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The Many Ways Iran Defies the Nuclear Deal

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What's News

Business & Finance

Airbus slashed output of the A380 in a retreat from one of its most ambitious projects, as the super-jumbo jet never generated the sales to justify its costs. **A1**

◆ **Dalian Wanda's AMC** Entertainment plans to buy Europe's largest cinema chain for £500 million, the first major deal to take advantage of the weakening pound. **B1**
◆ **Currency bets** suggest that investors expect further declines in sterling. **B5**

◆ **The Dow and S&P 500** closed at records as a U.S. stock rally gained steam. **B6**

◆ **Firms will be able** to register in August for a new data-transfer framework that will make it easier to move personal information from Europe to the U.S. **B1**

◆ **Musk has no plans** to disable Tesla's Autopilot function in the wake of a May crash of an electric car using the technology. **B1**

◆ **J.P. Morgan plans** to boost pay for 18,000 of its lower-tier employees. **B1**

◆ **An ex-Barclays director** pleaded guilty to passing insider-trading tips to his plumber in exchange for bathroom renovations. **B5**

◆ **Even as Nintendo shares** continue to soar, questions linger about how much revenue from a new smartphone game will contribute to the firm's profits. **B1**

World-Wide

◆ **A Hague tribunal ruled** that China's claims to historic and economic rights in most of the South China Sea have no legal basis. **A1**

◆ **EU governments** are preparing for tough talks with incoming British leader May over terms of the U.K.'s departure from the bloc. **A1**

◆ **The opposition Labour Party** said leader Corbyn will automatically be on the ballot for the coming leadership election. **A3**

◆ **The Bank of England** is expected to cut its benchmark interest rate to a new low on Thursday. **A3**

◆ **At least 25 were killed** and about 50 injured in a train collision in Italy. **A5**

◆ **Obama called** for unity out of a tragedy that has shaken the U.S. while speaking at a memorial for the police officers slain in last week's Dallas rampage. **A7**

◆ **Sanders endorsed** former rival Clinton, closing the book on a divisive Democratic primary season. **A7**

◆ **Venezuela's Maduro** put the armed forces in charge of a new food-supply system aimed at easing crippling shortages. **A4**

◆ **Germans' perceived** insecurity has hit a high, with concerns about terrorism taking center stage, according to a survey. **A5**

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After Long Holdout, Sanders Joins Clinton's Side



UNITED: Bernie Sanders endorsed his former rival Hillary Clinton for president on Tuesday in New Hampshire. The move began the process of consolidating the Democratic Party around Mrs. Clinton's campaign against Donald Trump and healing intraparty rifts. **A7**

EU Awaits 'Tough' Partner

Crucial to Brexit talks will be rapport May builds with French, German counterparts

European Union governments are preparing for tough talks with incoming British Prime Minister Theresa May over the terms of the U.K.'s departure from the bloc.

During her six-year term as U.K. home secretary, Ms. May built a reputation as a steely negotiator in her regular meetings in Brussels, particularly on migration and security issues.

Diplomats who witnessed her interactions with EU interior ministers describe her as "very tough and to the point,"

particularly on issues affecting her own country, a senior EU diplomat said. "She was always able to get out of the EU what's most useful for the U.K.," said one of the diplomats.

"May is a driven politician with a lot of policy knowledge. As interior minister she joined us in pushing the cart of European coop-

eration," Belgian Interior Minister Jan Jambon wrote on his Twitter account late Monday.

Crucial to Ms. May's negotiations with the EU will be her relationships with the leaders of Germany and France, which both face elections next year and may be reluctant to give

Please see MAY page A3

◆ **U.K. rate cut expected** in wake of Brexit vote..... **A3**

Answers Sought in Italian Crash



RAIL TRAGEDY: At least 25 people died and about 50 were injured in a head-on collision between two trains in the southern region of Puglia on Tuesday. Firefighters, above, searched among debris. **A5**

Airbus Cuts Production Of Costly Superjumbo

BY ROBERT WALL
AND JON OSTROWER

FARNBOROUGH, England—Airbus Group SE slashed production of its A380 super-jumbo jet in a retreat from one of its most ambitious projects—but one that triggered its biggest corporate crisis a decade ago, and since then never generated enough sales to justify its huge costs. Airbus said Tuesday it would build just 12 A380 planes a year starting in 2018. *Please see AIRBUS page A2*

Dow Closes At New Record

The Dow Jones Industrial Average topped its May 2015 record close as stocks continued their ascent. **B6**

A Speccie Is a Blinder Down Under, Just Don't Be a Drop Kick

Australian Rules football lingo doesn't always translate; specky, speccy, speckie?

BY RHIANNON HOYLE

ADELAIDE, Australia—A lot gets lost in translation when it comes to Australian Rules football.

The roles of a team's 18 players are largely indecipherable to an onlooker from about any other country. Created by cricketers in the 1850s to keep fit off season, it is played on a grass oval up to 200 yards long with an ovoid ball that bounces unpredictably as players try to get it to goal posts. Each year, rules are amended or added.

Then there are the clangers and blinders and daisy-cutters, not to mention bananas, spec-

cies and step ladders.

It's those terms, beloved in Aussie football, that challenge David Caldwell, a 36-year-old lecturer in English language at the University of South Australia. He is compiling a dictionary to make Australian Rules comprehensible to the Chinese, as team and league officials try to pitch the game to the Middle Kingdom.

A clanger is a bad mistake. A great performance is a blinder. A ball kicked barely above ground is a daisy-cutter, while a ball on a curved trajectory is a banana.

If a player catches a high ball spectacularly, that's a speccie. A player over whom a

Please see LINGO page A6

WEB FREEDOM'S ROLE IN SEX TRAFFICKING

Backpage.com, bolstered by U.S. law, deflects challenges to its escort ads

BY JOHN D. MCKINNON

Authorities in Stillwater, Minn., have rescued five sex-trafficking victims aged 13 through 17 in recent months by combing through classified ads for "escorts" on Backpage.com.

Clues in photos accompanying ads were sometimes obvious, officials said: teddy bears, toys, stuffed animals. With more than 20,000 escort ads appearing on Backpage this year for the Minneapolis-St. Paul area alone, officials figure they miss many trafficked children. "We're just culling the herd, taking the easy ones," said Peter Orput, the Washington County Attorney, who calls Backpage a "dystopian hell."

Mr. Orput may owe his heartbreaking work in part to federal law and Silicon Valley. Over the roughly six years since Backpage became notorious for escort ads that often appear to be thinly veiled prostitution solicitations, the site has deflected multiple legal and political attacks, shielded by the First Amendment and a 20-year-old U.S. law designed to foster the internet back in its infancy.

Backpage has also found allies among major internet associations and tech companies that worry legal and legislative challenges to the site could breach their own protections.

