of an early upturn in investment in new mines: "Any expansion in the near term is dead; it's over; it's not going to happen."

The 60-year-old Mr. Oberhelman has taken a high profile in the past three years, lobbying for free-trade agreements and increased government spending on roads, ports and other infrastructure—which would spur demand for Caterpillar's big yellow machines. He serves as chairman of the National Association of Manufacturers, a trade and lobbying group based in Washington, and regularly hobnobs with CEOs of other big companies when he isn't pursuing such hobbies as duck hunting and fishing.

Like most senior Caterpillar executives, Mr. Oberhelman is a lifer. The son of a John Deere equipment salesman, he earned a bachelor's degree in finance at Millikin University in Decatur, Ill., before joining Caterpillar as a fresh college graduate 38 years ago.

Within two months of becoming CEO in mid-2010, Mr. Oberhelman made bold promises. "Our primary goal for stockholders is delivering total shareholder returns over the business cycle in the top 25% of the S&P 500," he told investors in August 2010. Since he became CEO, the company's total return to investors has been 60.2%, according to Fact-

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Orange Says Price War Keeps Lid On Earnings

By Sam Schechner

PARIS—**Orange** SA on Wednesday reported a further slide in profit in the third quarter, hit by a price war in its home market that it expects to be felt into next year.

The former French monopoly, which has operations across Europe and Africa, reported a 7.6% decline in its earnings before interest, taxes, depreciation and amortization to €3.34 billion ($4.60 billion), as a shrinking top line across most divisions was coupled with increased spending in new high-speed wireless and fixed networks.

Revenue dropped 5.5% from a year earlier to €10.16 billion, largely because of a 5.7% fall at the company's French unit, despite continued growth in Spain, as well as in Africa and the Middle East.

Orange, like many businesses in France, doesn't report net profit on a quarterly basis.

The company—known until July as France Télécom—has been struggling in its home market since January 2012, when **Iliad** SA introduced an upstart competitor called Free Mobile, which offers unlimited voice plans with three gigabytes of data for €20 a month. Like competitor **Vivendi** SA's SFR and Bouygues SA's Bouygues Telecom, Orange has had to slash prices to hang on to consumers, leading the company to report year-over-year declines in Ebitda every quarter since Free's launch.

Orange added 298,000 mobile customers in France in the three

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BUSINESS & FINANCE

Unions Soften Tire-Deal Stance

By Gabriele Parussini

PARIS—Unions at a **Goodyear Tire & Rubber** Co. plant in France agreed Wednesday to enter negotiations that could pave the way for a takeover by U.S. tire maker **Titan International** Inc., whose chief executive lambasted the country's work ethic just eight months ago.

In a turnaround that highlights the stark economic challenges facing France, the CGT union—which represents the bulk of the workers at Goodyear's plant in Amiens—softened its resistance to a Titan buyout after a two-hour meeting with French Industry Minister Arnaud Montebourg, said a union representative. The union agreed to start negotiations with Titan CEO Maurice Taylor, after rejecting his earlier offer to purchase the plant because he planned to fire many workers.

Goodyear has been trying to shut the plant for several years but is entangled in legal proceedings with the unions representing workers there. Titan, which has tried several times to buy part of Goodyear's factory, is ready to retain 333 workers, about one-third of the workforce currently staffing the factory, Mr. Montebourg said.

"That's not bad," the minister told reporters. "Before Mr. Taylor's offer, that number was zero."

As a first step, the unions will have to settle their disputes with Goodyear. Only then could Titan come in and purchase the plant, said Mr. Taylor in a telephone interview.

Goodyear France spokesman Paolo Ghilardi said the company hadn't been invited to the meeting and wasn't aware of Titan's offer.

In France, companies have an obligation to consult unions on restructuring. Unions often start legal proceedings if they disagree with the company's plans.

Agence France-Presse

Titan International CEO Maurice Taylor said unions would need to settle their disputes with Goodyear before Titan could acquire a Goodyear plant in France.

Titan had expressed interest two years ago in acquiring the unprofitable plant put up for sale by Goodyear, but the company pulled out of talks last year after workers, headed by the CGT union, refused to work longer hours to save jobs.

In a Feb. 8 letter responding to a renewed approach by Mr. Montebourg, Mr. Taylor bluntly replied: "Sir, your letter states that you want Titan to start a discussion. How stupid do you think we are?"

The letter sparked outrage in France, with Mr. Montebourg calling Mr. Taylor's comments "extremist" and "insulting."

Mr. Taylor's criticism fueled broader concerns about France's industrial competitiveness, and prompted a reaction that blended economic patriotism and soul searching in a country that has seen its industrial output plunge, and where many large industrial companies—such as car maker **PSA Peugeot Citroën**—have announced vast layoff plans at their production facilities.

On Wednesday, the spat seemed to be a thing of the past.

"Mr. Taylor, who had had tough words for France, has muzzled his criticism and came back, showing his desire to get to an agreement," Mr. Montebourg said. "That shows that France is capable of disarming its toughest critics."

"I hope they can cut a deal with Goodyear, because until they're done we can't talk to them," Mr. Taylor said. "It was about time they did something."

Troubles at the Goodyear plant started in 2007, when the company decided to restructure its two production sites in Amiens. After workers rejected the company's plan, the management said it would cut 402 jobs. Workers sued Goodyear arguing the layoffs were unlawful. As the two sides faced each other in court, Goodyear began negotiations to sell one of the facilities to Titan, which proposed to secure jobs for half the plant's staff for two years. Goodyear has been trying to shut the plant but is now entangled in legal proceedings with the unions.

Mr. Taylor pulled out of negotiations last September, and Mr. Montebourg failed to persuade the CGT to accept Titan's offer.

The union stance has now changed.

"We didn't accept the Titan proposal two years ago," Mickael Wamen, CGT's representative for the plant, told French television after the meeting with Mr. Montebourg. "But now we have to discuss it."

Peugeot Reviews Its Partnership With GM

Continued from previous page

in the three months to Sept. 30, compared with 77% and 79% a year earlier, respectively. Car plants usually have to run at around 80% of capacity to break even.

GM said in a statement Wednesday that it and Peugeot are continuing to work together on some projects, including joint procurement and two new cars. GM officials weren't immediately available to comment further.

"Peugeot has signaled that they want to review the cooperation. That doesn't have to be the beginning of the end, but it's a difficult situation," said Juergen Pieper, an analyst at Bankhaus Metzler. In flagging to GM that it is talking to other partners, "Opel has to see that as a step backwards," Mr. Pieper said.

Jens Schattner, an automotive analyst at **Macquarie Securities**, said neither Peugeot nor GM in Europe can spare a lot of money to spend on a costly new platform project. "Either they don't have the money to invest in this project, or it doesn't make sense to put B segment cars like the Peugeot 208 or the Opel Corsa on the same platform."

Peugeot said it sees no potential conflict with GM in having deeper ties with Dongfeng, even though GM's and Peugeot's Chinese joint ventures compete with each other in China. Peugeot's partnership with Dongfeng is focused on Asia, while the GM alliance is centered on Europe, noted Mr. de Chatillon.

Mr. de Chatillon said Peugeot is confident it has turned the corner in terms of its performance, despite on Wednesday reporting a 3.7% drop in third-quarter revenue to €12.1 billion ($16.68 billion), with automotive revenue falling 5.8%.

Job cuts, the closure of one assembly plant in France and a renegotiated labor agreement are reducing costs faster than expected. "In the first nine months we have seen the first tangible green shoots of recovery," Mr. de Chatillon said. Peugeot incurred a €5 billion loss in 2012 and has been losing market share in Europe, where it sells most of its cars. He said the company will likely win back some market share in the final quarter of this year after Peugeot launches new vehicles such as its revamped 308 sedan.

The company affirmed its full-year financial guidance, saying it still expects to reduce its operational cash-flow consumption by at least half this year compared with 2012, and expects a "very significant" further reduction in 2014.

Mr. de Chatillon cautioned, however, that the unfavorable exchange rate shifts since the summer due to the euro's strength "will have a clearly negative impact on our profit and loss account" after slicing 5% off the company's revenue in the third quarter.

Peugeot sold 610,400 vehicles world-wide in the third quarter, down 2.4% from a year before, and down 1.5% over the first nine months of the year.

Caterpillar Attacks Costs As Profit Takes a Dive

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Set, which ranks Caterpillar in the bottom half of the S&P list, as No. 325 out of 486 constituents that have been in the index during the entire period.

A Caterpillar spokesman offered no immediate comment on the total-return data.

At the same meeting in August 2010, Mr. Oberhelman announced major ambitions for increasing market share in China: "We are stepping it up big time and putting our money where our mouths are," he said. "We're going to play offense and we're going to win."

China, which accounts for around half of global demand for construction equipment, has proved a struggle. Local rivals flooded the market with lower-price equipment, and Caterpillar's sales there are still only about 6% of its global total. In January, Caterpillar was forced to take a $580 million write-down on a Chinese maker of mining machinery it bought for about $700 million in 2012. Caterpillar blamed accounting misdeeds by former managers.

Still, Mr. Oberhelman said China had become a bright spot. Third-quarter sales there increased 30% from a year earlier to $800 million. Caterpillar said it gained market share in excavators, one of the most important product categories, in China. "We're in a nice position there going forward," he said.

As part of its cost-cutting drive, Caterpillar said it had reduced its global workforce to 137,104 people, down 9% from a year earlier. Capital spending this year will be less than $3 billion, down from $3.4 billion in 2012.

Caterpillar said it was considering "rationalization" of some smaller facilities, more job cuts and consolidating management functions, among other things.

Caterpillar reduced its forecast for full-year earnings a share to about $5.50, compared with a prior forecast of $6.50. For 2012, Caterpillar reported record earnings of $8.48 a share.

For the third quarter, Caterpillar reported profit of $946 million, or $1.45 a share, down from $1.70 billion, or $2.54 a share, a year earlier. Wall Street had expected earnings of $1.68 a share. Sales, including revenue from financing, dropped 18% to $13.42 billion.

The long-term outlook for mining equipment remained strong, Mr. Oberhelman said. "The world will grow; China will not implode," he said. "At some point, that plays right to our hand. Just not right now."

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Businesses

This index of businesses mentioned in today's issue of The Wall Street Journal is intended to include all significant reference to companies. First reference to the companies appears in bold face type in all articles except those on page one and the editorial pages.

Corrections & Amplifications

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BUSINESS & FINANCE

U.S. Movies Slip in Buoyant China Market

BY WAYNE MA AND LAURIE BURKITT

BEIJING—Hollywood is losing ground in China, at a time when box-office sales there are surging and foreign filmmakers are eager for a bigger share of the world's fastest-growing film market.

China's box office grossed 16.42 billion yuan ($2.7 billion) in the first nine months of the year, jumping 35% from the same period a year earlier, the official Xinhua news agency said Wednesday.

But most of that growth went to China's own films. Domestic sales in the period rose 94% to 9.56 billion yuan, while receipts of imported films declined 5.2% to 6.86 billion yuan, Xinhua said, citing China's State Administration of Press, Publication, Radio, Film and Television.

Hollywood studios are banking on China to help make up for slowing revenue growth in North America. In August, for example, the U.S. summer blockbuster "Pacific Rim," a co-production between Time Warner Inc.'s **Warner Bros**. and **Legendary Pictures** Inc., grossed 694.2 million yuan in China, giving the movie a shot in the arm after its disappointing showing in North America.

Last year, Hollywood had significant pull in Chinese theaters, with foreign films accounting for 51% of box-office sales. Chinese films faced stiff competition from Hollywood blockbusters including "The Avengers," "Mission Impossible: Ghost Protocol" and "Titanic 3-D." Only three of China's top grossing films of 2012 were domestic. So far this year, foreign films accounted for 42%.

Industry insiders say that China's domestic filmmakers have stepped up their game, producing better-quality movies such as "Journey to the West: Conquering the Demons," a 3-D production that pulled in 1.24 billion yuan, and "So Young," a coming-of-age story about a group of college students that made 717.3 million yuan at box offices.

China is also producing more 3-D films, which command higher ticket prices.

Some domestic films have attracted audiences by pushing the envelope of China's tightly censored film market with more creative content.

Romantic comedy "Finding Mr. Right," which grossed 518.4 million yuan, features social themes that are sensitive there, including lesbianism, extramarital affairs and traveling abroad to have babies to gain citizenship or better medical care. The Chinese-Hong Kong action film "Drug War," in theaters now, tells the story of a drug lord and shows characters using cocaine.

Insiders say China's filmmakers have stepped up their game, producing better-quality movies such as 'Journey to the West: Conquering the Demons.'

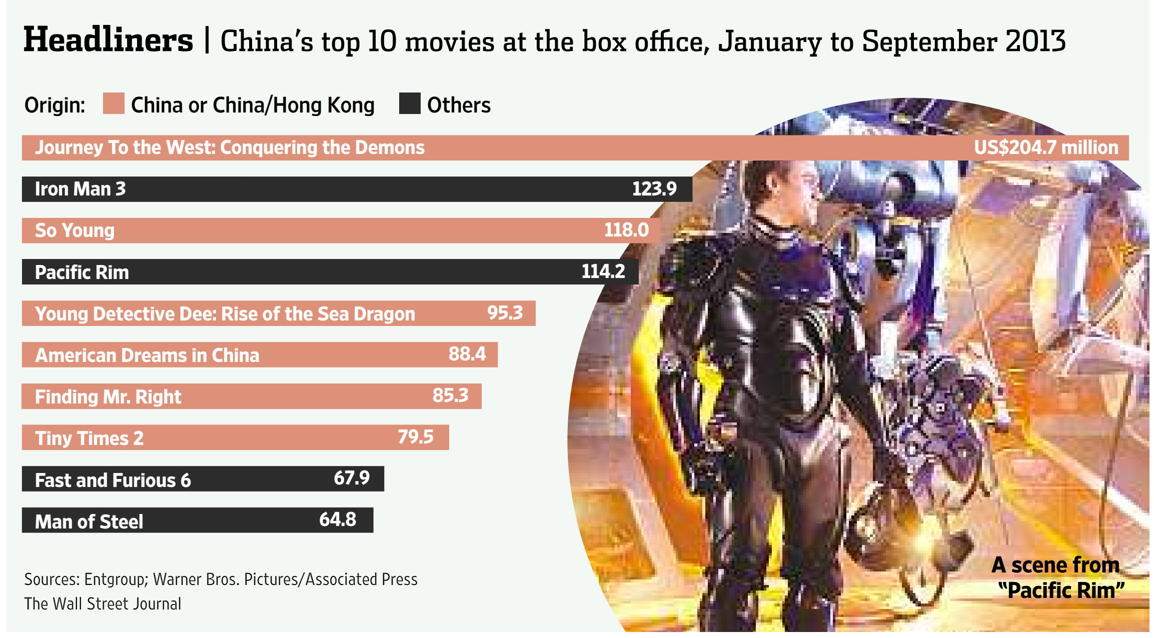
Hollywood has had some setbacks this year, Chinese film authorities yanked Quentin Tarantino's "Django Unchained" from the nation's movie screens in April, just moments after the film went into wide release, as censors claimed it showed scenes too graphic for audiences. In one Beijing theater, moviegoers hoping to see the tale of a 19th-century former slave wreaking bloody vengeance across the American South saw only moments of the film before the lights came back on.

"Django" was then rereleased a month later in theaters, grossing $2.65 million in China, far lower than the $162.8 million it made in U.S. theaters.

China's film market is booming, with more theaters opening across the country and the release of more 3-D and **IMAX** films.

China added 625 theaters in the first nine months of the year, bringing the total number to 4,305, according to data provided by film market research group EntGroup. In the period, 44 3-D and IMAX films were released, already matching the total number released in all of 2012, the data showed.

Hollywood has been trying to rev up productions that will appeal to the Chinese market. Beijing restricts the showing of foreign-made films, but in 2012 it raised the cap on foreign films to 34 last year, up from its previous 20.



Sources: Entgroup; Warner Bros. Pictures/Associated Press
The Wall Street Journal

Xi Praises Global Executives

Continued from first page
Inc. Chairman and Chief Executive Indra Nooyi and former Sony Corp. Chairman Nobuyuki Idei.

From the financial world, the group included Blackstone Group LP founder Stephen Schwarzman, Carlyle Group Managing Director David Rubenstein, AXA SA Chairman and Chief Executive Henri de Castries and former American International Group Inc. chief Maurice "Hank" Greenberg.

Mr. Xi's comments come at a time when a number of foreign companies have been put under a microscope by Chinese state-run media for allegations ranging from bribery to overcharging consumers. The most significant is an investigation by Chinese officials into whether China-based employees of drug maker GlaxoSmithKline PLC bribed doctors and officials in order to boost sales.

Glaxo has said some of its employees may have violated both company policy and Chinese law and that it is cooperating. Andrew Witty, Glaxo's chief executive, attended the Tsinghua meeting last year.

Industry watchers say that the government typically targets multinational companies, which tend to be leaders or have high profiles in China, to initiate and encourage change within industries.

In April, Apple CEO Tim Cook apologized and said it would revamp some customer-service policies following criticism in state-run media. Volkswagen in March said it would recall more than 380,000 vehicles after state media alleged problems with the transmissions in some of its most popular models. Mr. Cook didn't attend the meeting but is sitting on the Tsinghua advisory board this year, according to the board's website.

Others have faced less serious accusations in the state media. Earlier this week, China's government-controlled television broadcaster criticized Starbucks, saying its profit margins in China are excessive. In a separate report, China Central Television slammed Samsung Electronics Co. for allegedly charging consumers for repairs on manufacturing errors.

Starbucks said figures CCTV used in its criticism didn't accurately represent the firm's financial results in China. Samsung said it would respond to problems and "remains committed to providing the highest quality products and services."

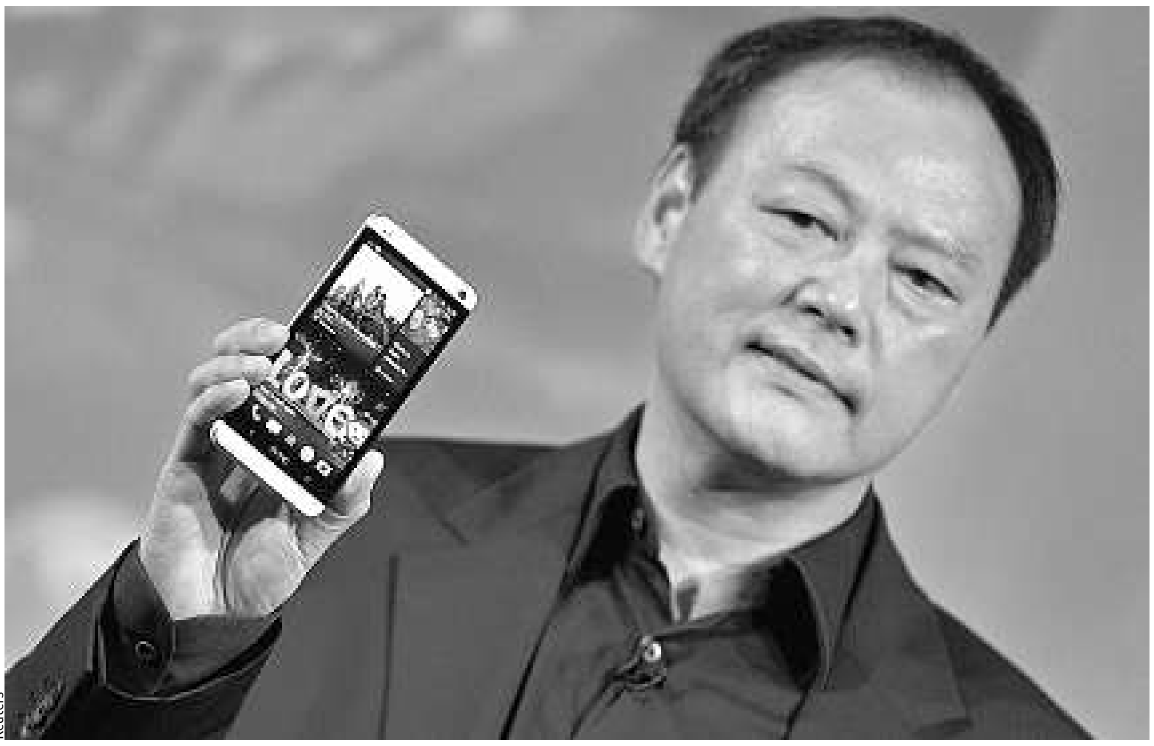
At the same time, China's leaders are gradually pushing structural reforms in the world's second largest economy that include creating a level corporate playing field that doesn't favor state-owned companies. It also continues to enjoy rising investment from abroad—foreign direct investment for the first nine months of the year totaled $88.6 billion, up 6.2% from a year earlier.

Mr. Xi has aimed to differentiate himself from his predecessor, Hu Jintao, by making himself more accessible, speaking in plainer language and talking more directly to businesses.

On Wednesday, the executives lined up to greet Mr. Xi as they entered the meeting room. He welcomed each with a smile and a quick thanks for coming, while an interpreter named the person and translated the response.

When shaking Mr. Xi's hand, Mr. Duke, of Wal-Mart, said he looked forward to the dialogue. Mr. Kent, of Coca-Cola, reminded Mr. Xi that they had met before.

—Paul Mozur contributed to this article.



Reuters

HTC chief Peter Chou, shown with the One smartphone, on Tuesday didn't rule out cooperation with other companies.

HTC Looks to Cut Costs

By Eva Dou
And Lorraine Luk

TAIPEI—In a strategy shift, **HTC** Corp. is considering outsourcing smartphone production to other companies as it looks for ways to cut costs and return to profitability.

The Taiwanese smartphone maker is in talks with several major contract manufacturers, including BlackBerry supplier **Wistron** Corp. and a unit of **Hon Hai Precision Industry** Co., about the possibility of outsourcing some production, people familiar with the matter said. HTC last month swung to its first net loss since its initial public offering of stock in 2002.

The company currently produces all of its smartphones in-house at factories in Taiwan and China. HTC began as a contract manufacturer for other handset companies in 1997, but switched to producing under its own brand in 2006. It experienced a rapid rise, especially in the U.S., where it became the leading smartphone maker in 2011.

Yet HTC suffered an equally swift descent after its sales failed to keep pace with those of Samsung Electronics Co. and Apple Inc. Analysts said marketing and production problems contributed to the decline, with research firm Gartner adding that HTC has fallen out of the global top 10 smartphone makers this year.

Even after HTC switched to focusing on its own brand, it clung to its factories as a core strength despite most larger peers—including Apple and Nokia Corp.—contracting out manufacturing to save costs. Now HTC is reconsidering, after the marketing issues and production delays led to lower sales volumes and helped bring about the third-quarter net loss.

HTC's third-quarter sales fell 33% from a year earlier, leaving some factory capacity idle in Taiwan and Shanghai. The company's cash position is also deteriorating. HTC had 48.1 billion New Taiwan dollars (US$1.63 billion) in cash in the second quarter, down from NT$55.5 billion a year earlier.

And with the company's shares down more than 85% from their peak in April 2011, HTC's management is feeling the heat from investors to consider all options and produce a viable turnaround plan.

One of the people familiar with the matter said HTC has also quietly asked some companies, including **FIH Mobile** Ltd., if they would be interested in buying one of HTC's factories.

HTC Chief Marketing Officer Ben Ho said in an interview that the company has consolidated some of its production lines in Taoyuan, Taiwan, into a single building for cost reasons. But he said HTC had no plans to sell its factories. "We are looking at all ways to optimize cost without sacrificing quality," he said.

Chief Executive Peter Chou fielded a question about outsourcing from an employee at an internal town hall on Tuesday, a spokeswoman for the company said. Mr. Chou said HTC didn't rule out cooperation with other companies and that flexibility was valued, although he also said manufacturing is an important part of the business.

The firm has already made some broad changes. HTC said this week that Mr. Chou has asked Chairwoman Cher Wang to help oversee areas such as marketing, sales and customer service as Mr. Chou focuses on product development.

HTC has been putting more emphasis on the China market and spending more on marketing as it looks to turn around its business. With its cash pile shrinking, HTC has also been selling some of its investments, including its 28.84% stake in headphones maker Beats Electronics LLC for $265 million.

Price War Weighs On Orange

Continued from page 15

months ended Sept. 30, excluding so-called machine-to-machine accounts.

But its year-over-year decline in average revenue per customer in France over the prior 12 months was 12%.

The impact of the price war, as current customers switch to less costly plans, will be felt into next year, with French ARPU likely to decline by somewhere under 10% in 2014, Orange Chief Financial Officer Gervais Pellissier said on a conference call with reporters.

Nevertheless, Orange said it still expects to meet its forecast for operating cash flow of more than €7 billion in 2013.

That would represent a decline of no more than 12% from the operating cash flow of €7.97 billion that Orange posted in 2012.

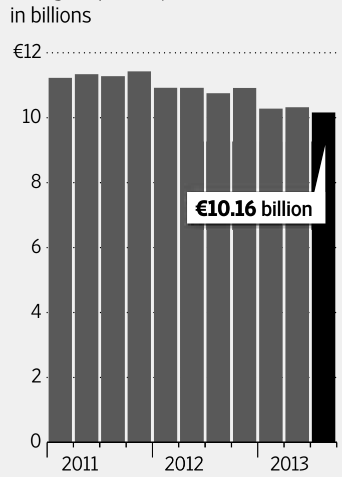
The company, however, declined to give guidance on whether its Ebitda would return to growth next year. "It's our intention to stabilize it as soon as possible, in 2014. But I can't say if we'll be able to do so," Mr. Pellissier said.

Orange's stock fell more than 5% in Wednesday trading, but it has risen more than 40% in the past three months, benefiting in large part from rising valuations across the sector as investors hope for a wave of consolidation.

Orange could play a role in such consolidation. The company is watching closely to see whether Brussels approves a pending deal for **Telefonica** SA to buy control of **KPN** NV's German E-Plus unit, a deal that could set a precedent for reducing the number of mobile operators in a large country, Mr. Pellissier said on a conference call with analysts. He added that Orange could look to buy assets in Spain or Poland.

Sliding

Orange's quarterly revenue, in billions



Source: the company
The Wall Street Journal

Israel's Tech Success Has Lessons for All

[Tech Europe]

By Ben Rooney

TEL AVIV—Try as you might, it is extremely hard not to be a bit starstruck by the Israeli technology scene. Just when you think you have seen everything, along comes something even more impressive, such as a startup with a nanotechnology that has the potential to disrupt everything from batteries to display screens to semiconductors.

But can the country continue to deliver in the way it has, and what is next for the startup nation?

It is the scale of Israeli ambition that other startup ecosystems outside the U.S. seem incapable of matching. "It is Silicon Valley for the rest of the world," said Saul Klein, a London-based venture capitalist and recently appointed a U.K. tech envoy to Israel.

"On a scale of one to 10, the innovation I see in, say, Germany would be close to zero. In Israel, it is a 10," said Mark Tluszcz, co-founder and chief executive of **Mangrove Capital Partners** SA, a Luxembourg-based venture firm that has been investing in Israeli startups since 2007.

What's the secret? Reasons include the role of the Israeli Defense Forces, and in particular the high-tech Unit 8200; the unique cultural values of a country forged from centuries of oppression; and Jewish mothers. Yossi Vardi, the larger-than-life so-called father of the Israeli tech scene, favors that last theory. "From birth," he said, "your mother will tell you that you have to succeed, that you have to be better than your cousin, or her friend's son, or whoever."

But what is next for Israel? Certainly there doesn't appear to be any slowing down. Recent acquisitions by **Google** Inc. of crowdsourced traffic app Waze for a reported $1.1 billion, and by **Facebook** Inc. of mobile-data-compression service Onavo (which our sister title All Things D reported was for $120 million), show the lure of the eight-million-strong nation hasn't tarnished. So does **Amazon.com** Inc.'s recent announcement that it is to open an R&D center in Israel.

Mr. Klein, who until recently lived in the country, said that to talk about what is next for Israeli tech is to miss the point. "You have within this tiny country—you can drive from east to west in an hour, from north to south in five—every major sector and subsector of the technology industry. What is next? All technology."

While Israeli technology may be world-leading, can the same be said of the companies that are built upon it? Critics, including Mr. Tluszcz, say that while Israelis are great at building small tech companies, too many sell too soon.

"The first $1 billion [Israeli] Internet company was Waze," he said. "They need some leaders to give them the confidence that they can stay longer and not sell. What Waze has shown is that you can stay in Israel and build a billion-dollar tech business."

However, according to Chemi Peres, managing general partner and co-founder of the Herzliya-based Pitango Venture Capital Ltd., things are changing. "There is [now] a notion of, 'Let's build bigger companies,' and not to sell them at $200 million. This is a cultural change. Look at companies like Waze or Trusteer." Trusteer, a security firm, was acquired in August by **International Business Machines** Corp. The Wall Street Journal reported the deal was worth between $700 million and $1 billion.

One who is trying to build a global tech company from within Israel's borders is Josef Mandelbaum, chief executive officer of Perion Network Ltd., who recently steered his company into a reverse takeover of user-engagement firm Conduit Ltd. with the aim of building a $1 billion company. "One of the biggest objectives we have is to build a big, leading Internet company here in Israel," he said. "We don't think there is a reason why Israel can't have a big multinational company in the Internet space."

If Israel is seeking to build multinational companies, this represents an opportunity for other countries to share in Israel's success, said Mr. Klein. "No single country can do everything themselves," he said. "The challenge is how to connect to the other countries."

The U.K. government is lining itself up to reap what benefits it can. Its embassy in Israel hosts the U.K.-Israel tech hub, a program to foster closer ties between tech companies. Nor is the U.K. the only one to send envoys to woo and court Israeli tech leaders; the new Irish ambassador hosted a party for entrepreneurs at a recent tech conference here.

European efforts may be in vain. According to Mr. Peres, while local entrepreneurs and venture-capital firms are beginning to look outside of their traditional market of the U.S., they're turning not to Europe (which one entrepreneur unkindly quipped was "the thing you fly over to get to the U.S.") but to the Far East and the huge markets of Asia-Pacific. His firm recently closed a fund taking "significant sums" from investors in the region. Mr. Peres described the investment as "a strategic partnership, a bridge between the Israeli tech market and Asia-Pacific. This is an area where many of our companies see significant growth. Having investors in the region opens doors."

But even Mr. Peres admits these are early days and the link with America, while it may move up and down with the political current, remains as strong as ever. If you look at the flight schedules into Tel Aviv, there are just three direct flights a week from Beijing, and another three from Seoul. There are at least that many a day from the U.S.

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BUSINESS & FINANCE

Nasdaq Interested in Euronext Pursuit

BY JACOB BUNGE

The chief executive of **Nasdaq OMX Group** Inc. said his company is a credible buyer for **NYSE Euronext** and possesses the expertise and capacity to take on big European exchange deals.

Nasdaq CEO Bob Greifeld said Wednesday that he "would be remiss" not to evaluate a deal for Euronext, which is slated to launch an initial public offering early next year as part of **IntercontinentalExchange** Inc.'s planned takeover of NYSE Euronext. He added that Nasdaq wouldn't try to launch a bid ahead of the IPO and it is too early to say whether Nasdaq would pursue European exchanges being spun off from NYSE Euronext.

"We know we're a credible buyer for the asset," Mr. Greifeld said in an interview Wednesday, but Nasdaq is "spending essentially zero time thinking about it."

Nasdaq, however, has expressed to European regulators that it has a strong track record when it comes to acquiring and expanding European exchanges, such as Nasdaq's tie-ups with Nordic-based markets, according to Mr. Greifeld.

Atlanta-based ICE is on track to close its deal for NYSE, valued around $10.9 billion, on Nov. 4. ICE aims to absorb NYSE's London-based financial futures markets and its flagship U.S. stock-market franchise, while early next year spinning off the continental European stock markets as an independent company.

Reuters

Nasdaq Chief Executive Bob Greifeld said he "would be remiss" not to consider a deal for soon-to-be-spun-off Euronext.

Nasdaq and other major exchange companies, including **London Stock Exchange Group** PLC, **Deutsche Börse** AG and **SIX Swiss Exchange** Ltd., are seen by industry observers as potential suitors for Euronext. Representatives for LSE, Deutsche Börse and SIX have declined to comment on the possibility.

It is still too early to gauge Nasdaq's potential interest in acquiring Euronext, and the "devil is obviously in the details," Mr. Greifeld said Wednesday on a conference call discussing Nasdaq's third-quarter financial results. ICE is expected to flesh out which businesses and technology will be included with the planned spinout in IPO documents to be filed with regulators in the coming months, in preparation for the planned stock offering.

Given a host of regulatory approvals that would be needed to clear a deal with Euronext, any transaction "would probably be a 2015 event," Mr. Greifeld said in the interview.

Mr. Greifeld touted Nasdaq's track record integrating European exchanges on the conference call. He said that Nasdaq's 2007 combination with OMX AB, which runs exchanges in Norway, Finland and Sweden, has been "hailed as the proper way to do a transaction in Europe."

NYSE's 2007 combination with Euronext, Mr. Greifeld said on the call Wednesday, has been "hailed as the improper way to do it." Since that merger, Paris and Amsterdam have lost some of their luster as financial centers as more decision making and market infrastructure have shifted toward London, Mr. Greifeld said in the interview.

A spokesman for NYSE Euronext declined to comment.

Nasdaq reported that third-quarter profit increased 27% as revenue and expenses both climbed due to recent acquisitions. Recent deals to add bond-trading and investor-relations services offset a continued slowdown in Nasdaq's core stock-trading franchise, lifting net income for the period to $113 million, or 66 cents a share. Net revenue rose 23% to $506 million.

Analysts polled by Thomson Reuters expected earnings of 62 cents a share on $503 million in revenue.

Third-quarter profit compared with net income of $89 million, or 52 cents a share, a year earlier. Stripping out a loss on divestiture of business and other items, per share earnings a year earlier were 62 cents.

—Ben Fox Rubin contributed to this article.

J.P. Morgan Faces Additional Payouts to Investors

BY DAN FITZPATRICK AND JULIE STEINBERG

Investors are seeking at least $5.75 billion from **J.P. Morgan Chase** & Co. in a bid to recover losses from mortgage-backed securities sold to them before the financial crisis, said people familiar with the talks.

The group, which includes asset managers **BlackRock** Inc. and **Neuberger Berman Group** LLC, previously received an $8.5 billion settlement from **Bank of America** Corp. on similar claims.

The two sides have had on-and-off settlement discussions over the past year, said the people close to the talks. They met last week to hash out a possible deal, but no final terms have been agreed to, these people said. Kathy Patrick, a Houston lawyer with Gibbs & Bruns LLP who represents the investor group, declined to comment on any settlement talks.

The discussions are separate from a tentative $13 billion settlement with the Justice Department that would resolve a number of J.P. Morgan's other mortgage-bond lawsuits and investigations. That larger pact is expected to be completed as early as this week, said people close to the talks.

The specter of another potential multibillion-dollar payout by J.P. Morgan underscores how actions taken during the run-up to the financial crisis continue to haunt U.S. banks. For years, requests have been piling up at the nation's largest banks to repurchase mortgages that allegedly ran afoul of their own underwriting standards. Some of those requests are from government-sponsored mortgage-finance agencies Fannie Mae and Freddie Mac, and some are from private investors and insurers.

J.P. Morgan accounted for a potential payment to this investor group when it set aside more than $9 billion last quarter to cover a tangle of legal woes, said a person close to the bank. It now has a pot of $23 billion set aside to cover future legal costs.

Fannie, Freddie or other investors in mortgage-backed securities can sometimes demand that bond issuers or loan originators repurchase mortgages that are found to run afoul of certain standards set forth in the sales contracts for those deals. The demands are known as "put-back" claims.

All told, 11 of the largest U.S. banks face potential future losses of $29.7 billion from put-back claims from government-supported agencies and private investors, according to a 2012 analysis conducted by Washington, D.C.-based Compass Point Research & Trading LLC.

While J.P. Morgan has repurchased large volumes of loans from Fannie and Freddie over the past three years, it is the only major bank that hasn't reached a comprehensive settlement with either company. The companies had $737 million in outstanding claims before J.P. Morgan as of June 30, according to securities filings.

But the majority of potential losses for J.P. Morgan and 10 other big banks, $25 billion, is expected to come from private investor claims, as opposed to claims from Fannie and Freddie, said Compass Point analyst Kevin Barker. "It will definitely be an issue throughout the rest of this year and into next year," he said.

J.P. Morgan recently agreed to a tentative $4 billion settlement with the Federal Housing Finance Agency, Fannie and Freddie's regulator, that would resolve a 2011 lawsuit accusing the bank of allegedly misleading the housing finance giants about the quality of securities sold to them during the housing boom, according to people close to the talks. But the settlement, which hasn't been announced yet, doesn't cover Fannie and Freddie repurchase claims, said a person familiar with the discussions.

Scott Dalton for The Wall Street Journal

Houston lawyer Kathy Patrick represents investors seeking billions over losses from mortgage-backed securities.

The $4 billion settlement is covered by the $13 billion pact being worked out with the Justice Department. That deal also would resolve a raft of civil cases and investigations, including a 2011 suit from the National Credit Union Administration that accused the bank of allegedly duping credit unions into buying mortgage bonds that performed poorly, said people close to the talks.

Of the $13 billion, J.P. Morgan will pay roughly $2 billion in penalties that apply to its own conduct during the years before the financial crisis, said people close to the talks. But the deal also includes roughly $3 billion in compensation to institutional investors such as pension funds that lost money on mortgage bonds issued by J.P. Morgan, Bear Stearns Cos. and Washington Mutual Inc. (J.P. Morgan purchased Bear and Washington Mutual during the 2008 financial crisis at the urging of U.S. regulators.) There will also be $4 billion in aid to distressed homeowners.