"These are really important battles to pre-

Please see ADS page A6

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WORLD NEWS

Beijing Digs In Heels Over South China Sea



CHINA'S WORLD
ANDREW BROWNE

SHANGHAI—This was the humiliating result that China feared most: A small country, the Philippines, took on and comprehensively defeated the aspiring regional hegemon in an international court of law. Beijing can't back down.

After an unambiguous and unanimous legal verdict that strikes down Beijing's historic claims to the South China Sea, rebukes it for turning coral reefs into island fortresses through massive dredging and sides with bullied Philippine fishermen, the Chinese government's legitimacy is on the line.

China's response will be guided by the reactions of a nationalistic public and a conviction that the judges in The Hague who delivered their stinging judgment were pawns in a U.S. conspiracy to contain China's rise. China will now turn its wrath on America. Before the verdict, the China Daily denounced the case as a "farce directed by Washington." On Tuesday,

Xinhua News Agency used similar language, calling it a "farce directed with meticulous care by outside forces."

At a time of rapidly rising tensions, the immediate danger is that miscalculations or accidents could draw China and America into conflict.

Ahead of the decision as China's denunciations of The Hague tribunal reached a crescendo, China held live-fire drills off the Paracels, a group of South China Sea islands it controls. China is "not afraid of trouble," President Xi Jinping asserted. Earlier, America sent an aircraft-carrier battle group into the region.

On a map, the "nine-dash line" that the tribunal has invalidated looks like a cow's tongue hanging from China's southern coast and encompassing almost the entire South China Sea. In the eyes of the Chinese public, it is a proud marker of their country's spreading power and prestige. It is stamped into every new Chinese passport. Likewise, the artificial islands have become emblems of China's resurgence.

For a country that regularly invokes the sanctity of international law, citing its own victimization in the era of arrogant imperialism, the outcome is a moral challenge, as well as a legal one. Two years ago, Foreign Minister Wang Yi urged a United Nations gathering to "reject the law of the jungle where the strong do what they



A Chinese vessel using a water cannon on a Vietnamese ship near the Paracel Islands in 2014.

want and the weak suffer what they must."

If China follows the ruling with further attempts to alter regional geography by dredging additional islands, or grabbing more bits of disputed territory, or trying to assert control of the skies over the South China Sea—all possibilities—it will be seen by much of the world as an outlaw on the wrong side of justice.

Behind the turbulence in the South China Sea are two clashing Chinese priorities: its desire for a peaceful rise as a great nation, and a growing determination to recover every scrap of what it

deems to be lost territory and control its "near seas," which means pushing the U.S. military away.

Reflecting this stark contradiction, China's approach to its Asian neighbors has veered between charm and belligerence.

Southeast Asian officials still smart at the comments and body language of former Chinese Foreign Minister Yang Jiechi, who at a meeting of regional leaders in Hanoi in 2010 drilled the Singapore representative with a stare, wagged his forefinger and declared: "China is a big country and other countries are small countries, and that's just a fact."

painted themselves into a corner. They've linked their vision of restoring China's ancient position of pre-eminence in East Asia to the recovery of land, be it specks of coral in the South China Sea, rocky outcrops in the East China Sea disputed with Japan, or Taiwan, by far the most important estranged portion of the Motherland. This is the emotional heart of President Xi's "China Dream."

China's actions in pursuit of this formula for national greatness have stirred anxieties, fueled an arms race and spawned coalitions of smaller powers to counter Chinese territorial ambitions.

The dredged islands have only limited military utility. In the event of conflict a fusillade of missiles could return them to the sea bed instantly. (A supertypoon might have a similar effect.)

Crucially, however, they are costly tokens of China's commitment to challenge American primacy in Asia.

This is a moment of reckoning for Beijing. Ultimately, it must decide between tranquility in its neighborhood and nationalist ambition. Its increasingly assertive position that its rise can only come at the territorial expense of its neighbors has met a legal barrier.

Beijing can have regional stability or revanchist dreams; it can't have both.

RULING

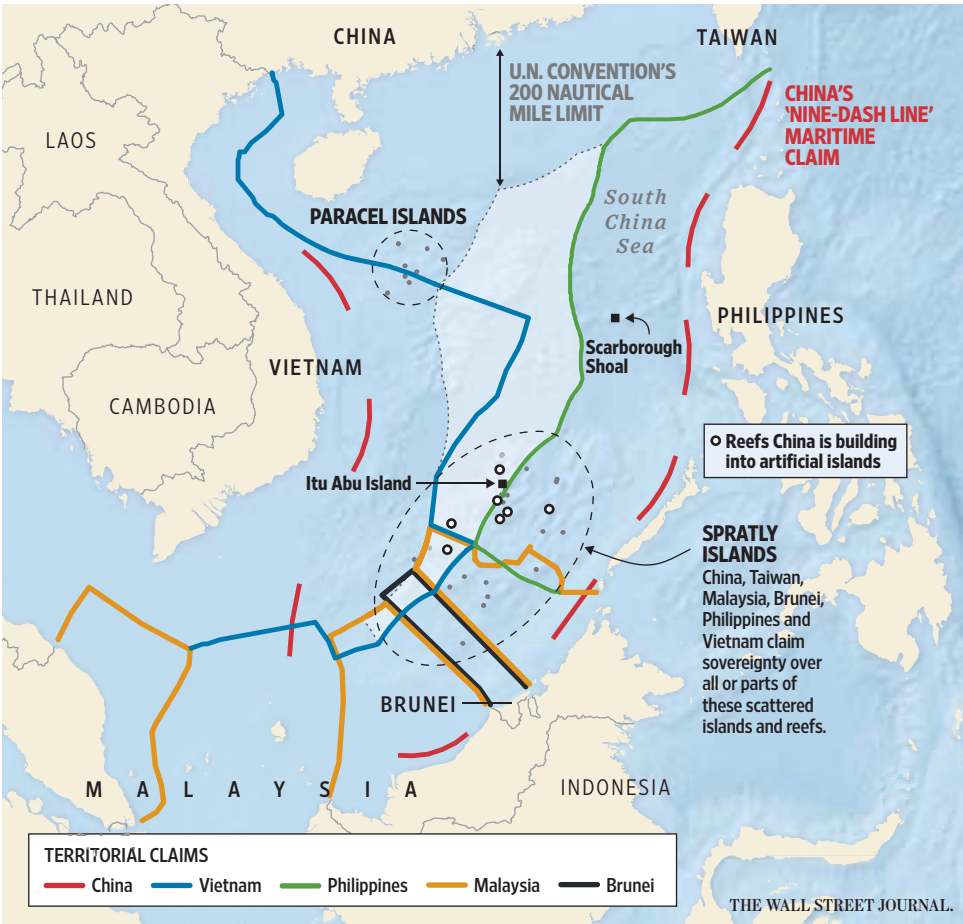
Continued from Page One
lated the Philippines' sovereignty in building artificial islands. It also took Beijing to task for failing to stop Chinese fishermen from harvesting endangered sea turtles and coral and impeding Philippine fishing and oil exploration.

"This deals a direct blow to China's most fundamental claim in the South China Sea," said Shi Yinhong, professor of international relations at Renmin University in Beijing, of the tribunal's decision on Beijing's nine-dash line. "The tribunal ruling appears to be overwhelmingly in favor of the Philippines's claims, even more so than expected."

The ruling, based on a United Nations convention on maritime law, comes after several years of escalating tension in the region as China has alarmed the U.S. and its allies by using its rapidly expanding naval and air power to assert territorial claims and challenge U.S. military supremacy in Asia.

The Philippines case is seen as a test of China's commitment to a rules-based international order which the U.S. and its allies say has been undermined by Beijing's recent military activities, including construction of seven fortified artificial islands in the South China Sea.

U.S. officials have warned that China could respond to the ruling by starting land reclamation at another disputed reef near the Philippines, or declaring an air defense identification zone over the South China Sea. China hasn't announced such plans, but says it has the right to do both.



nounced such plans, but says it has the right to do both.

The unanimous ruling by the tribunal's five judges is legally binding for China and the Philippines but can only be enforced through international pressure.

Shortly after the ruling, China's Foreign Ministry said China neither accepts nor recognizes it, declaring it "null and void" and without "binding force." It said China would continue to abide by international law and "basic norms" governing international relations. China's Defense Ministry

said the decision wouldn't affect its approach in the South China Sea and that it would "unswervingly protect the nation's sovereignty, security and maritime rights."

The U.S. State Department urged China, the Philippines and other claimants "to avoid provocative statements or actions." In a statement, spokesman John Kirby said the decision provides "a new opportunity to renew efforts to address maritime disputes peacefully."

The Philippines welcomed the ruling. Foreign Secretary

Perfecto Yasay called it a milestone in efforts to address regional disputes and called on "those concerned to exercise restraint and sobriety."

On Chinese social-media platforms, users expressed defiance. "On territorial issues there's no room for debate. In my view, territory to a country is like life to humanity," wrote one user.

The U.S. and its allies, including all of the Group of Seven large industrialized democracies and the 28 members of the European Union,

Will | Timeline of island dispute

APRIL 2012

◆ An old dispute over Scarborough Shoal off the Philippine coast flares up when the Philippine navy attempts to arrest Chinese fishermen. After a monthlong standoff, Philippine vessels withdraw, leaving Chinese law-enforcement ships in control.

JANUARY 2013

◆ Claiming to have exhausted all other avenues, Philippine Foreign Secretary Albert del Rosario says his government will file a case against China at a United Nations tribunal. China says it will ignore the proceedings.

FEBRUARY 2014

◆ The Chinese navy begins demonstrating its capabilities, in one case sending a task force through the South China Sea.

APRIL

◆ Nearly two decades after U.S. forces quit their bases in the Philippines, the two countries

agree on a return. China says the deal could increase tensions.

JUNE

◆ U.S. and Philippine surveillance discovers China is building islands at seven locations in disputed waters.

OCTOBER 2015

◆ The U.S. sends the USS Lassen close to one of China's artificial islets to assert that Washington doesn't recognize the surrounding waters as Chinese territory.

NOVEMBER

◆ A string of regional gatherings descend into acrimony over the South China Sea.

JULY 2016

◆ A tribunal in The Hague issues its ruling in the case brought in 2013, declaring the 'nine-dash line' by which Beijing delineates its South China Sea claims has no legal basis.

—WSJ research

AIRBUS

Continued from Page One
down from the 27 it built last year. The company also indicated the program might soon plunge back into the red, after breaking even only last year. Airbus finally eked out a profit on the planes—launched in 2000—after slashing costs amid dwindling orders.

The company, based in Toulouse, France, said it expected to earn money on the planes this year and again in 2017. It plans to trim production this year and build 20 aircraft next year. Beyond that, it said, it will target "additional cost-reduction initiatives to lower break-even further." The double deckers cost \$432.6 million each, though customers don't pay list price.

Airbus launched the A380 to take on rival Boeing Co., which had long dominated the market for big planes, including the hump-backed 747. But building the A380 proved

technically difficult and costly. The program ran years late and billions of dollars over budget.

Airbus struggled to tailor the highly bespoke versions that its customers ordered. It was thrown into turmoil when wiring problems surfaced after the first jetliner went into service. As customers were left waiting for planes, penalty payments mounted. Top company officials lost their job amid the crisis.

The aircraft maker has long insisted that despite the jet's troubled birth, demand for the plane would grow as airports became more crowded and cities around the world became more populated. Airlines would increasingly turn to bigger planes such as the A380, which seats 544 people on average, to ferry more people more efficiently, the rationale went. Instead, carriers held off on embracing the jet, worried about how to fill so many seats on a single route.

As Airbus struggled with

the A380, a new generation of fuel-efficient, twin-engine long-haul planes gained favor. Boeing and Airbus tilted to selling and building these much less expensive, but more flexible, jets. That shift stole orders for their biggest planes, the A380 and Boeing's later iterations of the 747.

Airbus isn't giving up on the jet. It is scaling down near-term production targets to meet current demand, but it is "keeping all options open to benefit [from] future A380 markets," said Airbus jetliner boss Fabrice Brégier.

The company said it had orders for 126 A380s outstanding. Most of those are for Emirates Airline, the Dubai-based carrier and the plane's largest customer. Airbus's top salesman, John Leahy, said Tuesday he was in talks to find new buyers for the plane, with at least one deal targeted for this year.

The pullback comes after a particularly rough patch for A380 orders. Airbus earlier this year said French carrier

Air Austral had canceled an order for two of the planes. Air France-KLM SA this year also said it had dropped plans to take the last two A380s it had ordered. Malaysia Airlines, which owns six of the planes, plans to stop using

CORRECTIONS & AMPLIFICATIONS

Delta Air Lines Inc. began offering premium seats in its main airplane cabins for a fee after the United Airlines predecessor to United Continental Holdings Inc. began that practice but before a similar offering from American Airlines Group Inc. A Business & Tech article Monday about chief information officers incorrectly said Delta's offering came after those from both United Continental and American Airlines. Also, Target Corp.'s senior team decided at a meeting in December how to allocate

them in about two years. And Qantas Airways Ltd., which flies the plane, has said it doesn't want any more.

A rare bright spot came late last year when Japan's All Nippon Airways Co. bought three of the planes.

money and staffing on projects including technology, supply chain systems, customer loyalty programs, new stores and store revamps. The article incorrectly said the decision was made at a June meeting and failed to list new stores and revamps as a part of the plan.