But among the headaches unresolved is a private lawsuit brought by Deutsche Bank National Trust Co. seeking as much as $10 billion on behalf of more than 100 trusts holding poorly performing bonds issued by Washington Mutual. J.P. Morgan and the Federal Deposit Insurance Corp. have tangled in court over who ultimately is liable for these claims. A spokeswoman for Deutsche Bank National Trust declined to comment.

The investor group that includes BlackRock and Neuberger Berman issued its first warning to J.P. Morgan in 2011. It had just reached an agreement in which Bank of America would pay $8.5 billion to investors who bought mortgage bonds issued before the housing market collapsed. That settlement is now before a judge for final approval.

—Nick Timiraos contributed to this article.

Glaxo's Sales in China Succumb to Scandal

By Jeanne Whalen

LONDON—**GlaxoSmithKline** PLC's pharmaceutical and vaccine sales in China fell 61% in the third quarter, as a high-profile bribery investigation into the company hurt its ability to sell drugs.

Global sales in the quarter were flat at £6.51 billion ($10.57 billion). Profit fell 12% to £969 million, or 20 pence a share, from £1.11 billion, or 22.6 pence a share, in the year-earlier quarter.

Although China represents a modest 4% of Glaxo's global drug sales, it has been an important source of revenue growth for the company in recent years, usually delivering sales gains in the double-digit percentages.


Bloomberg News

Glaxo CEO Andrew Witty has had to contend with a bribery probe in China.

The company's China business was thrown into disarray this summer, however, when authorities accused Glaxo of bribing doctors, hospitals and government officials in an effort to sell more drugs at higher prices. The company has said it appears that some of its senior managers in China may have broken the law. Glaxo says it is cooperating with investigators, who have detained some of the company's Chinese staff. Police also have asked the company's former China chief, a Briton, not to leave the country while the investigation proceeds.

In a conference call with journalists Wednesday, Glaxo Chief Executive Andrew Witty said the probe has created "anxiety" in China that has "led to some disruption in the business." He said that doctors have a choice of which drugs to prescribe where there are similar medicines available, suggesting that some doctors may be hesitant to prescribe Glaxo drugs at the moment.

He declined to comment on the state of the investigation or to give much detail about what changes, if any, the company has made to its marketing practices in China. Mr. Witty said the company remains committed to its business in China but has "work to do" to "earn back the trust of the Chinese people."

Although they have focused largely on Glaxo, Chinese authorities also have scrutinized other drug companies in recent months, creating a general climate of caution in the country. In a report this week, consultancy McKinsey & Co. said some Chinese hospitals now are restricting access to drug sales representatives.

Industry analysts say some drug companies have ratcheted back their marketing practices as a result, which they say is likely to affect the industry's third-quarter sales in the market. Last week, however, Swiss drug companies **Novartis** AG and **Roche Holding** AG both reported growth in Chinese sales. Novartis said China sales grew 18% in constant currencies over the previous year's quarter, compared with 25% year-over-year growth in the second quarter. Novartis Chief Executive Joe Jimenez said the Chinese crackdown has affected market growth for the industry, but he said he didn't expect the effect to be permanent.

Glaxo said it isn't possible now to estimate whether it will have to pay fines or bear any other "financial effect" from the probe itself.

Beyond China, Glaxo also reported disappointing sales in India in the quarter, underscoring the volatility of emerging markets. Sales in India fell 15% to £49 million due to "price reductions and wholesaler negotiations," the company said.

Glaxo said it began selling its new respiratory drug Breo in the U.S. last week, which it hopes will help it retain a leading position in the respiratory market once Advair starts facing generic competition.

◆ Heard on the Street: Glaxo must show it isn't winded........................ 28

Beijing Moves to Help Cut Debt Pile

SHANGHAI—China took a significant step Wednesday to deal with an explosion of borrowing among local governments by allowing more of them to issue short-term debt to help pay off maturing bonds and loans, according to a person with direct knowledge of the matter.

Economists estimate local governments may have borrowed as much as $5 trillion in recent years to fund projects and keep the economy humming as Beijing scaled back the stimulus efforts it had undertaken following the global financial crisis. Concerns are rising that the buildup of debt has been too rapid and that local governments will be unable to pay the money back.

Beijing has warned, too, about the potential risks, and is trying to understand and contain any potential problem.

Wednesday's move comes just weeks before a widely anticipated national audit of local government debt designed to uncover just how much banks and investors have lent to local governments. China's National Audit Office last counted the country's local government debt at the end of 2010, when it put the figure at 10.72 trillion yuan ($1.76 trillion), or 27% of gross domestic product. Economists say it could have risen to 60% today.

Because of long-standing rules that prohibit local governments from running deficits or borrowing, such governments have created companies called local government financing vehicles, which get around the restrictions by issuing bonds themselves.

Under the new plan, for the first time local state-owned enterprises with a triple-A credit rating and local government financing vehicles with a double-A or above rating will be able to sell bills that are repaid in typically 270 days, said the person, the shortest-term bills they have ever been allowed to issue.

"The planned move will benefit local-government financing vehicles' effort to expand their refinancing channels and will particularly help satisfy their short-term funding needs," said Cai Huan, senior manager at Qilu Securities' financial-products division.

In the past, large funds and securities firms have been the big buyers of local-government debt. The shorter-dated debt may appeal to an even wider group of investors, and many funds can invest only in debt maturing in less than a year.

Allowing another channel for raising cash should help these entities roll over existing longer-term debt as a large number of securities mature and local governments need to pay back investors. Still, it will only delay potential problems.

China rolled out this program in December 2010 as a pilot project with only triple-A-rated state-owned firms directly overseen by China's central government qualifying to use the shorter-term fundraising tool. It was aimed at the country's Railway Ministry and nine large state-owned companies, including **PetroChina** Co. and **China Telecom** Corp.

Since then, the borrowings by local government vehicles have been growing quickly, with new bonds issued by these entities rising last year to 1.09 trillion yuan ($179 billion) compared with 400 billion yuan a year before, data from WIND Info show.

Analysts say Beijing could be on the hook for a significant portion of that debt if it goes bad.

—Jolin Gong and Shen Hong

Boeing's Earnings Climb

By Doug Cameron

Boeing Co. on Wednesday confirmed plans to boost output of its 787 Dreamliner, as the aerospace group posted forecast-beating third-quarter results and raised its full-year earnings outlook.

The company is increasing production of all but one of its commercial-jet families to work through a backlog that climbed to a record $345 billion at the end of the quarter, improving productivity and shrugging off the effects of the temporary grounding of the 787 fleet earlier this year.

Operating profit from its commercial-jet arm rose 40% from the year-earlier quarter, countering a 19% decline at its military arm.

Chief Executive Jim McNerney said on a post-earnings call that requests from airlines to defer deliveries were running well below their historical average, with more carriers pushing to secure jets more quickly.

"Overall, commercial aviation remains a very attractive near- and long-term market," he said.

Boeing has a backlog of around 4,800 jets, and it is already boosting output of its workhorse 737 and long-range 777 aircraft. The company plans to boost monthly output of the 787 to 10 by the end of the year, and said Wednesday that it was targeting 12 a month in 2016, rising to 14 by the end of the decade.

While it is developing new versions of the 737 and the 777, the maturing of the 787 program after a problematic start is boosting margins and free cash, with investors expecting Boeing to boost its share-buyback and dividend programs. Boeing expects buybacks to exceed $2 billion this year.

Mr. McNerney said he remains unsatisfied with the 787's reliability after a series of glitches hit operators, but said it was working to resolve these. The fleet was grounded earlier this year because of battery problems.

Rising jet deliveries and a surge in margins at the unit—rising to 11.5% in the quarter from 9.5% a year earlier—boosted the third-quarter performance above analysts' expectations.

The defense unit's share of group revenue fell to 36.4% from 39% a year ago, but Mr. McNerney said he was unconcerned about the balance of the business even though Pentagon budget cuts have called into question the future of units such as the company's attack-aircraft operation.

"I don't think we're anywhere near the point where our business model comes into question," he said.

Boeing reported a third-quarter profit of $1.16 billion compared with $1.03 billion a year earlier, with per-share profit rising to $1.51 from $1.35 a share. Core earnings per share, which excludes some pension expenses, climbed to $1.80 from $1.55 a year earlier; the consensus among analysts was $1.55. Revenue increased 11% to $22.1 billion.

MARKETS

China Widens Appetite for Deals Abroad

By Cynthia Koons

When it comes to global mergers and acquisitions, China has long been seen as a buyer of natural resources and not much else. But bankers increasingly expect to see companies in industries like technology, real estate and food buying assets overseas, spurred by government policies and readily available financing.

The shift in appetite has been noticeable in recent weeks. Chinese personal-computer maker **Lenovo Group** Ltd. is considering a bid for struggling Canadian smartphone maker **BlackBerry** Ltd., which The Wall Street Journal reported last week. Should Lenovo pull the deal off, it would be one of the highest-profile acquisitions by a Chinese player on the global stage. Lenovo bought **International Business Machines** Corp.'s personal-computer business in 2005.

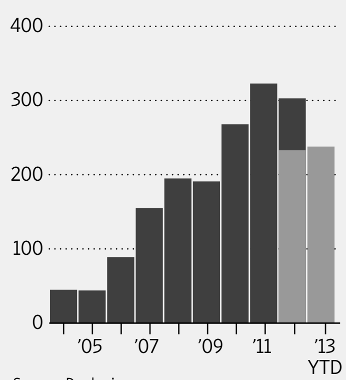
Meanwhile, Chinese conglomerate **Fosun International** Ltd. announced plans last week to buy One Chase Manhattan Plaza in New York City for $725 million. That comes on the heels of China's biggest-ever outbound deal by a private company, when Chinese pork company **Shuanghui International Holdings** Ltd. agreed to buy **Smithfield Foods** Inc. for $4.7 billion in May.

The number of overseas deals done by private companies or non-state-owned publicly listed companies has been rising consistently since 2004, when 45 deals valued at $3.7 billion were done by such players, according to Dealogic. This year, 238 overseas deals valued at $24.3 billion have been done by China's private companies.

It used to be that the country's big state-owned enterprises did the bulk of China's overseas mergers, and the need to secure resources was the main objective of deal-making activity. But as the country's economy matures, the resource angle is narrowing. Energy deals made up 30% of overall outbound deal activity in 2010, but by 2012 this fell to 24%, according to a report this week on Chinese outbound acquisitions by data provider Mergermarket and law firm Paul Hastings.

Chinese Investment

Number of outbound investments by non-state-owned Chinese companies



Source: Dealogic

The Wall Street Journal

"Mining and oil and gas have been accounting for the bulk of outbound M&A in the past, but we're starting to see that percentage drop, even though the volume [of resources deals] is still very strong," said Ken Wang, RBC Capital Markets' head of natural resources in Hong Kong.

"We see interest in deals in agriculture, the food industry, the automobile industry, entertainment, theaters, real estate, technology—other sectors that are all related to consumers," he said. "As more and more people start to consume and the economy is shifting, people say, what can we get from the West?"

Government policies have also been supportive of private companies buying overseas assets. Last year, 10 government departments jointly issued opinions about actively encouraging private companies to make acquisitions abroad. One sign of such support: The government now allows private companies to use onshore assets to secure foreign-currency loans from Chinese banks.

Vivian Lam, a Hong Kong-based partner at Paul Hastings, said that for Shanghui International's takeover of Smithfield, state-owned **Bank of China** was quick to offer up $4 billion of financing, a sign that government policies to promote outbound acquisitions are starting to work.

The Shuanghui deal could go a long way toward encouraging other private companies in China to make acquisitions overseas.

"In the acquisition of Volvo [by Chinese car maker Geely Automobile Holdings in 2009] and the Shuanghui deal, the buyers are relatively smaller than the seller, but they're able to use a competitive international financing structure to make the deal happen," said Alex Zhang, a Shanghai-based partner at law firm White & Case.

Government policies have also been supportive of private companies buying overseas assets.

Mr. Zhang said interest in international deals from private-sector Chinese players is the highest he has seen.

"Private companies feel they have been squeezed out by the big state-owned enterprises. They have very limited room for growth in the Chinese market," Mr. Zhang said. "Having a platform outside China, in the long term, they're going to benefit from that."