A photo with a Review article Monday about camping showed a lakeside campsite at Superior National Forest in Minnesota. The caption incorrectly said it showed Cypress Lake in Florida.

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

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WORLD NEWS

Embattled Labour Leader Gets a Break

After debate, officials decide to let Corbyn have automatic place on leadership ballot

By JENNY GROSS

LONDON—The governing body of the opposition Labour Party said leader Jeremy Corbyn will automatically be on the ballot paper in the coming leadership elections, a decision on Tuesday that will make it harder for parliamentary colleagues to oust the embattled leader from the top post.

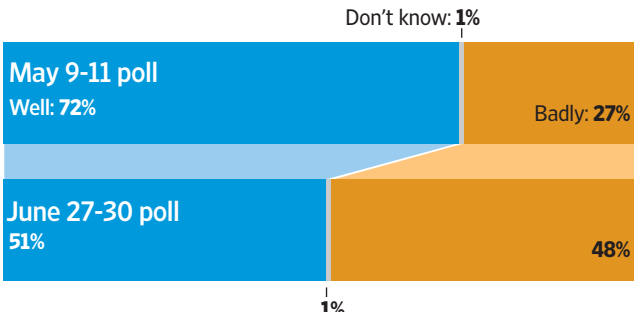
The Labour Party has plunged into a leadership crisis in the wake of Britain's vote to leave the European Union last month. Hit with a firestorm of criticism that he didn't do enough to persuade the party faithful to remain in the EU, Mr. Corbyn has since lost a no-confidence motion by fellow lawmakers and now faces an open challenge from a party rival for his post.

On Monday, Labour lawmaker Angela Eagle received enough nominations from party colleagues in Parliament to take on Mr. Corbyn. That prompted a lengthy Tuesday debate on whether Mr. Corbyn would automatically be a can-

Declining Popularity

Polls show support for leftist Labour leader Jeremy Corbyn among party members has slipped in recent weeks.

Do you think that Jeremy Corbyn is doing well or badly as leader of the Labour party?



Source: YouGov survey of 1,203 Labour Party members; margin of error: +/-3 percentage points

THE WALL STREET JOURNAL.

didate in the party's leadership contest—or would be forced to seek nominations from Labour lawmakers to appear on the ballot.

If Mr. Corbyn had lost the vote to automatically appear on the ballot, the decision could have spelled his ouster: He risked not having enough support in Parliament to get the 51 nominations he would have needed to get his name on the ballot that goes to the party's rank-and-file.

Some Labour lawmakers argue that Mr. Corbyn, a former union organizer and longtime

euroskeptic, has political views that are too leftist to appeal to centrist voters.

Still, Mr. Corbyn continues to have substantial support among the Labour rank and file, though that, too, has declined in recent weeks: A survey taken late last month by poll YouGov PLC showed 51% of Labour Party members thought Mr. Corbyn was doing well as party leader, down from 72% in May.

"Jeremy was overwhelmingly elected by the members of the party, who clearly think differently," said Kevin Slo-



Jeremy Corbyn arrived at a party meeting in London on Tuesday.

combe, a spokesman for Mr. Corbyn.

The Labour Party's crisis has intensified just as the ruling Conservatives unexpectedly resolved their own leadership battle this week: At his last cabinet meeting on Tuesday, departing Prime Minister David Cameron said his successor, Theresa May—who takes office Wednesday—was the "right person to lead the country wisely through the difficult times ahead." He also said he hoped she received the friendship and support that he did when he came to office six

years ago, according to a spokesman.

Ms. May said on Monday that she was "honored and humbled" to be chosen as the country's leader.

Currently the U.K.'s home secretary, Ms May comes to the helm at a historic moment in the U.K. The June 23 vote to leave the EU prompted Mr. Cameron, who unsuccessfully campaigned for the U.K. to stay in the bloc, to announce his resignation.

Ms. May was the last candidate standing after her Conservative rivals dropped away

through political conflicts and a series of votes by Tory lawmakers. Her final opponent, Andrea Leadsom, stepped aside Monday after making widely criticized remarks about how Ms. May doesn't have children.

Ms. May will have to navigate the U.K.'s separation from the bloc, a thorny process that may take years. At home, she also faces a challenge in uniting a divided country and party after a bitter referendum campaign, in which senior Conservative figures were deeply split about whether the U.K. should stay in the bloc or leave.

One of Ms. May's first actions as prime minister will be to choose a new cabinet, which will likely include key figures on both sides of the EU referendum debate. One major unknown is whether George Osborne, Britain's treasury chief, will be able to hold on to his post.

Mr. Osborne, a close ally of Mr. Cameron, campaigned fiercely to keep the U.K. in the EU, issuing serious warnings about the economic consequences of a vote to leave. His comments prompted backlash from pro-Brexit members of his party, who said he was scaremongering and threatening the public.

U.K. Rate Cut Expected in Wake of Brexit Vote

By JASON DOUGLAS

LONDON—The Bank of England is expected on Thursday to cut its benchmark interest rate to a new low, or at the least send a strong signal that a cut is imminent, in a further step aimed at cushioning the U.K. economy after voters' decision to exit the European Union.

But BOE officials and many economists are warning households and businesses not to expect monetary policy to fully offset economic uncertainty following the vote.

Britons voted on June 23 to leave the EU in a referendum that shook financial markets and has triggered weeks of political tumult.

BOE Gov. Mark Carney played a high-profile role after the referendum, taking to the airwaves within hours of the result to announce that the central bank was on hand with at least £250 billion (\$325 billion) in funding for any banks that needed it.

Days later he led officials in loosening bank capital requirements to support lending, before telegraphing that interest-rate cuts and other measures to support the economy are in the pipeline.

"The economic outlook has deteriorated and some monetary-policy easing will likely be required over the summer," he said in a speech on June



The Bank of England's benchmark rate, now at a 322-year low, is expected to be cut even further.

30.

The BOE's multipronged response to the Brexit vote underlines that officials see economic challenges ahead. In testimony to lawmakers on Tuesday, Mr. Carney said some of the risks to financial stability identified before the vote have begun to materialize, citing the tumbling pound and a freeze in real-estate deals.

Central-bank officials warned in May that a vote to leave the EU could cast a pall of uncertainty over the economy, slowing spending and in-

vestment. The U.K. might even enter "a technical recession," Mr. Carney said, meaning at least two consecutive quarters of falling output, while rising import prices from a slide in sterling could fuel inflation.

Central banks including the U.S. Federal Reserve and the European Central Bank have said they are watching closely for any sign that a shock from Brexit is weighing on the global economy.

"One of the uncertainties is how bad it is going to get," said Victoria Clarke, an econo-

mist at Investec PLC.

The BOE's latest move to support growth could come as soon as this week's meeting of the central bank's Monetary Policy Committee, which concludes Thursday, many economists say.

The BOE's benchmark interest rate has been held at a 322-year low of 0.5% since March 2009 and the likely next step will be to reduce it to 0.25%, they forecast.

If officials don't move interest rates this week, economists expect the committee to

signal it is ready to act in August, when officials will be equipped with new data as well as a fresh batch of quarterly forecasts for growth and inflation to underpin their decision.

Dominic Bryant, senior European economist at BNP Paribas SA, said he sees little sense in delay, given the signs that the economy was slowing even before the referendum. "Their view is the economy has just been hit by a shock. They will want to support confidence," he said.

Further policy easing, either through another rate cut or a revival of a bond-buying program on hold since 2012, could follow toward the end of 2016 if the economy slows markedly, economists say.

Yet officials warn monetary policy isn't a cure-all. Particularly, the central bank cannot resolve critical political issues weighing on spending and investment, such as the U.K.'s future access to the EU's vast single market for goods and services.

Mr. Carney said in his post-referendum speech that "one uncomfortable truth is that there are limits to what the Bank of England can do."

"I think that additional monetary easing probably isn't going to give the economy much of a boost," said Peter Dixon, chief U.K. economist at Commerzbank AG.

Pre-Vote Warnings Justified, Bank Says

By JASON DOUGLAS

LONDON—Bank of England officials defended their conduct during the U.K.'s referendum debate, saying their warnings about the potential risks facing the economy are being borne out.

BOE officials, including Gov. Mark Carney, drew strong criticism from advocates of a British exit from the European Union ahead of the vote on membership June 23.

The central bank warned that the referendum represented "the biggest domestic risk" to the stability of the financial system, and said a vote in favor of Brexit could push up inflation and slow the economy.

The bank's warnings were dismissed as scaremongering by Brexit supporters, some of whom accused officials of aligning with the government's official pro-EU position.

Defending the BOE on Tuesday, Mr. Carney said the central bank's warnings were consistent with its duties to preserve the stability of the financial system and maintain stable price growth. He said officials have a legal obligation to detail the risks to the economic outlook and to the achievement of their goals.

"The debate can be whether we made the right assessment," he said. "That is an entirely a legitimate debate. Not whether we should have made that assessment."

British consumer confidence suffered its steepest fall in more than two decades after voters decided to take the U.K. out of the European Union, an ominous sign of a broader economic slowdown.

Donald Kohn, a former vice chairman of the U.S. Federal Reserve who sits on the BOE's Financial Policy Committee, and Richard Sharp, another FPC member drawn from outside the BOE's ranks, said they fully agreed with the BOE's published assessments of the risks to financial stability surrounding Brexit.

"Much of what was anticipated in the model...transpired," Mr. Sharp said, citing falling stock prices and a slide in the pound and a slump in commercial real-estate transactions as evidence of the kind of risks the BOE flagged.

Britain's beleaguered financial assets have had a reprieve this week with confirmation that Theresa May will succeed David Cameron as U.K. prime minister.

The FTSE 250 index hit its highest level since the June 23 referendum on Monday.

MAY

Continued from Page One

too many concessions to Britain for fear this would spur nationalist movements back home.

In Berlin, where Ms. May is known as a persistent and no-nonsense negotiator, she is already being compared with her future counterpart, German Chancellor Angela Merkel. Both are the daughters of Protestant clerics, Ms. May of an Anglican vicar and Ms. Merkel a Lutheran pastor.

"Both are not vain, they don't place their persons center stage but the issue," said Hans-Peter Friedrich, a former German interior minister who met Ms. May in numerous meetings while he held the post from 2011 to 2013 and who described himself as "a big Theresa May fan."

Ms. May "is simply a politician who knows what she wants, who is very consistent in everything she does, and uses clear language," he added.

"She will be a tough negotiating partner for the EU and get the maximum for Great Britain," Mr. Friedrich said. "This is a difficulty for us because we of course must make completely clear that there is a difference between being in the EU and being outside it."

Ms. Merkel doesn't know Ms. May personally, a person close to her said. At a reception for the Berlin diplomatic corps on Monday evening, Ms. Merkel reiterated the red line for any future EU-U.K. relationship—freedom of movement of workers.

"The United Kingdom must quickly clarify how it wants to shape its future relationship with the European Union," Ms. Merkel said. "Whoever wants free access to the European single market must in return accept all of the basic free-

doms, including the free movement of people."

On Tuesday, the German chancellor told reporters in Berlin that it was up to Ms. May's government to decide when to give official notice of its intention to leave the bloc as required under Article 50 of the EU treaties, and start exit negotiations.

"It's certainly important that in this context we will get clarity over which relations Britain wants to build up with the European Union because the negotiations are connected

to this," Ms. Merkel said at a news conference with visiting Irish Prime Minister Enda Kenny.

In Paris, Ms. May has established "excellent cooperation" with France's interior minister, Bernard Cazeneuve, who "has a lot of respect for her," particularly on counterterrorism initiatives that France pushed for at the EU following the terror attacks in 2015, a French diplomat said.

But relations with President François Hollande may prove more testy as the Socialist



Theresa May leaves 10 Downing Street after attending a cabinet meeting on Tuesday.

president seeks to curtail any influence the British decision to leave the EU might have for the French nationalist movement led by Marine Le Pen, who is running for the country's presidency next year.

France is likely to prove particularly tough to negotiate with on issues relating to the British banking sector's access to the eurozone. "Europeans are all united in that we will defend our own interests in the coming negotiations," a senior French official said.

Ms. May has said she intends to take her time before starting the two-year period of negotiations over the terms of the U.K.'s divorce from the EU.

A spokesman for the European Commission, the bloc's executive arm, on Tuesday repeated the "wish for the notification to happen as soon as possible." Diplomats expect Ms. May to visit European capitals, including Brussels, before deciding when to trigger Article 50.

Asked how the commission president will interact with Ms. May, who last week was called a "bloody difficult woman" by her fellow Conservative lawmaker, Kenneth Clarke, the spokesman said, "I'm sure that Jean-Claude Juncker can cope."

—Laurence Norman in Brussels and Andrea Thomas in Berlin contributed to this article.

KRISTY WIGGLESWORTH/ASSOCIATED PRESS

WORLD NEWS

Venezuela Army Takes Over Food Supply

Amid shortages and food riots, president gives armed forces full control of distribution

By ANATOLY KURMANAEV

CARACAS—Venezuela’s President Nicolás Maduro put the armed forces in charge of a new food supply system aimed at alleviating crippling shortages, ceding yet more power to a military apparatus that is already involved in everything from banking to imports.

The head of the armed forces, Defense Minister Gen. Vladimir Padrino, will be in charge of transporting and distributing basic products, controlling prices and stimulating production, according to a decree published Tuesday in the official gazette.