Advertisement

INTERNATIONAL INVESTMENT FUNDS

Data provided by: MORNINGSTAR®

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
■ ALEXANDRA INVESTMENT MANAGEMENT									
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	08/31	USD	2155.22	NS	NS	NS
■ BANC INTERNACIONAL D'ANDORRA. BANCA MORA.									
Avgd. Meritxell 96, Andorra la Vella. Andorra. Ph. +376.884884 www.bibm.ad									
Andfs. Anglaterra	UK	EQ	AND	11/16	GBP	8.47	2.8	3.6	14.9
Andfs. Borsa Global	GL	EQ	AND	10/22	EUR	6.55	10.9	10.3	8.7
Andfs. Emergents	GL	EQ	AND	11/02	USD	14.77	-20.4	-19.2	-4.7
Andfs. Espanya	EU	EQ	AND	10/22	EUR	13.74	33.0	36.3	15.3
Andfs. Estats Units	US	EQ	AND	10/22	USD	19.84	23.1	22.5	16.4
Andfs. Europa	EU	EQ	AND	10/22	EUR	7.31	15.0	14.6	10.6
Andfs. Franca	EU	EQ	AND	10/22	EUR	10.97	20.2	23.6	17.8
Andfs. Japo	JP	EQ	AND	10/22	JPY	666.95	42.0	57.6	27.8
Andfs. Plus Dollars	US	BA	AND	10/22	USD	9.66	2.3	3.0	6.2
Andfs. RF Dolars	US	BD	AND	10/22	USD	12.11	-0.9	-0.8	1.9
Andfs. RF Euros	EU	BD	AND	10/22	EUR	11.61	0.4	1.1	3.3
Andorfons	EU	BD	AND	10/22	EUR	15.55	1.6	2.4	3.9
Andorfons Alternative Premium	GL	EQ	AND	08/31	EUR	97.40	4.0	3.3	0.3
Andorfons Mix 30	EU	BA	AND	10/22	EUR	10.23	4.1	4.3	5.4
Andorfons Mix 60	EU	BA	AND	12/19	EUR	8.96	4.4	7.1	-2.5
■ CG Portfolio Fund Ltd									
NAV	OT	OT	CYM	06/07	GBP	25839.68	5.3	10.9	9.8
■ CHARTERED ASSET MANAGEMENT PTE LTD - TEL NO: 65-6835-8866									
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg									
CAM-GTF Limited	OT	OT	MUS	10/18	USD	325257.43	-19.2	-15.7	-0.4
■ Citadele									
Republikas square 2a, Riga, LV-1522, Latvia									
Citadele Eastern Europ Bal	EU	BD	LVA	10/22	EUR	16.44	1.5	2.9	8.0
Citadele Eastern Europ Bd	EU	BD	LVA	10/22	USD	20.24	2.1	3.8	8.3
Citadele Russian Eq	EE	EQ	LVA	10/22	USD	23.03	2.8	4.6	6.5
■ DJE INVESTMENT S.A.									
internet: www.dje.lu email: info@dje.lu phone:+00 352 269 2522 0 fax:+00 352 269 25252									
DJE Real Estate P	OT	OT	LUX	10/23	EUR	4.56	-6.4	-8.0	-5.6
DJE-Absolut P	OT	OT	LUX	10/23	EUR	247.85	6.3	13.0	12.5
DJE-Alpha Glbl P	OT	OT	LUX	10/23	EUR	185.44	8.0	12.2	8.1
DJE-Div& Substanz P	OT	OT	LUX	10/23	EUR	279.46	10.5	12.7	14.2
DJE-Gold&Resourc P	OT	EQ	LUX	10/23	EUR	129.48	-24.0	-29.7	-16.9
DJE-Renten Glbl P	EU	BD	LUX	10/23	EUR	148.46	1.5	2.8	6.4
LuxPro-Dragon I	AS	EQ	LUX	07/20	EUR	144.57	-8.5	5.0	7.6
LuxPro-Dragon P	AS	EQ	LUX	07/20	EUR	140.29	-8.8	4.4	7.0
LuxTopic-Aktien Europa	EU	EQ	LUX	10/23	EUR	20.38	5.2	10.3	11.6
LuxTopic-Pacific	OT	OT	LUX	10/23	EUR	19.94	-6.2	-1.9	10.0
■ HERMITAGE CAPITAL MANAGEMENT LTD.									
Tel: +7501 258 3160 www.hermitagefund.com									
The Hermitage Fund	GL	EQ	JEY	03/12	USD	963.12	4.5	105.6	-23.2
■ HORSEMAN CAPITAL MANAGEMENT LTD.									
T: +44(0)20 7838 7580, F: +44(0) 20 7838 7590, www.horsemancapital.com									
Horseman EurSelLtd EUR	EU	EQ	GBR	09/30	EUR	313.31	23.6	34.2	30.2
Horseman EurSelLtd USD	EU	EQ	GBR	09/30	USD	339.89	NS	NS	NS
Horseman Glbl Ltd EUR	GL	EQ	CYM	09/30	USD	500.73	NS	NS	NS
Horseman Glbl Ltd USD	GL	EQ	CYM	09/30	USD	500.73	NS	NS	NS
■ HSBC ALTERNATIVE INVESTMENTS LIMITED									
T +44 20 7860 3074 F + 44 20 7860 3174 www.hail.hsbc.com									
HSBC ALTERNATIVE STRATEGY FUND									
Special Opp EUR	OT	OT	GGY	09/30	EUR	116.31	8.7	16.3	17.3
Special Opp Inst EUR	OT	OT	GGY	03/31	EUR	88.51	0.7	-0.3	13.3
Special Opp Inst USD	OT	OT	GGY	03/28	USD	123.18	4.2	18.5	10.6
Special Opp USD	OT	OT	GGY	09/30	USD	122.79	8.4	16.3	17.5
■ HSBC Portfolio Selection Fund									
GH Fund CHF Hdg	OT	OT	GGY	09/30	CHF	121.14	5.2	7.9	4.6
GH Fund EUR Hdg (Non-V)	OT	OT	GGY	09/30	EUR	135.09	4.9	7.7	4.7
GH Fund GBP Hdg	OT	OT	GGY	09/30	GBP	148.98	5.4	8.3	5.3
GH Fund Inst USD	OT	OT	GGY	09/30	USD	128.20	5.4	8.3	5.6
GH FUND S EUR	OT	OT	CYM	09/30	EUR	149.53	5.7	8.6	5.8
GH FUND S GBP	OT	OT	CYM	09/30	GBP	156.62	6.0	9.1	6.3
GH Fund S USD	OT	OT	CYM	09/30	USD	175.68	5.9	8.9	6.1
GH Fund USD	OT	OT	GGY	09/30	USD	306.18	4.9	7.8	5.0
Hedge Investments	OT	OT	GGY	08/16	USD	158.48	NS	NS	3.6
Leverage GH USD	OT	OT	GGY	09/30	USD	138.54	8.2	13.7	7.8
MultiAdv Arb CHF Hdg	OT	OT	JEY	09/30	CHF	98.37	2.9	2.9	3.2
MultiAdv Arb EUR Hdg	OT	OT	JEY	09/30	EUR	109.46	2.9	2.9	3.5
MultiAdv Arb GBP Hdg	OT	OT	JEY	09/30	GBP	119.24	3.5	3.6	4.0
MultiAdv Arb S EUR	OT	OT	JEY	09/30	EUR	123.04	3.9	4.3	4.9
MultiAdv Arb S GBP	OT	OT	JEY	09/30	GBP	130.03	4.3	4.9	5.3
MultiAdv Arb S USD	OT	OT	JEY	09/30	USD	140.92	4.1	4.6	5.1
MultiAdv Arb USD	OT	OT	JEY	09/30	USD	206.82	3.1	3.2	3.7
■ HSBC Uni-folio									
Asian AdbantEdge EUR	OT	EQ	JEY	09/20	EUR	95.75	5.8	9.6	-0.6
Asian AdvantEdge	OT	EQ	JEY	09/20	USD	179.25	6.0	9.9	0.2
Emerg AdvantEdge	OT	EQ	JEY	09/28	USD	151.22	3.4	-2.4	-5.5
Emerg AdvantEdge EUR	OT	EQ	JEY	09/28	EUR	82.99	2.8	-3.0	-5.9
Europ AdvantEdge EUR	OT	EQ	JEY	06/30	EUR	127.84	-3.4	-1.3	2.2
Europ AdvantEdge USD	OT	EQ	JEY	06/30	USD	135.07	2.0	4.3	5.1
Real AdvantEdge EUR	OT	OT	JEY	04/30	EUR	104.69	1.3	-9.5	-1.9
Real AdvantEdge USD	OT	OT	JEY	04/30	USD	105.31	1.5	-8.8	-1.7
Trading AdvantEdge	OT	OT	GGY	09/30	USD	125.62	-11.6	-15.4	-9.9
Trading AdvantEdge EUR	OT	OT	GGY	09/30	EUR	113.61	-11.5	-15.4	-9.9
Trading AdvantEdge GBP	OT	OT	GGY	09/30	GBP	121.33	-11.5	-15.4	-9.7
■ HSBC Trinkaus Investment Managers SA									
E-Mail: funds@hsbctrinkaus.lu									
Telephone: 352 - 47 18471									
HSBC Trinkaus Golden Opportunities	OT	OT	LUX	10/22	USD	86.59	-33.0	-39.5	-21.5
Prosperity Return Fund A	JP	BD	LUX	10/22	JPY	8781.84	-7.1	-5.3	0.4
Prosperity Return Fund B	EU	BA	LUX	10/22	JPY	9130.14	5.7	16.5	12.2
Prosperity Return Fund C	EU	BA	LUX	10/22	USD	83.58	-7.2	-5.6	-0.2
Prosperity Return Fund D	EU	BA	LUX	10/22	EUR	127.55	-4.4	-3.7	11.4
Renaissance Hgh Grade Bd A	EU	BA	LUX	10/22	JPY	10722.88	2.7	5.7	9.5
Renaissance Hgh Grade Bd B	EU	BA	LUX	10/22	JPY	10962.87	16.1	28.7	20.8
Renaissance Hgh Grade Bd C	EU	BA	LUX	10/22	USD	99.77	2.0	4.3	7.5
Renaissance Hgh Grade Bd D	EU	BA	LUX	10/22	EUR	105.16	-2.4	-1.2	7.4
■ MP ASSET MANAGEMENT INC.									
Tel: + 386 1 587 47 77									
MP-BALKAN.SI	EE	EQ	SVN	08/12	EUR	19.29	-1.9	-8.4	-10.9
MP-TURKEY.SI	OT	OT	SVN	10/22	EUR	44.99	-7.7	2.7	16.7
■ MERIDEN GROUP									
Tel: + 376 741 175 Fax: + 376 741 183 Email: meriden@meriden-ipm.com									
Antanta Combined Fund	EE	EQ	AND	09/27	USD	245.46	-6.7	-6.0	-9.7
Antanta MidCap Fund	EE	EQ	AND	09/27	USD	380.12	-4.9	-11.1	-13.9
Meriden Opps Fund	GL	OT	AND	10/16	EUR	23.16	-8.8	-10.3	-19.1
Meriden Protective Div	GL	EQ	AND	11/24	EUR	NS.00	-2.8	NS	NS
■ Pictet Funds (Europe) SA, ROUTE DES ACACIAS 60, CH-1211 GENEVA 73									
Tel: + 41 (58) 323 3000 Web: www.pictetfunds.com									
Pictet-Abs Ret Gl Conserv-P EUR	OT	OT	LUX	10/22	EUR	100.87	-4.3	-3.8	0.5
Pictet-Abs Ret Gl Div-P EUR	GL	OT	LUX	10/22	EUR	113.49	-5.5	-4.2	1.1
Pictet-Agriculture-P EUR	OT	OT	LUX	10/22	EUR	148.89	1.3	3.4	9.1
Pictet-Asian Eq ExJpn-P USD	OT	OT	LUX	10/23	USD	183.49	3.8	9.3	9.6
Pictet-Asian Loc Cur Dbt-P USD	AS	BD	LUX	10/23	USD	147.67	-4.8	-3.5	1.4
Pictet-Biotech-P USD	OT	EQ	LUX	10/22	USD	514.66	43.4	40.7	36.9
Pictet-Brazil Index-P USD	OT	OT	LUX	10/22	USD	78.53	-4.7	-2.1	-2.9
Pictet-CHF Bonds-P	CH	BD	LUX	10/22	CHF	461.28	0.2	0.3	2.7
Pictet-China Index-P USD	AS	EQ	LUX	10/22	USD	104.61	2.6	8.9	14.9
Pictet-Clean Energy-P USD	OT	OT	LUX	10/22	USD	82.53	30.1	34.4	14.4
Pictet-Digital Comm-P USD	OT	EQ	LUX	10/22	USD	193.03	30.6	32.2	19.3
Pictet-Eastern Europe-P EUR	EU	EQ	LUX	10/22	EUR	368.34	0.4	4.5	10.2
Pictet-Em Corp Bds-P USD	OT	OT	LUX	10/22	USD	100.47	-2.0	NS	NS
Pictet-Em Loc Curr Dbt-P USD	OT	OT	LUX	10/22	USD	189.75	-5.7	-4.2	2.9
Pictet-Em Mkts Hgh Div-P USD	GL	EQ	LUX	10/23	USD	117.93	2.3	8.0	NS
Pictet-Em Mkts Index-P USD	GL	EQ	LUX	10/22	USD	254.95	0.6	5.5	8.4
Pictet-Em Mkts Sust Eq-P USD	GL	EQ	LUX	10/22	USD	102.79	0.9	5.5	NS
Pictet-Emerging Markets-P USD	GL	EQ	LUX	10/23	USD	534.80	1.3	6.9	6.1
Pictet-Envir Megatr Sel-P EUR	OT	OT	LUX	10/22	EUR	117.38	14.1	16.7	16.0
Pictet-Eu Equities Sel-P EUR	EU	EQ	LUX	10/22	EUR	541.02	10.5	11.6	16.5
Pictet-EUR Bonds-P	EU	BD	LUX	10/22	EUR	463.92	0.6	3.2	7.6
Pictet-EUR Corp Bds Ex Fin-P	EU	BD	LUX	10/22	EUR	130.90	1.0	2.8	5.9
Pictet-EUR Corporate Bonds-P	EU	BD	LUX	10/22	EUR	175.78	1.7	4.0	7.6
Pictet-EUR Government Bonds-P	EU	BD	LUX	10/22	EUR	135.44	1.2	3.6	7.0
Pictet-EUR High Yield-P	EU	BD	LUX	10/22	EUR	213.37	7.5	11.6	16.4
Pictet-EUR Inflation Lkd Bds-P	EU	BD	LUX	10/22	EUR	116.99	-3.8	-1.9	4.0
Pictet-EUR SM-Term Bds-P	EU	BD	LUX	10/22	EUR	131.13	1.6	2.1	3.5
Pictet-EUR ST High Yld-P	EU	BD	LUX	10/22	EUR	113.92	4.7	6.6	NS
Pictet-Euroland Index-P EUR	EU	EQ	LUX	10/22	EUR	111.05	20.0	24.9	19.3
Pictet-Europe Index-P EUR	EU	EQ	LUX	10/22	EUR	141.53	16.7	19.8	18.6
Pictet-European Sust Eq-P EUR	EU	EQ	LUX	10/22	EUR	180.47	15.1	18.4	15.8
Pictet-Generics-P USD	OT	EQ	LUX	10/22	USD	181.93	19.5	20.5	18.2
Pictet-Glo Bds Fundamental-P USD	OT	OT	LUX	10/22	USD	131.82	-2.2	-2.0	NS
Pictet-Glo Em Currencies-P USD	OT	OT	LUX	10/22	USD	106.36	-1.2	-0.9	0.6
Pictet-Glo Emerging Debt-P USD	GL	BD	LUX	10/22	USD	311.10	-5.2	-4.7	6.1
Pictet-Glo Megatrend Sel-P USD	GL	EQ	LUX	10/22	USD	196.00	22.1	26.0	19.2
Pictet-Greater China-P USD	AS	EQ	LUX	10/23	USD	393.65	2.8	8.7	11.7
Pictet-High Dividend Sel-P EUR	OT	OT	LUX	10/22	EUR	126.33	14.3	13.5	12.2
Pictet-India Index-P USD	EA	EQ	LUX	10/22	USD	82.44	-5.8	-3.7	0.5
Pictet-Indian Equities-P USD	EA	EQ	LUX	10/23	USD	290.92	-5.6	-3.1	-1.3
Pictet-Japan Index-P JPY	JP	EQ	LUX	10/23	JPY	12315.97	41.1	62.6	29.3
Pictet-Japanese Eq Opp-P JPY	JP	EQ	LUX	10/23	JPY	6868.72	44.8	63.5	31.7
Pictet-Japanese Eq Sel-P JPY	JP	EQ	LUX	10/23	JPY	10630.98	41.4	59.6	29.1
Pictet-Latam Index-P USD	GL	EQ	LUX	10/22	USD	85.65	-6.3	-3.7	0.7
Pictet-Latin Am Loc Curr Dbt-P USD	OT	OT	LUX	10/22	USD	144.34	-5.1	-4.7	1.3
Pictet-Pac (ExJpn) Idx-P USD	AS	EQ	LUX	10/23	USD	376.83	10.0	13.7	16.3
Pictet-Piclife-P CHF	OT	OT	LUX	10/22	CHF	894.35	7.0	7.7	8.8
Pictet-Premium Brands-P EUR	OT	EQ	LUX	10/22	EUR	123.20	17.4	23.9	18.6
Pictet-Quality Gl Eq-P USD	GL	EQ	LUX	10/22	USD	120.49	19.6	NS	NS
Pictet-Russia Index-P USD	EE	EQ	LUX	10/22	USD	88.14	6.1	7.3	7.2
Pictet-Russian Equities-P USD	EE	EQ	LUX	10/22	USD	69.59	5.9	6.9	6.2
Pictet-Security-P USD	GL	EQ	LUX	10/22	USD	159.11	19.9	25.2	17.7
Pictet-Short-T Money Mkt CHF-P	CH	MM	LUX	10/22	CHF	124.25	0.0	-0.1	0.0
Pictet-Short-T Money Mkt EUR-P	OT	OT	LUX	10/22	EUR	137.72	-0.1	-0.1	0.2
Pictet-Short-T Money Mkt JPY-P	OT	OT	LUX	10/22	JPY	10128.81	0.0	0.0	0.1
Pictet-Short-T Money Mkt USD-P	OT	OT	LUX	10/22	USD	132.27	0.2	0.2	0.3
Pictet-Small Cap Europe-P EUR	EU	EQ	LUX	10/22	EUR	789.94	25.9	30.3	26.6
Pictet-Sov. ST Money Mkt-P EUR	OT	OT	LUX	10/22	EUR	102.72	-0.1	-0.2	-0.1
Pictet-Sov. ST Money Mkt-P USD	OT	OT	LUX	10/22	USD	102.02	0.1	0.1	0.1
Pictet-Timber-P USD	GL	EQ	LUX	10/22	USD	150.79	14.6	20.2	23.3
Pictet-US Eq Grwth Sel-P USD	US	EQ	LUX	10/22	USD	159.02	26.6	27.4	18.7
Pictet-US Eq Value Sel-P USD	US	EQ	LUX	10/22	USD	178.55	22.4	23.4	19.4
Pictet-US High Yield-P USD	US	BD	LUX	10/22	USD	141.72	4.7	6.1	10.2
Pictet-USA Index-P USD	US	EQ	LUX	10/22	USD	149.09	24.3	24.0	20.5
Pictet-USD Government Bonds-P	US	BD	LUX	10/22	USD	580.57	-2.2	-1.7	0.9
Pictet-USD Short Mid-Term Bds-P	US	BD	LUX	10/22	USD	125.66	0.2	0.4	0.5
Pictet-Water-P EUR	OT	OT	LUX	10/22	EUR	187.39	12.1	14.9	16.6
Pictet-World Gvt Bonds-P EUR	OT	OT	LUX	10/22	EUR	132.26	-6.9	-8.7	-0.5
PTR-Banyan-P USD	OT	OT	LUX	10/22	USD	104.43	1.9	4.5	NS
PTR-Corto Europe-P EUR	OT	OT	LUX	10/22	EUR	120.99	10.4	14.5	13.1
PTR-Kosmos-P EUR	OT	OT	LUX	10/22	EUR	105.98	0.4	0.2	1.9
PTR-Mandarin-P USD	OT	OT	LUX	10/23	USD	102.73	8.5	13.3	5.0
■ POLAR CAPITAL PARTNERS LIMITED									
International Fund Managers (Ireland) Limited PH - 353 1 670 660 Fax - 353 1 670 1185									
Global Technology	OT	EQ	IRL	10/22	USD	21.44	24.1	29.1	16.1
Japan Fund USD	JP	EQ	IRL	10/23	USD	22.71	27.3	35.7	13.6
Polar Healthcare Class I USD	OT	EQ	IRL	10/22	USD	26.04	43.1	44.7	35.8
Polar Healthcare Class R USD	OT	EQ	IRL	10/22	USD	25.58	42.7	44.2	35.3
■ Hemisphere Management (Ireland) Limited									
Discovery USD A	GL	OT	CYM	12/31	USD	101.35	NS	NS	NS
Elbrus USD A	OT	OT	CYM	09/30	USD	10.50	NS	NS	NS
Europn Conviction USD B	EU	EQ	CYM	09/30	USD	155.68	-1.4	2.8	6.8
Europn Forager USD B	EU	EQ	CYM	09/30	USD	297.82	5.5	8.0	9.9
Latin America USD A	GL	EQ	CYM	06/30	USD	NS.00	NS	NS	NS
Paragon Limited USD A	EU	EQ	CYM	12/31	USD	NS.00	12.7	12.7	14.2
UK Fund USD A	OT	OT	CYM	04/13	USD	157.94	1.8	NS	NS
■ PT CIPTADANA ASSET MANAGEMENT									
Tel: +6221 25574 883 Fax: +6221 25574 893 Website: www.ciptadana-asset.com									
Indonesian Grth Fund	GL	EQ	BMU	10/16	USD	155.41	-13.3	-14.9	-6.9
■ THE NATIONAL INVESTOR									
PO Box 47435, Abu Dhabi, UAE Web:www.tni.ae									
MENA Special Sits Fund	OT	OT	BMU	09/30	USD	1106.85	7.1	6.3	4.9
MENA UCITS Fund	OT	OT	IRL	10/10	USD	1218.48	17.9	18.4	14.7
UAE Blue Chip Fund	OT	OT	ARE	10/10	AED	8.16	59.9	59.1	34.6
■ YUKI MANAGEMENT & RESEARCH									
■ YMR-N Series									
YMR-N Growth Fund	JP	EQ	IRL	10/23	JPY	12627.00	45.5	65.0	27.5
■ Yuki 77 Series									
Yuki 77 General	JP	EQ	IRL	10/23	JPY	8449.00	60.4	81.9	33.8
■ Yuki Asia Umbrella Series									
Yuki Rebounding Gro Fd	JP	EQ	IRL	10/23	JPY	15431.00	68.5	89.1	35.5
■ Yuki Chugoku Series									
Yuki Chugoku Jpn Gen	JP	EQ	IRL	10/23	JPY	8781.00	41.7	58.3	26.4
Yuki Chugoku JpnLowP	JP	EQ	IRL	10/23	JPY	9782.00	52.4	66.5	24.1
■ Yuki Mizuho Series									
Yuki Mizuho Jpn Dyn Gro	JP	EQ	IRL	10/23	JPY	5413.00	44.3	63.9	26.2
Yuki Mizuho Jpn Inc	JP	EQ	IRL	10/23	JPY	9247.00	33.0	45.5	21.1
Yuki Mizuho Jpn Lg Cap	JP	EQ	IRL	10/23	JPY	6020.00	37.3	55.3	23.0
Yuki Mizuho Jpn LowP	JP	EQ	IRL	10/23	JPY	17551.00	74.8	89.4	36.6
Yuki Mizuho Jpn Val Sel	AS	EQ	IRL	10/23	JPY	8800.00	72.9	92.9	41.3
■ OTHER FUNDS									
For information about these funds, please contact us on Tel: +44 (0) 207 842 9694/9633									
Medinvest Plc Dublin	OT	EQ	IRL	09/30	USD	NS.00	NS	1.3	-4.4
■ WINTON CAPITAL MANAGEMENT LTD									
Tel: +44 (0)20 7610 5350 Fax: +44 (0)20 7610 5301									
Winton Evolution EUR Cls H	GL	OT	CYM	09/30	EUR	1082.75	4.8	1.8	-1.0
Winton Evolution GBP Cls G	GL	OT	CYM	09/30	GBP	1095.54	5.5	2.4	-0.6
Winton Evolution USD Cls F	GL	OT	CYM	09/30	USD	1378.95	5.4	2.4	-0.8
Winton Futures EUR Cls C	GL	OT	VGB	09/30	EUR	237.68	2.9	2.5	-0.4
Winton Futures GBP Cls D	GL	OT	VGB	09/30	GBP	258.65	3.2	3.0	0.0
Winton Futures JPY Cls E	GL	OT	VGB	09/30	JPY	16619.67	3.5	3.2	-0.5
Winton Futures USD Cls B	GL	OT	VGB	09/30	USD	848.12	3.4	3.1	-0.2

INDICES

FUND NAME	GF	NAV DATE	CR	NAV	1-WK	1-MO	1-Q	1-YR	2-YR
■ ARIX ABSOLUTE RETURN INVESTABLE INDEX									
Feri Institutional Advisors, www.feri.de									
ARIX Composite Gross USD	OT	OT GBR 09/30.00		USD1550.64			4.5	6.5	5.2
■ CG Portfolio Fund Ltd									
NAV	OT	OT CYM 06/07.00		GBP25839.68			5.3	10.9	9.8

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available. 12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

For information about listing your funds, please contact: Lauren Berkemeyer tel: +44 20 7572 2102; email: lauren.berkemeyer@dowjones.com

Let's Make a Deal | Wall Street earned big fees as island territory sank into debt

Kyan Etter

$61 billion

Bonds sold by Puerto Rico in 87 deals since 2006

$1.4 billion

Total paid to securities firms, lawyers and others

Source: Bond-offering documents

Banks Rack Up Fees for Puerto Rico Bond Sales

By Michael Corkery
And Mike Cherney

When Puerto Rico wanted to borrow billions of dollars to help jump-start its struggling economy, Wall Street was eager to help.

In 87 deals since 2006, Puerto Rico and its public agencies sold $61 billion of bonds, giving the tiny island more municipal debt per capita than any U.S. state.

In the process, the territory paid Wall Street securities firms, lawyers and others about $1.4 billion, according to an analysis by The Wall Street Journal. The securities firms were able to charge underwriting fees higher than those assessed on other financially troubled U.S. states and cities, including Detroit.

Now, a backlash is brewing. Regulators and plaintiffs' lawyers are scrutinizing how the debt deals were assembled and whether investors who bought the bonds were informed about all the potential risks.

Puerto Rico officials have been shuttling between San Juan and New York, seeking to calm investors who have seen the value of their Puerto Rico bond holdings plunge.

At the same time, officials in Washington have been meeting to assess Puerto Rico's financial situation and how it might impact the municipal-bond market.

The underwriters had no fiduciary duty to slow down Puerto Rico's borrowing machine, according to federal municipal-bond regulations. The securities firms were being paid for a role they commonly play: structuring often-complicated deals for a cash-starved borrower and then finding buyers for the debt.

Puerto Rico has a population of 3.6 million, and its economy had long been based on tourism and businesses that receive large government subsidies. Officials there hoped that financing large capital projects with bond sales would boost the economy and bolster the island's aging infrastructure.

However, a large portion of the debt went to plug budget shortfalls and to push debt payments into the future, analysts and former government officials say.

"Puerto Rico has used deficit financing more heavily than any state I know of, or even any community," says Alan Schankel, an analyst at Janney Capital Markets.

Since its economy fell into recession in 2006, Puerto Rico and its public agencies issued as much debt as state issuers in Virginia, according to Thomson Reuters. Virginia has twice as many people and four times the economic output.

During that time, the island's government and public agencies paid about $764 million in fees to underwriters, lawyers, credit-rating firms and insurers backstopping many of the bonds and others that helped close the deals, the Journal analysis shows. More than half of that amount was paid to underwriters, with **Citigroup** Inc. and **UBS** AG. The banks declined to comment.

Puerto Rico paid at least another $690 million to Wall Street firms to cancel derivative contracts called interest-rate swaps that were typically meant to lower Puerto Rico's borrowing costs if interest rates rose.

With **Morgan Stanley** as a lead underwriter, Puerto Rico's electric-power authority in August sold $673 million in bonds earmarked for construction projects. But at least $110 million of the debt will be used for "capitalized interest," according to the bond offering documents. That amounts to raising money from bondholders and then using the proceeds to make interest payments back to those same bondholders.

A spokesman for the Government Development Bank, which oversees Puerto Rico's bond deals, declined to comment on the deal, as did a Morgan Stanley spokeswoman.

Officials at the agency say the island's per capita debt numbers can be misleading because residents don't pay federal income tax, which means they aren't responsible for federal debt like U.S. residents. Still, the officials have said they are planning to stop deficit financing in the coming years.

After so much borrowing and little economic progress, investors are driving down bond prices, leading to increased scrutiny from regulators and plaintiffs' lawyers. An index that tracks bonds issued by Puerto Rico is down more than 18% so far this year.

Underwriters are paid by a government or company to sell debt to investors such as mutual funds, pension funds or wealthy individuals. The banks are compensated, in part, for taking on a risk: They have to buy the bonds they are unable to sell. For most of the past seven years, that wasn't an issue with Puerto Rico debt, as there was high demand and many deals were oversubscribed.

Puerto Rico bonds are "triple tax exempt," which means interest paid to investors is free of all city, state and federal taxes. The tax advantage, combined with the higher interest rates Puerto Rico pays because of its financial problems, helped turbocharge returns for investors across the U.S. in 2011 and 2012. The banks found almost endless demand from U.S. investors.

Yet, an analysis by Thomson Reuters shows that since 2006 banks have charged Puerto Rico more than other economically troubled municipal borrowers, as measured by the "gross spread." The gross spread is the difference between the price at which the underwriter buys the bonds from the issuer—in this case Puerto Rico—and the price at which it sells the bonds to investors. The underwriter is able to keep the difference.

The gross spread partly reflects the risks associated with the offering. But the average gross spread paid to bankers on Puerto Rico debt deals was 31% higher than spreads charged to the city of Detroit, which is seeking federal bankruptcy protection. Detroit's bonds are classified as "junk," while Puerto Rico's general-obligation debt is considered investment grade.

Europe's Stoxx 600 Ends Run of Gains

By Tommy Stubbington
And Michele Maatouk

European stocks fell after nine consecutive sessions of gains as the European Central Bank outlined tougher stress tests for banks.

The dollar continued to slide against the yen, hitting a two-week low of ¥97.15, and held steady near 23-month lows against the euro, while U.S. Treasury yields hit a three-month low. Investors continued to respond to news Tuesday that U.S. employment grew more slowly in September than earlier in the year, making it seem more likely that the U.S. Federal Reserve will maintain its bond-buying program until next year.

MARKET REPORT

"A weak payroll report is good for Fed policy, but that still leaves us with a weak report," said Russ Koesterich, global chief investment strategist with BlackRock. "With a number of economic numbers looking a bit lackluster over the past few weeks, that calls into question fourth-quarter earnings."

The benchmark Stoxx Europe 600 index fell 0.6% to 318.99, having ended at a five-year high Tuesday after nine straight gains. Germany's DAX slipped 0.3% to 8919.86, after closing at a record high a day earlier, and the U.K.'s FTSE closed down 0.3% at 6674.48. France's CAC 40 fell 0.8% to 4260.66.

In the U.S., the Dow Jones Industrial Average dropped 54.27 points, or 0.35%, to 15413.39. The S&P 500 index gave up 8.29 points, or 0.5%, to 1746.38. The Nasdaq Composite Index shed 22.49 points, or 0.6%, to 3907.07.

Banks were the worst performers in Europe after the ECB said it would begin a thorough review in November of the balance sheets of around 130 financial institutions. It will ask all banks included in the assessment to set aside 8% of their risk-adjusted capital—a little higher than expected—as buffers against losses on loans and other assets.

The Stoxx 600 banks index ended down 1.9%. Bank stocks in the euro zone's more economically frail nations, such as Spain and Italy, suffered the brunt of the selling. **Banco Bilbao Vizcaya Argentaria** slid 3.7%, **Banco Santander** dropped 3.1%, **UniCredit** lost 3.3% and **Intesa Sanpaolo** ended down 2.6%.

These losses weighed on the broader indexes, pushing Spain's IBEX 35 down 1.8% to 9828.30 and Italy's FTSE MIB down 2.4% to 18910.68.

Also denting the banking sector was a rise in Chinese interbank lending rates, sparked by worries that the government there is winding down some short-term stimulus measures.

U.S. Treasurys added to gains made Tuesday in response to the employment news. The price of the benchmark 10-year note rose 9/32, sending the yield down to 2.482% from 2.513% on Tuesday.

Spanish debt also rallied, after the country's central bank said a two-year recession came to an end in the third quarter. Spanish 10-year yields fell to 4.13%, close to their lowest level in five months.

In afternoon New York trading, the euro was at $1.3784, in line with its level of $1.3781 late Tuesday. The dollar was at ¥97.29 from ¥98.13.

In corporate news, **Heineken** shares lost 4.5% after the brewer cut its full-year profit outlook. French telecommunications firm **Orange** slid 5.4% after it reported a drop in third-quarter profit. Shares in semiconductor maker **STMicroelectronics** slumped 8.9% in Paris as third-quarter revenue fell short of analysts' expectations.

Oil for December delivery dropped $1.44 a barrel, or 1.5%, to $96.86 on the New York Mercantile Exchange, extending losses after a government report showed that stockpiles rose more than analysts had expected last week. Gold for October delivery closed down $8.60 a troy ounce, or 0.6%, at $1,333.90 on the Comex division of Nymex.

—Alexandra Scaggs contributed to this article.

Fund Scorecard

Sector Equity Biotechnology

Funds that invest primarily in the equities of companies that focus on biotechnology. At least 75% of total assets are invested in equities. Ranked on % total return (dividends reinvested) in Euros for one year ending October 23, 2013

Leading 10 Performers

FUND RATING*	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	YTD	% Return in $US** 1-YR	2-YR	5-YR
4	**Dexia Eqs L Biotechnology C Acc**	Dexia Asset Management	USD	LUX	**48.35**	45.94	46.27	29.02
NS	**Adamant Global Biotech A**	Zurcher Kantonalbank	CHF	CHE	**47.62**	44.36	46.80	NS
3	**BB Biotech B USD**	Bellevue Asset Management AG	USD	LUX	**45.62**	43.71	45.10	NS
4	**AXA Framlington Biotech R Acc**	AXA Investment Managers UK Ltd.	GBP	GBR	**46.03**	41.25	46.78	20.46
4	**SEB Concept BioTech D**	SEB Asset Management S.A.	EUR	LUX	**43.65**	41.04	40.32	20.03
4	**Franklin Biotechnology Disc A Acc $**	Franklin Templeton Investment Funds	USD	LUX	**45.10**	40.58	42.55	22.06
5	**Biotech Growth Ord**	Orbimed Capital LLC	GBP	GBR	**41.28**	40.44	59.22	30.20
3	**DekaLux-BioTech CF**	Deka International S.A.	EUR	LUX	**45.63**	40.29	44.06	18.84
3	**RH&F Global Life Sciences Fund**	RH&PARTNER Investment Funds	USD	LUX	**38.38**	40.06	38.45	21.33
NS	**Selectra J. Lamarck Biotech A**	SELECTRA Investments Sicav	EUR	LUX	**43.66**	39.91	37.79	NS

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

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GLOBAL MARKETS LINEUP

Major stock market indexes

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Region/Country	Index	PREVIOUS SESSION Close	Net change	PERFORMANCE Percentage change	Yr.-to-date	52-wk.
EUROPE	**Stoxx Europe 600**	318.99	-1.98	**-0.62%**	14.1%	18.8%
	Stoxx Europe 50	2843.26	-17.34	**-0.61**	10.3	13.0
Euro Zone	**Euro Stoxx**	304.68	-2.67	**-0.87**	16.8	23.9
	Euro Stoxx 50	3017.16	-28.61	**-0.94**	14.5	21.8
Austria	**ATX**	2551.94	-13.84	**-0.54**	6.3	18.9
Belgium	**Bel-20**	2896.48	-12.44	**-0.43**	17.0	23.3
Czech Republic	**PX**	989.61	-8.39	**-0.84**	-4.7	1.8
Denmark	**OMX Copenhagen**	544.73	-1.13	**-0.21**	20.4	20.1
Finland	**OMX Helsinki**	6990.57	-34.51	**-0.49**	20.5	28.0
France	**CAC-40**	4260.66	-34.77	**-0.81**	17.0	25.1
Germany	**DAX**	8919.86	-27.60	**-0.31**	17.2	24.3
Hungary	**BUX**	18658.10		**Closed**	2.7	-2.0
Ireland	**ISEQ**	4370.11	-21.78	**-0.50**	28.7	36.9
Italy	**FTSE MIB**	18910.68	-461.25	**-2.38**	16.2	21.4
Netherlands	**AEX**	388.56	-1.63	**-0.42**	13.4	18.9
Norway	**All-Shares**	578.11	-1.53	**-0.26**	17.9	20.4
Poland	**WIG**	53389.74	-392.07	**-0.73**	12.5	23.7
Portugal	**PSI 20**	6247.72	-99.69	**-1.57**	10.5	15.8
Russia	**RTSI**	1494.96	-23.58	**-1.55%**	-2.1	2.2
Spain	**IBEX 35**	9828.30	-184.60	**-1.84**	20.3	26.9
Sweden	**OMX Stockholm**	408.48	-2.13	**-0.52**	18.8	25.8
Switzerland	**SMI**	8214.56	-0.20	**-0.002**	20.4	23.9
Turkey	**BIST 100**	78515.59	-756.83	**-0.95**	0.4	11.0
U.K.	**FTSE 100**	6674.48	-21.18	**-0.32**	13.2	15.1
ASIA-PACIFIC	**DJ Asia-Pacific**	148.16	-1.16	**-0.78**	11.2	16.9
Australia	**SPX/ASX 200**	5356.10	-17.00	**-0.32**	15.2	18.9
China	**Shanghai Composite**	2183.11	-27.54	**-1.25**	-3.8	3.2
Hong Kong	**Hang Seng**	22999.95	-316.04	**-1.36**	1.5	5.7
India	**S&P BSE Sensex**	20767.88	-97.09	**-0.47**	6.9	11.0
Japan	**Nikkei Stock Average**	14426.05	-287.20	**-1.95**	38.8	61.1
Singapore	**Straits Times**	3204.80	-5.41	**-0.17**	1.2	5.3
South Korea	**Kospi**	2035.75	-20.37	**-0.99**	1.9	6.4
AMERICAS	**DJ Americas**	444.50	-2.79	**-0.62**	19.8	21.6
Brazil	**Bovespa**	55616.27	-844.11	**-1.50**	-8.8	-3.6
Mexico	**IPC**	40564.74	-248.74	**-0.61**	-7.2	-3.5

Note: Americas index data are as of 3:00 p.m. ET.

Sources: SIX Financial Information; WSJ Market Data Group

Dow Jones Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	PERFORMANCE (euros) Last	Daily	52-wk.	PERFORMANCE (U.S.dollars) Last	Daily	52-wk.
2.46%	19.02	**Global TSM**				3139.36	**-0.61%**	22.0%
3.05	18.43	**Global DOW**	1645.57	**-0.79%**	18.0%	2409.31	**-0.69**	25.4
3.09	14.04	**Global Titans 50**	217.07	**-0.51**	8.7	223.51	**-0.42**	15.5
3.25	20.60	**Dev Europe TSM**				3288.20	**-0.51**	26.9
2.41	19.99	**Developed Markets TSM**				3140.28	**-0.57**	24.2
2.97	12.96	**S&P BMI Emg Markets**				261.90	**-1.03**	3.9
3.40	20.03	**S&P Europe 350**	1301.72	**-0.66**	18.1	1612.51	**-0.60**	25.8
3.35	21.81	**S&P Euro**	1294.42	**-0.90**	23.9	1625.00	**-0.84**	32.0
3.87	18.76	**Europe Dow**	1353.08	**-0.81**	17.7	1980.54	**-0.75**	25.1
3.54	8.92	**BRIC 50**	389.64	**-1.79**	-6.0	512.12	**-1.70**	-0.1
1.97	19.97	**U.S. TSM**				18377.74	**-0.53**	26.1
		Kuwait Titans 30 -c				207.82	**-0.16**	11.7
		Turkey Titans 20 -c				792.36	**-1.11%**	9.2%
5.86%	22.13	**Global Select Div**				249.26	**-0.73**	14.9
5.56	15.90	**Asia/Pacific Select Div**	295.59	**-0.63%**	-0.3%	348.65	**-0.56**	5.9
		U.S. Select Dividend -d				1194.01	**-0.06**	25.5
3.20	25.89	**S&P Glb Nat Resources**	1989.79	**-0.81**	-5.8	2725.80	**-0.70**	0.1
2.20	18.59	**Islamic Market**				2634.69	**-0.43**	17.2
2.57	16.49	**Islamic Market 100**				2852.36	**-0.26**	16.8
		Islamic Turkey -c				4562.64	**-0.59**	15.3
3.33	21.59	**Sustainability Europe**	105.86	**-0.59**	18.3	160.38	**-0.53**	25.8
4.06	22.42	**S&P Glb Infrastructure**	1470.81	**-0.79**	5.4	2290.69	**-0.68**	12.0
1.85	14.42	**Luxury**				2036.61	**-0.57**	34.1
		DJ-UBS Commodity -p	112.71	**-0.63**	-11.7	127.30	**-0.63**	-11.5

*Fundamentals are based on data in U.S. dollar. Footnotes: a-in US dollar. b-dividends reinvested. c-in local currency. Note:All data as of 2 p.m.ET.

Source: S&P Dow Jones Indices

Cross rates

U.S.-dollar and euro foreign-exchange rates in global trading

	USD	GBP	CHF	SEK	RUB	NOK	JPY	ILS	EUR	DKK	CDN	AUD
Australia	1.0382	1.6786	1.1640	0.1629	0.0327	0.1755	0.0107	0.2952	1.4313	0.1919	0.9997	...
Canada	1.0385	1.6790	1.1644	0.1629	0.0327	0.1755	0.0107	0.2952	1.4317	0.1919	...	1.0003
Denmark	5.4108	8.7483	6.0667	0.8489	0.1705	0.9146	0.0556	1.5383	7.4596	...	5.2103	5.2118
Euro	0.7253	1.1728	0.8133	0.1138	0.0229	0.1226	0.0075	0.2062	...	0.1341	0.6985	0.6987
Israel	3.5174	5.6870	3.9438	0.5518	0.1108	0.5946	0.0362	...	4.8493	0.6501	3.3871	3.3880
Japan	97.2794	157.2827	109.0700	15.2617	3.0646	16.4431	...	27.6564	134.1140	17.9786	93.6744	93.7002
Norway	5.9161	9.5653	6.6332	0.9282	0.1864	...	0.0608	1.6819	8.1562	1.0934	5.6969	5.6984
Russia	31.7427	51.3220	35.5900	4.9800	...	5.3655	0.3263	9.0244	43.7619	5.8665	30.5663	30.5747
Sweden	6.3741	10.3057	7.1466	...	0.2008	1.0774	0.0655	1.8121	8.7876	1.1780	6.1379	6.1395
Switzerland	0.8919	1.4420	...	0.1399	0.0281	0.1508	0.0092	0.2536	1.2296	0.1648	0.8588	0.8591
U.K.	0.6185	...	0.6935	0.0970	0.0195	0.1045	0.0064	0.1758	0.8527	0.1143	0.5956	0.5957
U.S.	...	1.6168	1.1212	0.1569	0.0315	0.1690	0.0103	0.2843	1.3786	0.1848	0.9629	0.9632

Source: ICAP Plc.