“All the ministries, all the ministers, all the state institutions are at the service and in absolute subordination” to Gen. Padrino’s so-called Great Sovereign Supply Mission, Mr. Maduro said in a televised address Monday night.

The elevation of Gen. Padrino makes him among the most powerful people in the socialist government, reducing the influence of Vice President Aristóbulo Istúriz, Industry Minister Miguel Pérez Abad and other ministers who held various economic roles.

“This is now a completely militarized government,” said Luis Manuel Esculpi, a security



MIGUEL GUTIERREZ/ZUMA PRESS

Defense Minister Gen. Vladimir Padrino has been put wholly in charge of what Mr. Maduro calls the Great Sovereign Supply Mission.

analyst in Caracas and former head of the armed forces commission in the congress. “The army is Maduro’s only source of authority.”

Since coming to power three years ago, Mr. Maduro has relied increasingly on the armed forces as a spiraling economic crisis pushed his approval ratings to record lows and food shortages led to looting.

Generals already run state companies importing the bulk of Venezuela’s food, as well as the country’s largest bank, a television station and a state mining company.

The armed forces swiftly repress all opposition rallies and the food riots that flare up daily across the country.

“Maduro is giving the keys to Miraflores [presidential palace]

over to a military leader who is unable to confront the economic crisis,” said opposition deputy Julio Borges. “What this means is more roadblocks, more corruption and less production.”

A former high-ranking general said the new measures would end up discrediting the armed forces, “because now they’ll be responsible for sustaining a model that has no viability.”

He said the move would also open more doors for corruption in a country the watchdog group Transparency International considers among the world’s more corrupt.

As Mr. Maduro has provided greater economic powers for the military, he has suppressed the private sector, economists say.

On Monday, he ordered the takeover of the local Kimberly-Clark Corp. plant, after the maker of toilet paper and diapers said it had to halt production because of raw-material shortages.

The collapse of oil revenues has slashed Venezuela’s imports an unprecedented 70% this year from their 2012 high, leaving companies unable to source inputs under stringent currency controls, according to Caracas-based consulting firm Sintesis Financiera. It estimates the economy will contract by over 10% this year as a result.

“If all the factories now have to run everything by the military, this isn’t going to make raw materials appear all of the sudden,” said Juan Pablo Olalquiaga, president of Venezuela’s industrial chamber, Conindustria. “The president is showing he does not understand how to manage the economy.”

While the armed forces have expanded their political power, they are unlikely to seek to completely replace the civil government because of the international sanctions that would ensue, said Kirk Hawkins, professor of Latin American studies at Brigham Young University in Provo, Utah.

“They have a very convenient relationship right now,” he said. “It’s not in their economic interests to be called a military dictatorship.”

—Mayela Armas and Juan Forero contributed to this article.

Iranian Speedboats Veer Close to U.S. War Vessel

By GORDON LUBOLD

ABOARD THE USS NEW ORLEANS—Boats from Iran’s Islamic Revolutionary Guard Corps maneuvered dangerously close to a U.S. military vessel in the Strait of Hormuz on Monday, part of a pattern that the top American general in the region—who was on the ship at the time—said risked grave miscalculation.

“What concerns me is our people don’t always have a lot of time to deal with those interactions,” said Gen. Joe Votel, head of U.S. Central Command, as he stood later on the amphibious ship’s bridge. “It’s measured in minutes to really have the opportunity to

make the right decision.”

The five Iranian boats included four small patrol craft and a larger boat called a Hou-dong fast-attack craft. At least one of the patrol boats was equipped with a .50 caliber machine gun and what is known as a multiple rail rocket launcher. They came within several hundred yards of the American ship.

The series of encounters on Monday took place as the New Orleans sailed in international waters through the strait. Gen. Votel, on a swing through the Middle East this week, voiced concern about how quickly such an encounter could turn lethal for the ship, which was carrying about 700 Marines.

In the case of Monday’s incident, U.S. officials didn’t consider the Iranian ships to be technically harassing the American warship, but said they came unacceptably close to doing so.

In a report Tuesday in state media, Iranian officials said speedboats operated by the Islamic Revolutionary Guard Corps navy “escorted” the U.S. warships through the strait, defending the incident as longstanding practice. The news account, on the website of the semi-official FARS news agency, warned that the small but heavily armed boats could destroy the American vessels.

“Monitoring foreign vessels in regions where the IRGC



U.S. NAVY

An Iranian boat involved in Monday’s interaction with the USS New Orleans in the Strait of Hormuz.

Navy conducts its missions is not a new thing and it is always done on a routine basis and round the clock,” Gen. Ali-reza Tangsiri, the lieutenant commander of the IRGC navy, said in the report. He emphasized that the IRGC Navy is assigned to monitor foreign vessels, especially those operated by “the enemies of the Islamic Revolution and the Great Satan, the U.S.”

U.S. Navy ships reported some 300 incidents with Iranian vessels in 2015, according to the Fifth Fleet. Most such “interactions,” as the Navy calls them, don’t rise to the level of harassment, Navy officials said.

Egypt’s Women Test Boundaries

‘Confessions of a Married Woman,’ an invitation-only online forum, offers an outlet

By DAHLIA KHOLIAIF

CAIRO—A rapidly growing private Facebook forum in Egypt with over 45,000 members allows women in one of the Arab world’s most restrictive societies to open up about topics that remain taboo.

The invitation-only group, “Confessions of a Married Woman,” provides an outlet to ask sensitive questions about sex and vent about the everyday challenges Egyptian women face.

The group’s popularity is a sign that some women want greater freedom and, at least in private, buck conventional views of their social roles. They are using social media to combat problems such as sexual harassment, which has become more pervasive since the 2011 revolution.

“Women are now more powerful and are not willing to accept traditional ideas,” said Zeinab al-Ashry, the group’s founder.

The forum started two years ago and picked up about 3,000 members in its first year, Ms. Ashry said. It has expanded over the past year as members invited friends to join.

A 2015 report from the World Economic Forum on gender equality ranked Egypt 136th out of 145 countries, below Saudi Arabia, where women aren’t allowed to drive. Women face harassment, violence and divorce laws that force them to either give up financial rights or go through a costly legal process to prove they were subjected to abuse. Families in poor regions commonly marry off

young girls to wealthy men from the Persian Gulf.

Roughly one out of every six Egyptian women was subjected to violence in 2015, according to a recent study by Egypt’s statistical center. Only 75,000 sought action through official institutions, it said.

A social-media campaign, along with global pressure, led to the passage of the country’s first law to criminalize sexual harassment in 2014. Some women use their Facebook pages to post photos of men they accuse of sexually harassing them.

In recent years, Egyptian women have tried to challenge social rules. Many are removing their head scarves. A number have taken jobs that were once exclusive to men, such as cabdrivers, mechanics and pilots.