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI as of October 23, 2013

Dividend yield	Price-to-earnings ratio	MSCI Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
2.60%	16	**MSCI ACWI***	399.29	-0.63%	**17.5%**	20.4%
2.50	16	World (Developed Markets)	1,610.79	-0.69	**20.3**	22.8
2.40	16	World ex-EMU	196.19	-0.61	**20.0**	21.3
2.40	17	World ex-UK	1,622.09	-0.66	**21.1**	23.4
3.10	16	EAFE	1,899.35	-0.89	**18.4**	25.7
2.70	12	Emerging Markets (EM)	1,044.66	-0.19	**-1.0**	4.2
3.40	15	**EUROPE**	109.70	0.49	**13.9**	18.5
3.40	16	EMU	193.08	-1.18	**22.8**	34.3
3.30	16	Europe ex-UK	118.04	0.61	**16.9**	23.7
4.30	13	Europe Value	111.00	0.34	**14.5**	19.9
2.50	20	Europe Growth	104.35	0.66	**13.2**	17.0
2.40	31	Europe Small Cap	250.41	-0.16	**25.3**	31.7
3.60	6	EM Europe	301.55	-0.25	**-2.9**	0.6
3.60	13	UK	1,978.55	0.64	**13.2**	16.4
3.40	17	Nordic Countries	197.69	0.51	**14.4**	17.0
3.60	5	Russia	822.58	-0.28	**7.3**	7.6
2.90	17	South Africa	1,123.54	0.50	**11.1**	20.5
3.00	13	**AC ASIA PACIFIC EX-JAPAN**	483.83	-0.10	**3.8**	9.6
1.70	18	Japan	748.45	0.17	**41.1**	65.7
3.30	9	China	62.65	-0.61	**-0.3**	12.5
1.50	15	India	807.07	-0.02	**5.6**	10.0
1.00	10	Korea	603.01	-0.07	**4.0**	5.0
2.90	16	Taiwan	298.14	0.21	**7.8**	8.4
2.00	18	**US BROAD MARKET**	2,003.57	-0.53	**24.6**	24.1
1.40	28	US Small Cap	3,087.66	-0.42	**31.1**	34.1
3.30	16	**EM LATIN AMERICA**	3,505.80	-0.89	**-7.7**	-4.6

*Twenty-four developed and 21 emerging markets

Source: MSCI

Commodities

Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.**MDEX:** Bursa Malaysia Derivatives Berhad; **LIFFE:** London International Financial Futures Exchange; **COMEX:** Commodity Exchange; **LME:** London Metals Exchange; **NYMEX:** New York Mercantile Exchange;**ICE-EU:** ICE Futures Europe *Data as of 10/22/13

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	Percentage	Year high	Year low
Corn (cents/bu.)	CBOT	**442.75**	4.50	**1.03%**	605.00	432.00
Soybeans (cents/bu.)	CBOT	**1302.25**	4.75	**0.37**	1,406.00	1,169.00
Wheat (cents/bu.)	CBOT	**701.50**	0.75	**0.11**	834.50	0.65
Live cattle (cents/lb.)	CME	**133.025**	0.050	**0.04**	136.700	122.775
Cocoa ($/ton)	ICE-US	**2,710**	-59	**-2.13%**	2,780	2,071
Coffee (cents/lb.)	ICE-US	**110.60**	-1.35	**-1.21**	169.30	110.50
Sugar (cents/lb.)	ICE-US	**19.25**	-0.20	**-1.03**	20.72	16.70
Cotton (cents/lb.)	ICE-US	**80.81**	-1.64	**-1.99**	93.72	77.80
Rapeseed (euro/ton)	LIFFE	**383.75**	2.00	**0.52**	441	357
Cocoa (pounds/ton)	LIFFE	**1,715**	-29	**-1.66**	1,774	1,421
Robusta coffee ($/ton)	LIFFE	**1,586**	7	**0.44**	2,185	1,572
Copper ($/lb.)	COMEX	**3.2635**	-0.0720	**-2.16**	3.8305	3.0055
Gold ($/troy oz.)	COMEX	**1333.10**	-9.50	**-0.71**	1,707.50	1,182.60
Silver ($/troy oz.)	COMEX	**22.600**	-0.190	**-0.83**	32.670	18.215
Aluminum ($/ton)*	LME	**1,880.00**	27.00	**1.46**	2,165.50	1,764.50
Tin ($/ton)*	LME	**23,425.00**	475.00	**2.07**	25,150.00	19,300.00
Copper ($/ton)*	LME	**7,274.00**	24.00	**0.33**	8,286.00	6,676.00
Lead ($/ton)*	LME	**2,203.00**	19.50	**0.89**	2,455.00	1,961.00
Zinc ($/ton)*	LME	**1,962.00**	20.00	**1.03**	2,214.00	1,820.50
Nickel ($/ton)*	LME	**14,745**	395	**2.75**	18,665	13,245
Crude oil ($/bbl.)	NYMEX	**96.81**	-1.49	**-1.52**	109.69	85.48
Heating oil ($/gal.)	NYMEX	**2.9198**	-0.0756	**-2.52**	3.2124	2.7650
RBOB gasoline ($/gal.)	NYMEX	**2.5397**	-0.0671	**-2.57**	2.9032	2.4160
Natural gas ($/mmBtu)	NYMEX	**3.820**	0.022	**0.58**	4.8270	3.5640
Brent crude ($/bbl.)	ICE-EU	**107.47**	-2.50	**-2.27**	114.44	95.96
Gas oil ($/ton)	ICE-EU	**910.25**	-20.00	**-2.15**	973.00	837.00

Sources: SIX Financial Information; WSJ Market Data Group

Currencies

London close on Oct. 23

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	8.0807	0.1238	5.8613	0.1706
Brazil real	3.0072	0.3325	2.1813	0.4585
Canada dollar	1.4317	0.6985	1.0385	0.9629
Chile peso	695.19	0.001438	504.26	0.001983
Colombia peso	2596.61	0.0003851	1883.45	0.0005309
Ecuador US dollar-f	1.3786	0.7253	1	1
Mexico peso-a	17.8312	0.0561	12.9339	0.0773
Peru sol	3.8105	0.2624	2.7640	0.3618
Uruguay peso-e	29.700	0.0337	21.543	0.0464
U.S. dollar	1.3786	0.7253	1	1
Venezuela bolivar	8.75	0.114228	6.35	0.157480
ASIA-PACIFIC				
Australia dollar	1.4313	0.6987	1.0382	0.9632
1-mo. forward	1.4342	0.6972	1.0403	0.9613
3-mos. forward	1.4403	0.6943	1.0447	0.9572
6-mos. forward	1.4487	0.6903	1.0508	0.9516
China yuan	8.3867	0.1192	6.0833	0.1644
Hong Kong dollar	10.6886	0.0936	7.7529	0.1290
India rupee	84.8564	0.0118	61.5505	0.0162
Indonesia rupiah	15047	0.0000665	10914	0.0000916
Japan yen	134.11	0.007456	97.28	0.010280
1-mo. forward	134.09	0.007458	97.26	0.010281
3-mos. forward	134.03	0.007461	97.22	0.010286
6-mos. forward	133.94	0.007466	97.15	0.010293
Malaysia ringgit-c	4.3629	0.2292	3.1647	0.3160
New Zealand dollar	1.6428	0.6087	1.1916	0.8392
Pakistan rupee	146.681	0.0068	106.395	0.0094
Philippines peso	59.398	0.0168	43.085	0.0232
Singapore dollar	1.7075	0.5857	1.2385	0.8074
South Korea won	1459.29	0.0006853	1058.50	0.0009447
Taiwan dollar	40.526	0.02468	29.396	0.03402
Thailand baht	42.958	0.02328	31.160	0.03209

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.7253	1.3786
1-mo. forward	0.9999	1.0001	0.7253	1.3788
3-mos. forward	0.9998	1.0002	0.7252	1.3789
6-mos. forward	0.9997	1.0003	0.7251	1.3791
Czech Rep. koruna-b	25.831	0.0387	18.737	0.0534
Denmark krone	7.4596	0.1341	5.4108	0.1848
Hungary forint	292.17	0.003423	211.92	0.004719
Norway krone	8.1562	0.1226	5.9161	0.1690
Poland zloty	4.1816	0.2391	3.0331	0.3297
Russia ruble-d	43.762	0.02285	31.743	0.03150
Sweden krona	8.7876	0.1138	6.3741	0.1569
Switzerland franc	1.2296	0.8133	0.8919	1.1212
1-mo. forward	1.2293	0.8135	0.8917	1.1215
3-mos. forward	1.2286	0.8139	0.8912	1.1221
6-mos. forward	1.2275	0.8147	0.8904	1.1231
Turkey lira	2.7206	0.3676	1.9734	0.5067
U.K. pound	0.8527	1.1728	0.6185	1.6168
1-mo. forward	0.8529	1.1725	0.6186	1.6164
3-mos. forward	0.8533	1.1719	0.6190	1.6156
6-mos. forward	0.8539	1.1711	0.6194	1.6145
MIDDLE EAST/AFRICA				
Bahrain dinar	0.5197	1.9243	0.3770	2.6529
Egypt pound-a	9.4945	0.1053	6.8868	0.1452
Israel shekel	4.8493	0.2062	3.5174	0.2843
Jordan dinar	0.9759	1.0247	0.7079	1.4127
Kuwait dinar	0.3887	2.5728	0.2819	3.5470
Lebanon pound	2078.24	0.0004812	1507.45	0.0006634
Saudi Arabia riyal	5.1704	0.1934	3.7504	0.2666
South Africa rand	13.4681	0.0742	9.7690	0.1024
United Arab dirham	5.0638	0.1975	3.6731	0.2723

a-floating rate b-financial c-government rate c-commercial rate d-Russian Central Bank rate.

Source: ICAP Plc.

BLUE CHIPS & BONDS

Major players & benchmarks

Below, a look at the Dow Jones Stoxx 50, the biggest and best known companies in Europe, including the U.K.

Stoxx Europe 50: Wednesday's best and worst...

Company	Country	Industry	Volume	Previous close, in local currency	STOCK PERFORMANCE Previous session	YTD	52-week
Bayer	Germany	Specialty Chemicals	1,886,596	91.22	0.92%	26.9%	37.7%
AstraZeneca	United Kingdom	Pharmaceuticals	1,581,379	3,210	0.71	10.3	10.7
Novartis AG	Switzerland	Pharmaceuticals	3,240,486	69.70	0.65	21.3	21.0
National Grid	United Kingdom	Multiutilities	5,880,881	776.50	0.58	10.5	10.5
Roche Holding Part. Cert.	Switzerland	Pharmaceuticals	856,683	247.60	0.53	34.6	35.9
Banco Bilbao Vizcaya Argn	Spain	Banks	38,024,324	8.97	-3.66%	31.5	45.3
Banco Santander S.A.	Spain	Banks	74,026,665	6.54	-2.39	11.6	17.8
Deutsche Bank	Germany	Banks	5,568,076	35.85	-2.18	8.8	6.7
Telefonica S.A.	Spain	Fixed Line Telecommunications	29,441,264	12.80	-2.18	25.6	24.3
BNP Paribas	France	Banks	3,373,891	53.00	-2.18	24.5	32.4

...And the rest of Europe's blue chips

Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE Latest	YTD	52-week
Vodafone Group United Kingdom (Mobile Telecommunications)	51,987,215	229.10	**0.50%**	48.3%	30.9%
Unilever United Kingdom (Food Products)	1,810,896	2,496	**0.48**	5.5	10.3
BP PLC United Kingdom (Integrated Oil & Gas)	14,718,553	449.25	**0.28**	5.8	3.7
Daimler Germany (Automobiles)	1,981,241	58.25	**0.22**	41.0	54.0
Diageo United Kingdom (Distillers & Vintners)	2,271,750	2,029	**0.22**	13.5	15.5
L'Air Liquide France (Commodity Chemicals)	563,207	102.70	**0.15**	8.0	14.2
Siemens Germany (Diversified Industrials)	1,641,899	92.51	**0.12**	12.5	20.4
BASF Germany (Commodity Chemicals)	1,946,640	74.05	**0.11**	4.1	18.2
British American Tobacco United Kingdom (Tobacco)	2,132,162	3,386	**0.03**	8.5	7.0
ABB Switzerland (Industrial Machinery)	4,959,804	21.96	**...**	17.1	24.4
Unilever CVA Netherlands (Food Products)	3,595,093	28.95	**-0.02**	0.4	5.2
Reckitt Benckiser Grp United Kingdom (Nondurable Household Products)	1,224,078	4,732	**-0.04**	22.0	29.8
Royal Dutch Shell A United Kingdom (Integrated Oil & Gas)	2,117,882	2,100	**-0.12**	-1.1	-0.6
Zurich Insurance Group Switzerland (Full Line Insurance)	305,520	243.50	**-0.12**	0.0	4.7
AXA France (Full Line Insurance)	4,308,513	18.68	**-0.24**	39.9	54.3
Lloyds Banking Group PLC United Kingdom (Banks)	130,111,584	77.91	**-0.27**	62.6	93.4
Nestle Switzerland (Food Products)	3,087,703	65.20	**-0.31**	9.4	8.8
Financiere Richemont Switzerland (Clothing & Accessories)	584,803	94.10	**-0.32**	31.8	60.7
Tesco United Kingdom (Food Retailers & Wholesalers)	13,170,740	370.05	**-0.38**	10.1	18.0
SAP Germany (Software)	2,582,479	56.85	**-0.39**	-6.3	3.2

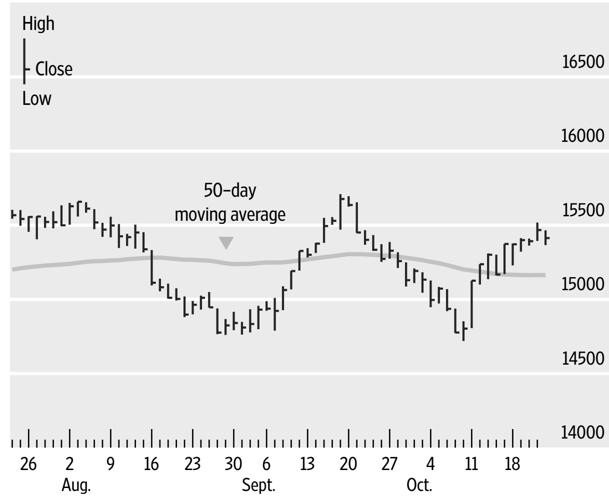
Company/Country (Industry)	Volume	Latest, in local currency	STOCK PERFORMANCE Latest	YTD	52-week
Glencore Xstrata PLC United Kingdom (General Mining)	20,017,964	340.20	**-0.40%**	-3.2%	-0.8%
Telefon L.M. Ericsson B Sweden (Telecommunications Equipment)	6,423,449	84.25	**-0.47**	29.4	43.8
Sanofi SA France (Pharmaceuticals)	2,393,294	74.31	**-0.52**	4.1	12.2
Moet Hennessy Louis Vuitt France (Clothing & Accessories)	591,993	139.65	**-0.53**	0.2	14.1
BG Grp United Kingdom (Integrated Oil & Gas)	2,834,073	1,233	**-0.64**	21.7	-6.0
Schneider Electric France (Electrical Components & Equipment)	1,348,198	62.10	**-0.80**	13.3	29.7
Total France (Integrated Oil & Gas)	3,427,448	43.81	**-0.88**	11.4	13.9
Allianz SE Germany (Full Line Insurance)	1,222,973	123.30	**-0.88**	17.7	32.5
Deutsche Telekom Germany (Mobile Telecommunications)	12,802,568	11.44	**-1.25**	34.4	31.2
Rio Tinto United Kingdom (General Mining)	3,728,366	3,220	**-1.27**	-8.3	2.8
Anheuser-Busch InBev Belgium (Brewers)	1,553,202	74.80	**-1.32**	13.8	13.3
HSBC Hldgs United Kingdom (Banks)	20,132,715	678.30	**-1.37**	4.9	10.7
ENI Italy (Integrated Oil & Gas)	13,375,190	17.66	**-1.40**	-3.7	1.0
BHP Billiton United Kingdom (General Mining)	6,748,186	1,923	**-1.44**	-9.7	-3.0
Standard Chartered United Kingdom (Banks)	4,628,013	1,500	**-1.45**	-4.7	1.7
Credit Suisse Group AG Switzerland (Banks)	3,973,336	29.84	**-1.49**	35.4	40.5
UBS Switzerland (Banks)	6,911,759	18.93	**-1.56**	32.7	56.2
Barclays United Kingdom (Banks)	73,910,035	268.20	**-1.61**	2.2	15.3
ING Groep Netherlands (Life Insurance)	12,141,336	9.28	**-1.62**	31.5	38.4
GlaxoSmithKline United Kingdom (Pharmaceuticals)	12,263,069	1,571	**-1.91**	17.6	12.1

Sources: SIX Financial Information

Dow Jones Industrial Average

P/E: 17

LAST: **15413.39**	▼ 54.27, or 0.35%
YEAR TO DATE:	▲ **2,309.25, or 17.6%**
OVER 52 WEEKS	▲ **2,336.05, or 17.9%**



Note: Price-to-earnings ratios are for trailing 12 months

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
AT&T	T	**23.7**	$35.21	−0.02	**−0.06%**
AmExpress	AXP	**2.4**	80.62	−0.25	**−0.31**
Boeing	BA	**9.8**	128.88	6.40	**5.23**
Caterpillar	CAT	**18.5**	83.35	−5.82	**−6.53**
Chevron	CVX	**4.1**	120.27	−0.37	**−0.31**
CiscoSys	CSCO	**41.6**	22.23	−0.42	**−1.85**
CocaCola	KO	**11.1**	39.10	0.01	**0.03**
Disney	DIS	**5.0**	68.18	−0.82	**−1.19**
DuPont	DD	**3.5**	60.24	0.07	**0.12**
ExxonMobil	XOM	**9.0**	87.58	−0.40	**−0.45**
GenElec	GE	**34.3**	25.70	−0.32	**−1.25**
GoldmanSachs	GS	**2.4**	157.90	−1.35	**−0.85**
HomeDpt	HD	**4.5**	75.03	0.17	**0.23**
Intel	INTC	**25.7**	23.67	−0.40	**−1.67**
IBM	IBM	**4.8**	175.91	0.94	**0.54**
JPMorgChas	JPM	**17.9**	52.85	−0.77	**−1.44**
JohnsJohns	JNJ	**5.6**	92.07	−0.29	**−0.31**
McDonalds	MCD	**4.0**	94.25	−0.87	**−0.91**
Merck	MRK	**8.4**	46.63	0.16	**0.34**
Microsoft	MSFT	**48.3**	33.75	−0.83	**−2.40**
Nike B	NKE	**2.0**	75.59	−0.36	**−0.48**
Pfizer	PFE	**20.6**	30.69	0.01	**0.03**
ProctGamb	PG	**7.5**	81.03	0.65	**0.81**
3M	MMM	**1.9**	122.90	−0.90	**−0.73**
TravelersCos	TRV	**1.7**	86.30	−0.41	**−0.47**
UnitedTech	UTX	**2.8**	106.36	0.23	**0.22**
UtdHlthGp	UNH	**7.1**	68.00	−0.86	**−1.25**
Verizon	VZ	**9.8**	50.88	−0.27	**−0.52**
VISA CIA	V	**1.6**	198.81	−1.17	**−0.59**
WalMart	WMT	**5.2**	75.90	−0.42	**−0.55**

Source: WSJ Market Data Group

Tracking credit markets & dealmakers

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

Markit iTraxx Indexes

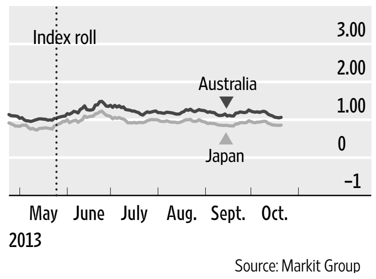
Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 20/1	0.84	100.80%	0.01%	1.04	0.84	0.96
Eur. High Volatility: 20/1	1.33	98.41	0.01	1.61	1.33	1.48
Europe Crossover: 20/1	3.37	107.21	0.05	4.08	3.37	3.81
Asia ex-Japan IG: 20/1	1.34	98.35	0.01	1.57	1.31	1.45
Japan: 20/1	0.86	100.72	0.01	0.97	0.85	0.91

Note: Data as of October 22

Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.

In percentage points



Source: Markit Group

Credit-default swaps: European companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Akzo Nobel	93	**–5**	–7	–9
Hellenic Telecom	355	**–15**	–67	–135
Glencore Intl	157	**–6**	–19	–50
RENTOKIL INITIAL	106	**–4**	–11	–23
Novartis	27	**–1**	–2	–3
SANOFI	38	**–1**	–3	–5
Bca Monte dei Paschi di Siena	411	**–13**	–18	–200
Bco Espirito Santo	379	**–12**	–19	–194
Porsche Automobil Hldg	56	**–2**	–2	–5
Volkswagen	60	**–2**	–5	–10

And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Telekom Austria	140	**11**	16	16
Deutsche Lufthansa	148	**3**	–3	–6
Diageo	51	**1**	–2	–4
INEOS GROUP Hldgs	110	**1**	2	...
UPM Kymmene	240	**3**	–3	–1
AXA	119	**1**	–2	–12
BP	61	**...**	–3	–8
Deutsche Telekom	63	**...**	–1	–5
Portigon	88	**...**	...	–2
Compass Gp	48	**...**	–1	–3

Source: Markit Group

Behind Europe's deals: Bank revenue rankings, Germany

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

	Revenue, in millions	share	PERCENTAGE OF TOTAL REVENUE Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
Deutsche Bank	$356	15.9%	22%	38%	17%	24%
Goldman Sachs	201	9.0	12	27	40	21
JPMorgan	178	7.9	29	35	28	8
Morgan Stanley	121	5.4	10	35	41	14
UniCredit	116	5.2	44	49	3	4
Citi	106	4.7	15	37	23	25
Commerzbank Group	106	4.7	42	44	4	10
HSBC	90	4.0	23	52	3	22
Bank of America Merrill Lynch	80	3.6	24	36	32	8

Source: Dealogic

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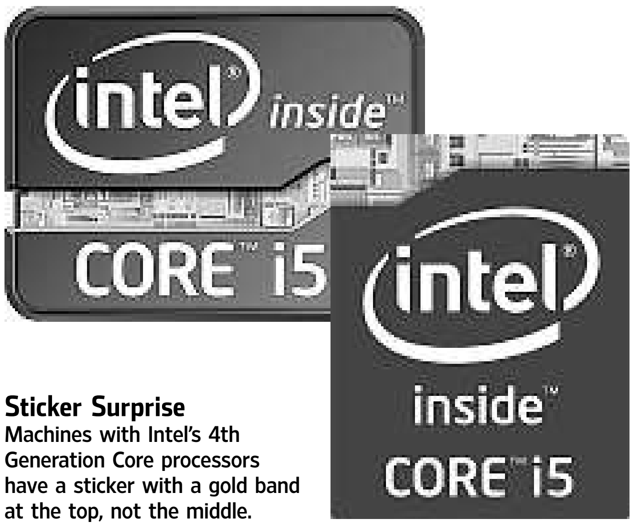


Sticker Surprise
Machines with Intel's 4th Generation Core processors have a sticker with a gold band at the top, not the middle.

Combo Conundrum
Laptops that contort into a tablet using special hinges and slide mechanisms tend to make for thick and heavy tablets.

Power Players

With Intel's new processors, Apple's MacBook Air, top, and Sony's Sony Vaio Pro 13 ultrabook lasted more than 10 hours and nearly six hours, respectively, in one test.

Go Unhinged

The Asus Transformer Book T100 is a 10-inch tablet running full Windows 8.1 that snaps into a laptop keyboard.

Clockwise from left: Intel (2); Apple; Asus; Sony; Acer

Before You Purchase a Laptop

Tips for Average Users on What to Look for, Plus the Sticker With New, Battery-Boosting Chips

BY WALTER S. MOSSBERG

There's good news for laptop buyers in my fall guide this time: The confusing changes in the sagging laptop industry have settled down enough that if you need one, now may be the time to buy one.

Microsoft and **Apple** are launching tweaked versions of their operating systems, but they aren't radical changes this time that require a lot of new learning. And **Intel** has introduced new processors, which greatly enhance laptop battery life on both Windows and Mac models.

PERSONAL TECHNOLOGY

While prices of touch-screen Windows 8 laptops can still be expensive, especially for the thinnest models, they seem to have eased a bit and you can find plenty of choices between £350 ($568) in the U.K./€400 ($551) in the euro zone and £600/€700. The stores have stopped pushing most of the clumsier tablet-laptop hybrids.

Let me be clear: If you found Windows 8 with its dual user interfaces confusing, you still will. The new, modified version called Windows 8.1 is built on the same fundamental design. And Microsoft is still putting most of its emphasis on the tablet-like Start screen, which works best with a touch screen and much better on a tablet than on a laptop.

But in a concession to rebellious users, the company has made it possible to bypass the Start screen at startup and go right to the familiar Windows desktop—provided you can find the buried setting that permits this.

So here are some tips on what to look for in a laptop this fall. As always, this guide is meant for average users doing typical tasks, not corporate IT staffs, or people doing heavy-duty work like video production.

Processors

If you care about battery life in a laptop, look for what Intel calls its 4th Generation Core processors. Back in June, when I tested one of the first laptops to adopt this chip—Apple's MacBook Air—it racked up a 65% gain in battery life and lasted over 10 hours on a single charge in my harsh battery test. A paper-thin **Sony** running Windows 8 lasted nearly six hours.

It can be hard to tell which laptops have these new processors since they are still named Core i3, i5 and i7, just like the last generation. Look for a redesigned "Intel Inside" sticker on the laptop.

Models with the new, battery-boosting chips have a more vertical blue sticker with a gold band across the top edge, as opposed to the older horizontal sticker with a gold band in the middle. Typical users should choose an i5 version.

Windows vs. Mac

Unlike Windows vendors, Apple has stuck with standard screens and built its many touch gestures into the large, smooth-running touch pads on its MacBooks.

As always, Macs aren't the cheapest laptops, starting at £715/€800. And they come in only two lines, the thinner, lighter MacBook Air and the beefier MacBook Pro.

If you prefer Windows 8, are looking for variety, or are on a budget, you want a Windows laptop. But the Macs are excellent, reliable, versatile products and far less susceptible to viruses than Windows PCs. Apple is using the new 4th Generation Intel processors.

The company has a new version of its operating system, called Mavericks, which claims greater speed, improvements to the built-in apps and Mac versions of two iPhone and iPad apps: iBooks and Maps.

Touch Screens

You no longer need to buy a touch-screen laptop to get the most out of a Windows 8 laptop. Windows 8.1 allows you to boot directly into the familiar desktop, which is best used with a keyboard and mouse. And the mouse and keyboard will work for the touch-centric parts of Windows.

If you expect to spend a lot of time in the Start screen and the tablet-like apps that live there, I advise using a touch screen.

Tablets vs. Laptops

Tablets are taking over many of the tasks, including word processing, that were formerly commonly done on laptops. If your laptop is doing fine and you want a new device, it's worth considering a quality tablet like an iPad or a name-brand Android model. Apple brought out new, faster iPad models Tuesday.

Convertibles

These combo laptops, which attempt to contort into a tablet using special hinges and slide mechanisms, seem to be fading. I don't recommend them because they tend to make for thick, heavy tablets.

Detachables

On the other hand, I do like the idea of Windows 8 laptops in which the screen can be removed and used as a tablet. These machines, called detachables, are getting better and less expensive.

One interesting model I tried briefly—but did not thoroughly test—is the Asus Transformer Book T100. It's a 10-inch tablet running full Windows 8.1 that snaps into a laptop keyboard.

Price

You can still buy Windows laptops for as little as £250/€300, but I don't recommend it because they tend to use old or lower-quality components.

A good midrange price is around £350/€400 to £700/€700. Touch-screen models and those with the latest processors, or the thinnest and lightest bodies, run highest.

Bottom Line

It's safe to buy a laptop again. Just pay attention to those Intel stickers.

Find all of Walt Mossberg's columns and videos at the All Things Digital website, walt.allthingsd.com. Email him at mossberg@wsj.com.

When You Don't Want A New Start

Microsoft's new Windows 8.1 will now let users bypass the new Start screen and boot right into the usual Windows desktop. But the setting to do this can be tricky to find.

It isn't in the Control Panel, or in the settings section of the Start screen.

To find and use the hidden setting, first go to the desktop, not the Start screen. Then right-click on an empty area of the Taskbar at the bottom.

In the first menu that comes up, click "Properties." Then click the tab called "Navigation."

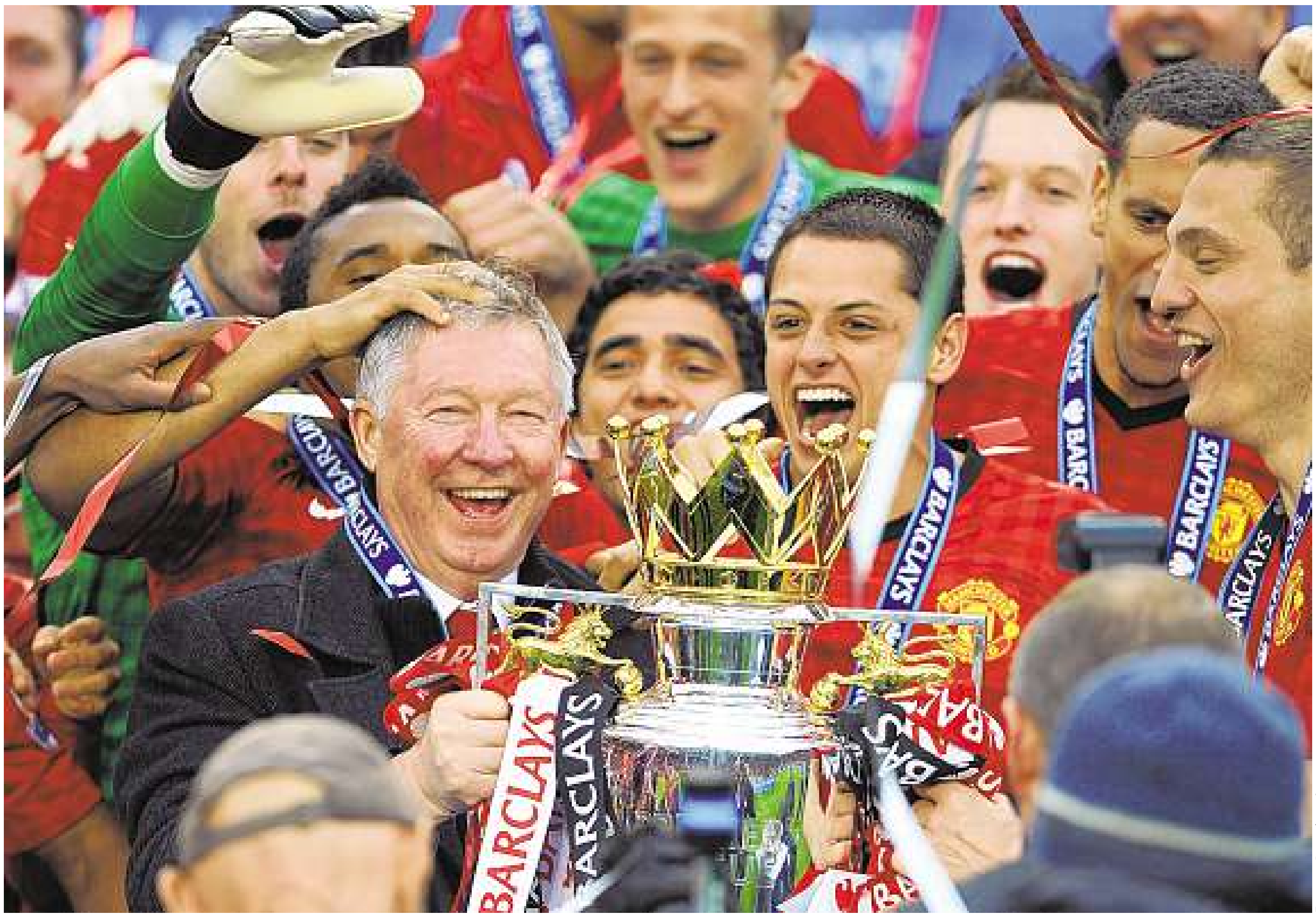
Go to the section called "Start screen" and check off the first item, which says: "When I sign in, or close all apps on a screen, go to the desktop instead of Start." Then click "OK."

— Walter S. Mossberg

With Windows 8.1, the setting to bypass the new Start screen is buried.

Watch a Video>>
Scan this code to see Walt Mossberg's video on what laptop to buy now or visit **WSJ.com/PersonalTech.**

SPORT



European Pressphoto Agency

Alex Ferguson lifts the English Premier League trophy surrounded by his Manchester United players at Old Trafford in Manchester, on May 12.

What Might Have Been for Fergie

Former Manchester United Manager Discloses Some Secrets in His New Book

By Joshua Robinson

Many of the stories in former Manchester United manager Alex Ferguson's new autobiography, released Thursday in the U.K., are already well worn. But reading them all in one place can leave an overwhelming impression that the last two decades of world soccer were so close to being very different.

A counterfactual, if reasonably plausible, recent history could have read something like this:

In 2002, Alex Ferguson announces his retirement from Manchester United as the most successful manager the club had ever known. Only one job could persuade him to work a little longer: the England national team. So he leads an England squad full of United players to the 2002 World Cup in Japan and South Korea where it overcomes Brazil in the quarters and eventually sets up a showdown with Germany in the final. Of course, it goes to a penalty shootout...

In the Premier League, United falls off the top as stars like David Beckham and Roy Keane leave for greener pastures. And a budding young genius named Cristiano Ronaldo decides that Manchester isn't for him. Meanwhile, Arsenal plays some of the best soccer in Europe, winning a couple more titles, and Chelsea grows into a cash-rich juggernaut. Arsenal vs. Chelsea becomes the new duel at the top.

And away from soccer, an obsessive owner suddenly begins to dominate the horse racing world. After all, Ferguson has to keep himself busy somehow...

So what if Ferguson had taken the England job?

Come on, that was unlikely. As a proud Scot, Ferguson joked, he would have taken the England job to purposely sink the team, "make them the 150th rated country in the world, with Scotland 149." He writes that the English Football Association formally approached him on two occasions—in 1999 and in 2001. And Ferguson shows just how seriously he considered those offers by waiting until page 300 to mention them.

Still, would England have done better at Euro 2000 or the 2002 World Cup? Undoubtedly. Ferguson has shown that he can raise the level of a squad, even if it isn't up to his usual world-beating standard. Just look at the difference between his results with United last season and the struggles of his successor David Moyes this year with pretty much the same set of players.

But more than that, Manchester United players were at the heart of the England team. And who could get more out of Paul Scholes, David Beckham, and Gary Neville than Ferguson?

At the very least, he probably would have improved on Kevin Keegan's woeful performance at Euro 2000, when England was eliminated in the group stage with a loss to Romania. Its next three opponents on the road to the trophy would have been Italy, the Netherlands and France. So it's probably too much to say that Ferguson would have lifted the European Championship trophy.

The World Cup two years later was a different matter. The squad was good enough to be 1-0 up against Brazil in the quarterfinals before it fell back, defended, and gave up two goals. Now, no manager can account for flukes like Ronaldinho's killer second goal, which looped over goalkeeper David Seaman from long distance. But would a Ferguson team have defended that way? It's never been United's style. Turkey was waiting in the next round and Germany lay ahead.

What about the near-miss signings?

Throughout the book, Ferguson liberally sprinkles the names of stars that he had on the end of his Manchester United fishing line but never reeled in. Transfers can be murky business and a deal can fall apart almost up to the moment the player is in your locker room.

For Manchester United and Ferguson, the list of near misses is almost enough to put together a competitive Premier League roster: Ronaldinho, Paulo di Canio, Paul Gascoigne are just a few. As he tells it, he was about to sign goalkeeper Edwin van der Sar years earlier than he ultimately did, but gave up when he was informed that a deal for Mark Bosnich to join United had just gone through.

The most important nap of the past two decades of world soccer.

Ferguson also chased the likes of Alan Shearer, Aaron Ramsey and Patrick Vieira, but couldn't persuade any of them to join him.

So it's easy to wonder whether Manchester United would have missed out on the league title for three straight years between 2003 and 2006—the club's longest barren stretch in the Premier League since it began in 1992—if it had nabbed even a couple of those players.

Instead, it settled for flops like Kleberson, Diego Forlan, David Bellion and Eric Djemba-Djemba. The result was finishing 11, 18 and eight points adrift of the eventual champions.

In at least two of those seasons, the biggest problem was firepower. Assuming he could adapt to the Premier League, a guy like Ronaldinho could have bridged the gap. Ferguson solved the problem eventually by rebuilding the side around Wayne Rooney and a quickly maturing Cristiano Ronaldo, whom he calls, "the most gifted player I ever managed."

And what if Ferguson had stayed retired?

He thought about it. He even announced it. Ferguson had turned 60, he'd won the Premier League, FA Cup and Champions League treble in 1999, and the 2001-2002 campaign was going to be his last go-round.

Although he handpicked his own successor when he did retire last year, he believed at the time that his job would go to Sven-Goran Eriksson.