In the “Confessions” Facebook group, women complain

of nabbing cheating husbands and tell of love triangles or of confronting an overbearing father or husband. Sexual harassment, domestic violence and female genital mutilation are all discussed. The group shields the identities of those who share their stories and it wasn’t possible to verify the content of posts.

One woman posted that she is in love with her abusive husband and sought advice on whether she should stay. Hundreds replied unanimously that she should leave. No one counseled the traditional course of hanging on in the hope he would change.

Some of the topics are lighter, though still too sensitive to be discussed in public. One young woman asked if anyone was aware of foods that could be an aphrodisiac for her man. The replies ran the gamut from arugula to chocolate. Another sugges-

tion was fat-free: “Sexy lingerie has no calories!”

Ms. Ashry said she formed the group to bring together friends who can help each other with questions they are too embarrassed to ask face-to-face.

A member of the Facebook group recounted how she was initially confident in her decision to leave an unhappy marriage. But under pressure from her family—and under the weight of a society that doesn’t look kindly on divorced women—she is wavering. So she posed the question to the group: “Am I being selfish?”

Dozens rushed to support her. “You are far from selfish,” one reply said. “You are strong to stand your ground. It’s so refreshing to hear stories like this because it gives me hope that soon this ignorant mentality will fade away.”



Zeinab al-Ashry founded the online group, which has expanded significantly over the past year.

World Watch

IRAQ Baghdad Struck by Deadly Car Bombing

A suicide car bomb ripped through an outdoor market in a Shiite-dominated northeastern district of Baghdad on Tuesday, killing at least 11 people, officials said, as government forces deployed across much of the capital in preparation for a major military parade later this week.

The developments came on the heels of two large-scale attacks claimed by the Islamic State that killed more than 300 people last week.

The explosives-laden pickup truck exploded during the morning rush hour at a vegetable and fruit market in the al-Rashidiya district, a police officer said.

No group claimed responsibility for the attack, but it bore the hallmarks of Islamic State.

Iraqi government forces were positioned in most of Baghdad on Tuesday, closing off main roads and snarling traffic.

The Interior Ministry spokesman, Brig. Gen. Saad Maan, said the troops were “practicing for a planned military parade for a specific occasion.” He didn’t name the occasion, but the country is due to mark on Thursday the anniversary of its 1958 overthrow of a Hashemite monarchy and the declaration of Iraq as a republic.

—Associated Press

MEXICO Industrial Output Picked Up in May

Mexican industrial production rose in May, registering its first

gain in four months thanks to increases in manufacturing, construction and utilities output.

Industrial output was up 0.3% seasonally adjusted from April, following three consecutive months of declines, the National Statistics Institute said Tuesday.

Compared with May 2015, production rose 0.4%, well below the 1.7% median estimate of 11 economists polled by The Wall Street Journal.

Factory output was 0.3% higher than in April while construction edged up 0.2% and utilities output rose 1.4%. Mining production was down 0.5% on declines in oil and gas output and mining services.

—Anthony Harrup

KUWAIT Country Weighs Privatization Move

Kuwait is considering privatizing its oil-field services sector, a senior finance ministry official said, a potentially controversial move in the petroleum-dependent state.

Fears of industry privatization and pay cuts fueled a three-day strike in April in Kuwait, knocking out nearly half the country’s production of 2.8 million barrels a day and demonstrating that labor unrest can cause output problems even in tightly controlled Middle East nations.

Kuwait’s privatization review comes as Saudi Arabia is preparing to publicly list up to 5% of its state-run oil company.

In Kuwait, the plan under study by the finance ministry and state-run Kuwait Petroleum Corp. would focus on the oil-services sector, said Khalifa Hamada, undersecretary for the finance ministry. Mr. Hamada was speaking at a news conference on a different topic when he was asked about privatization plans. He said the plans aren’t fully formed.

—Summer Said

WORLD NEWS

Italy Train Collision Kills More Than 20

Head-on crash on remote track sparks search for survivors; 'like an airplane disaster'

By MANUELA MESCO

At least 25 people were killed and about 50 injured in a head-on train crash in the southern Italian region of Puglia on Tuesday morning, a spokeswoman for the local public-health system said, and rescuers said they feared the death toll could rise.

Rescuers are still working to remove people from the wreckage.

The accident is the worst involving trains in Italy since a 2009 crash in the Tuscan city of Viareggio that left 32 people dead.

The trains collided in a remote area between Corato and Andria, a firefighters' spokesman said, adding that the number of passengers on the trains isn't yet known. The cause of the accident also remained unclear.

"This is an accident of enormous proportions," said Infrastructure Minister Graziano Delrio, who arrived at the site in the early afternoon.

The trains, both of which were operated by private company **Ferrotramviaria** SpA, crashed in a rural area where they ran on a single track.

Ferrotramviaria's website said its fleet comprises 21 electric trains, most with four cars each. The rail line serves mainly students and work commuters, and is also used by travelers moving to and from the airport in the city of Bari.

Firefighters first reached the remote location by helicopter, as other vehicles struggled to get to the area, the firefighters' spokesman said. Rescue workers were able to save a child who had been trapped in the crash, he added.

Italian news channels showed footage of ambulances driving through olive groves to reach the crash site.

Injured passengers, some heavily bandaged, others wearing neck braces, sat in the shade of the trees waiting to be taken to hospitals while the helicopters hovered overhead.

"The crash has been very violent," Mr. Delrio said. "We'll investigate to understand the causes."

Ferrotramviaria Director-General Massimo Nitti said one of the two trains shouldn't have been there.

"One of the trains has literally entered the other one," he told an Italian TV station. "The train coming from north has been almost completely explored. Now we need to free up the other one....We have to expect to find other people inside."

A train police officer, Giancarlo Conticchio, said, "It's surely been a human error. We must now understand the reasons."

The mayor of Corato, a



Two passenger trains collided in the middle of an olive grove near the city of Bari on Tuesday, killing at least 25 people.

small town near the accident site, said the crash "seemed like an airplane disaster."

Rescuers are still working to remove people from the wreckage, the local public-health spokeswoman said, adding that the death toll was sure to rise. "We'll surely be working all night to check if there are other people," Mr.

Conticchio said.

But the number of injured is expected to stay relatively stable, she added. About seven people are seriously injured, the spokeswoman said.

Giuseppe Corrado, vice president of the provincial authority of Barletta Andria and Trani, said centers are being set up to support families of the victims

or those looking for relatives.

Italian President Sergio Mattarella expressed deep sorrow for the victims. "My first thought goes to the victims and their families."

"We want clarity on what happened," a Twitter post on the account of Prime Minister Matteo Renzi read. He arrived at the site in the early evening.

From 2010 to 2014, 366 people died in train accidents in Italy, according to statistical institute Istat. The railway-safety agency said the country did better than the European average and the U.S. in that period.