Now, Eriksson was a fine coach who had racked up over a dozen trophies in Italy and Portugal and would lead England to the 2002 World Cup. But he never had the pedigree of Ferguson. In fact, Eriksson hasn't won a trophy since taking the England job nor has he been entrusted with a major club since leaving Manchester City in 2008.

Except Ferguson didn't retire. While he was snoozing on the couch one day in December 2001, his wife and sons decided that he couldn't quit. And soon, they had convinced him to reconsider.

"That'll teach me to nod off for five minutes," he writes. "It ended with me working for 11 more years."

It turned out to be the most important nap of the past two decades of world soccer.

What if he hadn't been sleepy?

HEARD ON THE PITCH

2014 Tour de France Route Doesn't Favor Sprinters

Tracing a route that could limit the strengths of defending champion Chris Froome, the 2014 Tour de France will rattle over bone-jarring cobblestones, pay homage to World War I battlefields, climb unfamiliar ascents in eastern France and have only one time trial.

Starting in Leeds, England, on July 5, the 101st Tour ends 22 days later, as is traditional, on the Champs-Élysées in Paris. With 25 ascents, the same as the 2012 edition won by Bradley Wiggins and only three fewer than this year's centennial dominated by Froome, the 2014 race will again suit strong climbers—perhaps even more so than in previous years because of the reduced emphasis on time-trialing.

There will be only 33 miles of time-trialing in 2014—all on a penultimate stage through foie gras country in southwest France on July 26. That is the smallest time-trial total since the specialist discipline was introduced at the 1934 Tour. The reduction—wanted by race organizers to limit the decisiveness of time-trialing—could be a disadvantage for Froome, a powerful time-trial rider who won one of two clock-races at the 2013 Tour and placed second in the other.

"The pure climbers will certainly be up there with that amount of climbing," Froome said. "But the pure climbers have got to get over the cobblestones. They've got to battle through any crosswinds that we have on the way to the mountains and they've also got to be able to time trial at the end of it. So it's a pretty well-balanced Tour."

—Associated Press

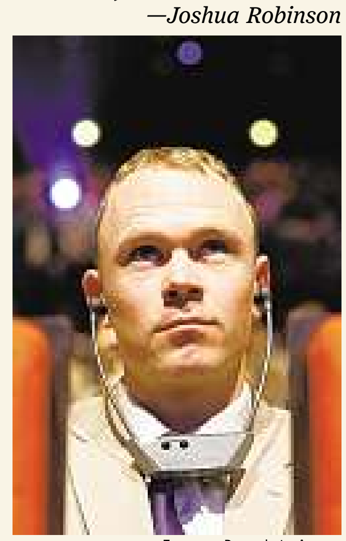
Holloway Leaves Palace After Defeats Pile Up

Crystal Palace announced Wednesday that it had parted ways with manager Ian Holloway by mutual consent. Six months after winning promotion to the Premier League, the club is 19th with just three points from eight games.

"We have lost five games since we announced the 25-man squad and there is something wrong there," Holloway said Monday after a 4-1 loss to Fulham. "I don't think we have got the same spirit."

Holloway is the second managerial casualty in the Premier League this season after bottom club Sunderland fired Paolo di Canio last month. He was replaced by Gustavo Poyet. Crystal Palace didn't immediately announce a successor.

—Joshua Robinson


European Pressphoto Agency

Champion Chris Froome at the 2014 Tour launch on Wednesday.

OFF THE WALL

Flummoxed by Security Questions

Shoppers on U.S. Health-Care Marketplaces Have Tough Time With Identity-Verification Queries

By Melinda Beck

Agence France-Presse/Getty Images

The security questions on the new health exchanges are catching some users off-guard. Above, the HealthCare.gov site.

Signing up for insurance on the new U.S. health-care marketplaces can be challenging enough without having to remember your high-school mascot. Or your favorite childhood superhero, the manager at your first job or the street you lived on in third grade.

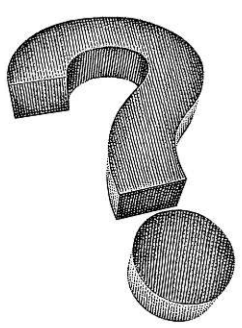
Those are just some of the security questions being offered to shoppers on the state and federal exchange sites as a way to verify their identities—and they are leaving some would-be customers flummoxed.

"I don't think they took baby boomers into account when they invented those questions," says Margo Benge, a 58-year-old massage therapist in Missouri City, Texas, who gave up trying to use the federal exchange when she was able to answer only two of the 12 questions offered, not the required three. "I barely remember two weeks ago, let alone childhood," she says.

V.J. Sleight couldn't find the requisite five questions to answer among the 30 offered by California's health exchange, which included "what is your significant other's favorite color?" "what is your youngest child's birth weight?" and "what color was your first bicycle?"

"I don't have a significant other. I don't have kids, and I can't remember that far back," she says. A self-employed breast-cancer survivor who has been eagerly waiting the chance to buy affordable insurance, Ms. Sleight abandoned the website and mailed in a paper application instead.

Banks, utilities and credit-card companies have used security questions to verify customers' identities for decades. One Baltimore savings bank asked depositors for their mother's maiden name to guard against unauthorized withdrawals in 1906.



Their use has exploded on the Internet, where retailers, browsers and storage sites often employ them as an inexpensive way to assist customers who forget their passwords.

As the questions became more familiar and more hackable, security experts have added multiple queries and increasingly turned to more personal—even existential—topics. (Among Citibank's online banking options: "If you could control your height, how tall would you be?")

Still, the volume and variety of security questions on the new health exchanges are catching some users off-guard.

Aaron Lerch, a software engineer in Indianapolis, selected "type a significant date in your life" as one of his three choices on the federal exchange and supplied his wedding anniversary—and was told "this is not a valid answer." He eventually realized he had written the date with an unauthorized slash.

Residents in the 36 states that use the federal exchange at HealthCare.gov all get the same 12 questions, from which they must pick three.

The 14 states that are operating their own exchanges supplied their own sets—with considerable diversity.

Among California's 30 choices: "What color was your first cat?" and "If you needed a new first name, what would it be?" New York's 19 options include "what is your favorite fruit or vegetable?" and "what band poster did you have on your wall in high school?"

Connecticut's 39 choices include "how many bones have you broken?" and "where were you when you had your first kiss?"

"I'd love to be able say we hired a professional comedian to come up with those, but that's not the case," says Jim Wadleigh, chief information officer of the Connecticut exchange, Access Health CT. Instead, he says, the site uses the same questions as the state's department of social services.

Some information experts have long warned that security questions are far from secure—particularly with so many people posting the names of their children, pets, schools, hometowns, favorite books, favorite bands and other personal information on social-networking sites.

In 2005, a hacker got into Paris Hilton's mobile phone account by supplying the name of her ubiquitous Teacup Chihuahua ("Tinkerbell"). Three years later, vice-presidential candidate Sarah Palin's Yahoo account was breached by a college student who said he found her birth date on Wikipedia and guessed where she met her spouse in just a few tries.

"There really are no good security questions," says Garry Scoville, who nevertheless runs the website goodsecurityquestions.com. To be even moderately secure, he says security questions should have answers that are safe (not easily guessed or researched); stable (not likely to change over time); memorable (so that users don't forget their own answers) and simple (to avoid multiple right answers that may be easy to confuse years later).

Mr. Scoville's site lists nearly 100 common security questions, rated "good," "fair" and "poor." Many of the questions used on the new health exchanges are there, in all three categories.

Even "Where did you meet your spouse?" can be a trick question, says Katie Cunningham, a Web designer in Woodbridge, Va. "Whenever I see that, I have to step back and think, when did I fill this out? I've been married twice...oh man."

Studies have found that spouses, friends and other relatives were able to guess the answers to security questions more than 30% of the time—and that more than 20% of users forgot their own answers within three months.

Some people try thwarting guessers by supplying silly, random or completely fabricated answers to security questions (Mother's maiden name: Fgbt56#). But remembering such answers is hard, prompting some to write them down "on that sticky note on the side of their computer that says what your password is," defeating the purpose, says Bruce Marshall, founder of the website passwordresearch.com.

Officials at the government agency that runs the federal exchanges didn't respond to requests to comment. Officials in California and New York also didn't respond to requests to comment.

Some users say the "Live Chat" function on the exchanges has been equally unresponsive.

Ms. Benge, the massage therapist, says she tried explaining to the operator that she couldn't answer three questions because she didn't have a niece, didn't listen to the radio, didn't have a favorite cuisine and didn't know her parents' wedding anniversary.

The response was "if you come back later, there will only be one or two questions," she says. But when Ms. Benge tried again, there were still three.

HEARD ON THE STREET

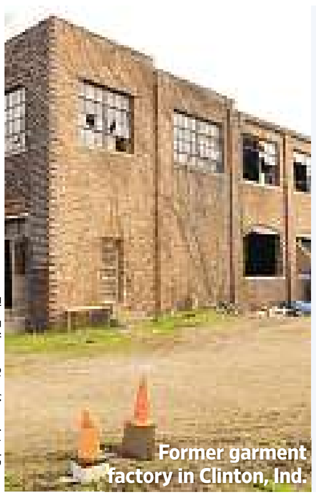
Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Dark Side of Fat Margins

It is natural to worry about what might happen if companies' extraordinarily high profit margins slip. The more troubling thought may be what happens if they don't.

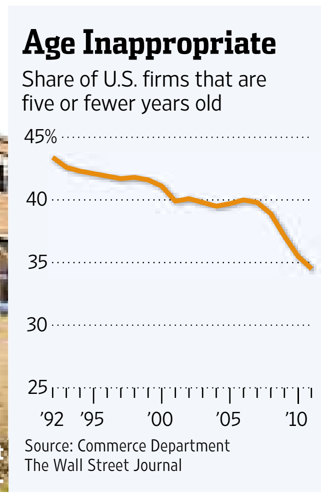
Never before have American companies seen so much of their sales drift down to the bottom line. In 12 months that ended in the second quarter, U.S. after-tax corporate profits as a share of gross domestic product, a measure of profit margins across the entire economy, came to 10.9%, according to the Commerce Department. That was the highest level according to records going back to 1929. Nor are there signs of erosion: S&P Dow Jones Indices estimates profits at companies in the S&P 500 as a share of sales hit a high in the third quarter.

It isn't hard to find reasons why margins are so high. The share of sales going toward workers' wages and benefits has declined precipitously. Companies have kept a tight lid on capital spending. Effective corporate tax rates have fallen. Interest rates are sharply lower. Although such factors help explain why the environment has been so good, they leave unanswered an important question: Why aren't historically wide profit margins getting competed away? One reason may be that there isn't a lot of up-and-coming competition.



The Tribune-Star/Associated Press

Former garment factory in Clinton, Ind.



Source: Commerce Department
The Wall Street Journal

Before the financial crisis in 2008, the environment for young firms appeared far less dynamic than in the 1990s. Back then, a hot market for initial public offerings created an easy environment for finding funding and a strong economy made it relatively easy to stay in business.

Since the recession, things have been moribund. In 2011—the last year for which there is data available—35% of firms operating in the U.S. were five years old or less, according to the Commerce Department. That compared with 40% in 2007.

Meanwhile, despite the well-publicized successes of a number of Silicon Valley companies, start-up activity remains muted. The Labor Department's establishment birthrate, a proxy for the pace of new-business formation, last year matched the record low it plumbed in 2009.

To some extent, the dearth of young businesses reflects an environment in which keeping your day job seems wiser than starting something new. But in a lending environment in which funding for newer, smaller businesses is constrained, many would-be entrepreneurs are willing but unable. Facing fewer newcomers, established businesses have one less reason to spend more on wages and equipment. This is great for profits but not the long-term health of the economy.

"One of the things we count on is this dynamism and competition we get from entering and expanding firms," points out University of Maryland economist John Haltiwanger. New businesses have historically been the most important source of jobs, as well as a key driver of innovation. The fewer there are, the worse off the economy will be.

Fat profit margins are nice, for now. But a world where companies don't have to worry about their profits getting competed away is also one where investors can't expect to fare well.

—Justin Lahart

OVERHEARD

Things really are upside-down in Australia. The government is bailing out the central bank rather than the other way around.

Australia's Treasury is injecting 8.8 billion Australian dollars (US$8.5 billion) into the central bank, at the cost of doubling the budget deficit. The cash will shore up the bank's capital reserves, which have dropped to 3.8% of assets this year from 11% in 2008. Capital levels have been eroded in part by low yields on U.S. bonds and a weak U.S. dollar. In theory, a central bank can just print more money, but that may stoke inflation and distort the financial system. Fresh capital from the government doesn't increase money supply and makes it easier for the bank to execute monetary policy or intervene in currency markets.

In Washington, it has worked the other way. As the Fed's balance sheet has swelled with purchases of U.S. debt, so has the amount of interest it earns. The Fed remits most of that—$89 billion in 2012—back to the government. That is a hefty sum no matter which side of the globe you are on.

Peugeot's Alliance With GM Sputters

Just as **PSA Peugeot Citroën** is courting in China, it is facing a rift in its own backyard.

The French auto maker, which reported a 3.7% decline in third-quarter sales Wednesday, refused to discuss the possibility of its Chinese joint-venture partner **Dongfeng Motor** taking part in a capital increase.

Instead, it turned attention to its partnership with **General Motors** in Europe, warning that the alliance might generate cost savings below its original $1 billion-a-year target. While that is a blow, Peugeot's recovery is still more dependent on cost-cutting in France and growing its market share in Europe. Both look challenging.

GM, which owns perennially money-losing Opel, and Peugeot were never a perfect match. Both had struggled to shut plants alone, let alone coordinate politically sensitive closures. Besides, few of the cost savings were ever likely near term: It takes years to set up common manufacturing platforms, the first of which will only start producing cars in 2016.

Now Peugeot says a project to develop a new platform for subcompact vehicles is under review. That could wipe around $300 million a year off Peugeot's share of the savings, estimates Florent Couvreur at CM CIC Securities.

But the bigger concern is still France, which accounts for 40% of Peugeot's global production.

The company is moving in the right direction, closing a plant and cutting 8,000 jobs. But a target to have its French plants running at full capacity in 2016 looks ambitious: They operated at a utilization rate of just 64% in the third quarter. Peugeot has pledged not to close additional plants in France for three years in return for workers accepting no companywide wage increases next year.

As such, investors need to be confident that European demand for new cars, which has fallen by a fifth from 2007's peak, will soon pick up. But volumes might recover just 2% next year, forecasts IHS Automotive. And Peugeot still is losing market share to both low-cost and premium brands in Europe. Add in the threat of a discounted rights issue should a deal with Dongfeng materialize and it would take a bold investor to back Peugeot out of the garage now.

—Renée Shultes

ECB Bank Tests Still a Bit Fluid

The **European Central Bank** is making a reasonable stab at nailing Jell-O to the wall.

That is essentially the task it has set itself in carrying out a yearlong health check of the euro zone's leading 130 banks.

The central bank's guidelines for the review, outlined on Wednesday, appear—as intended—comprehensive, taking into account banks' funding, asset quality and ability to withstand shocks. But the project's credibility and its ability to reassure investors still rely on several important moving parts.

Even the rules the ECB will use to judge banks' health are in transition. The central bank has set a threshold that banks should have core equity equivalent to 8% of their risk-weighted assets. But it will define capital according to the standards in place at the start of 2014; those rules are set to get more stringent for banks as Basel III regulations are fully introduced over the coming years. The ECB's decision to use more-lenient capital definitions and avoid a full check on the internal models banks use to calculate their risk-weighted assets, is a disappointment.

Another critical issue outstanding is who will plug any capital gaps the ECB's review finds. Without processes in place to fill shortfalls, regulators may feel less able to make stringent calls for individual banks to raise extra funds. But European leaders remain divided on the extent to which the private sector, in particular bondholders, should be called upon to provide capital to struggling, but solvent, banks before national governments stump up cash.

The stakes for the review remain high. For the ECB, this is a critical test of credibility as it prepares to become the euro zone's top banking regulator next November.

For investors, the review could enhance the transparency and comparability of Europe's banks. A sense that Europe's regulators are coming to grips with European banks' problems has helped their shares rise 18% collectively year-to-date; if banks become less risky, they may become more valuable, even if making strong returns on equity remains tricky. But the sector slipped back 2% on Wednesday after the ECB's announcement. It may be dawning on investors that fixing Europe's banks will still be a long haul.

—Andrew Peaple

Glaxo Must Show It Isn't Winded

Now that is a nasty Chinese take-away. Cost cutting helped GlaxoSmithKline shore up earnings in the third quarter, even as the U.K. pharmaceutical company's woes in China took their toll: Sales of drugs and vaccines fell by 61% in the country, where Glaxo has found itself at the center of a corruption probe. Glaxo shares have lagged behind the sector since the allegations emerged in July. Closer to home, however, the company faces uncertainty in its prized respiratory business.

Concerns about the future of pharmaceuticals in China are bound to persist, for Glaxo and the rest of the sector. True, China accounts for only 3% to 5% of most European drug companies' sales. But growth is moderating. **Novartis** said Tuesday that China's pharmaceutical market grew 8% in August, down from double-digit growth in recent years. Beyond the latest scandal, China is also trying to lower drug prices: **Credit Suisse** found the average price of six cancer drugs was 45% lower in the U.K. than in mainland China.

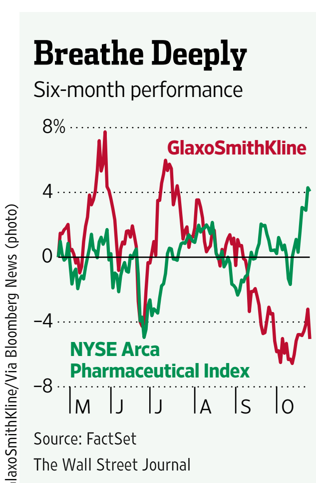
But the bigger question for investors is how successful Glaxo will be in defending its position in respiratory medicine, which accounts for a third of sales. Draft guidelines from the U.S. drug regulator last month lowered the clinical hurdle for respiratory generics. That increases the chance Glaxo's biggest drug, Advair, will face multiple copycat competitors in 2016, argues Bernstein.

Those generics also could muddy the launch of Glaxo's new respiratory products: Breo, a once-daily treatment for conditions such as emphysema and chronic bronchitis, was approved in May; Anoro, a more innovative bronchial dilator, should get the nod before the year-end. They will be entering an already competitive market. Glaxo's U.S. respiratory sales fell 3% in the third quarter as pricing pressure increased.

The bigger question for investors is how successful Glaxo will be in defending its position in respiratory medicine.

China notwithstanding, Glaxo has fared well this year. It alone in the sector can boast four new drug approvals. And at about 13 times forward earnings, it trades at a slight discount to peers. But investors should look for signs of success from Glaxo's next respiratory generation before they breathe easy.

—Helen Thomas



Source: FactSet
The Wall Street Journal

GlaxoSmithKline/Via Bloomberg News (photo)

GlaxoSmithKline's Advair asthma drug inhaler