Three train collisions occurred in Italy last year, but just one was because of human error, the agency added.

Terrorism Tops List of German Worries in New Survey

By ANDREA THOMAS

BERLIN—Germans' perceived insecurity has reached levels never seen before, with concerns about terrorism and migration taking center stage, according to a survey released on Tuesday.

The spike in angst was unprecedented in the 25 years in which insurance group R+V has polled Germans about their deepest fears, the company said.

A shift of focus away from economic concerns such as inflation and unemployment toward security-related fears was notable, it said.

Perceived insecurity has been an important factor for the surging popularity of populist movements across the West in recent years, some analysts said.

In Germany, support for the Alternative for Germany, a nationalist party created in 2013, stands at between 9% and 12% in opinion polls, even while its leadership has been hamstrung by internal squabbling in recent months.

R+V's "fear barometer," a general gauge of concern, has surged 10 percentage points, to 49%, over one year, the company said. The survey was



German police officers conducted patrols in the old town of Düsseldorf in June.

conducted shortly after the March terror attacks in Brussels that killed 32 people.

"Never before... have fears surged as drastically within one year," said Brigitte Römstedt, head of R+V Insurance In-

focenter, the insurer's research arm.

"2016 is the year of fears," said Manfred Schmidt, professor of political science at Heidelberg University, who was a consultant on the study. "Con-

cern about money, health and environment, which used to be the top issues in previous years, have not disappeared. But they get overshadowed by severe threats such as terror."

The survey of 2,421 Ger-

mans conducted between April 8 and May 13 put fear of terrorism at the top of Germans' concerns for the first time. Some 73% of respondents said they were concerned about an attack, up 21 percentage points from the previous survey.

In another departure, Germans appeared to be increasingly unsettled about their government's ability to perform its duties.

"The vast majority of Germans are concerned about the state's loss of control in the migration crisis," said Mr. Schmidt, adding that this was "a disastrous finding for the political class."

Concern about "political extremism" ranked second with 68%, and was up 19 percentage points from last year. R+V didn't specify how it defined extremism.

Fear of tensions resulting from rising immigration soared 18 points to 67% of respondents, followed by concerns that authorities were being overwhelmed by the tide of refugees.

Unease about the potential costs of the continuing EU debt crisis came next.

The findings come after more than one million mi-

grants arrived in Germany last year alone, with an additional 222,264 coming in the first six months of 2016.

So far, Germany has been spared a major terrorist attack. But the sexual assaults on New Year's Eve in Cologne, where police said at least 2,000 men assaulted more than 1,200 women, have dominated public debate over the past months.

The suspected attackers were mostly foreigners who had arrived in Germany recently, Holger Münch, the head of Germany's Federal Criminal Police Office, said this month. He also said there was a link between the influx of migrants last year and the assaults.

Government officials have said some terrorists used migrant routes last year to come to Europe. Chancellor Angela Merkel's government has tightened migration rules in recent past months after initially adopting an open-door policy.

Alternative for Germany looks likely to win its first seats in the national parliament next year, when Germany holds its elections. It already has seats in eight of Germany's 16 state parliaments.

Ministers Back Ruling On Spain and Portugal

By VIKTORIA DENDRINO

BRUSSELS—European Union finance ministers said Spain and Portugal didn't take enough action to reduce their 2015 budget deficits, setting in motion a process that can lead to financial sanctions and the freezing of EU funds for the two Iberian countries.

But top EU officials have indicated the sanctions are likely to be symbolically set at zero, in a sign that there is little appetite across the bloc to punish the two countries and amid concerns that such a move would be counterproductive at a time of economic uncertainty.

The ministers' decision on Tuesday, reached at their monthly gathering, endorses a ruling made by the European Commission—the EU's executive arm—last week.

Spain and Portugal now have 10 days to appeal the decision, and the commission has 20 days to recommend sanctions.

German Finance Minister Wolfgang Schäuble said there had been attempts by some ministers to overturn the commission assessment given

the anti-EU backlash following the U.K. Brexit vote last month.

"Especially in this situation it is important that we say that the European rules stand," he said.

The commission can impose fines of as much as 0.2% of gross domestic product and must also propose that some of the EU funding committed for the countries for next year is temporarily blocked.

But it can recommend a small fine, or even no fine at all, something EU officials see as the likeliest route.

Portugal's government has said it would fight any sanction that it considers unfair, given the country has sharply lowered its budget deficit over the past five years.

Spanish Finance Minister Luis de Guindos said he expected the sanction to be zero, arguing it would be illogical to punish a country that has followed the policy advice of eurozone authorities in order to shift from a recession to growth.

—*Jeannette Neumann in Madrid and Patricia Kowsmann in Lisbon contributed to this article.*

Eurozone House Prices Show Resilience

By PAUL HANNON

The European Union's statistics agency said house prices in the eurozone were 3% higher in the first quarter than in the year-earlier period, the largest increase since the 2008 first quarter, six months before the financial crisis.

The increase is a fresh sign that the currency area's economy is slowly recovering from the effects of that trauma and the government-debt crisis that followed. Higher home prices are likely to underpin consumer confidence, making homeowners feel wealthier and more willing to spend.

As in other parts of the world, house prices tumbled in the wake of the financial crisis, which was triggered by the collapse of the Lehman Brothers investment bank.

But after a brief rebound they resumed their decline as the eurozone entered its own sovereign-debt crisis, and only began to rise again in the middle of 2014.

The start of that rebound coincided with the first of a series of stimulus measures announced by the European Central Bank designed to

boost weak economic growth and very low inflation. Those stimulus programs have led to worries in Germany and elsewhere that prices of assets—including houses—

could surge and sow the seeds of another financial crisis.

But there are few signs of overheating in the eurozone housing market. In Germany



Property-sales signs in Rome. The price of houses in the eurozone have been on the rise since the middle of 2014.

itself, the rise in house prices slowed to an annual pace of 4.4% from 5.9% in the final three months of 2015. The main exception was Austria, where prices rose by 13.4%, more than double the rate of growth recorded in that period.

Aside from Austria, the largest European increases were outside the eurozone, with Hungary recording a 15.2% jump from the year before, while Swedish house prices were up 12.5%. In both countries, central banks have eased monetary policy to combat very weak inflation, despite having economies that have recorded robust growth in recent years.

U.K. house prices were up 8% year-to-year, but many economists expect the property market to weaken significantly in the wake of Britain's June 23 decision to leave the EU. The uncertainty created by that decision may also have a negative impact on house prices across the bloc, although some cities may benefit from expectations that businesses would relocate their international operations from London in the aftermath of the Brexit vote.

FROM PAGE ONE

LINGO

Continued from Page One
specie is taken: a step ladder. One who takes lots of specie is a frequent flyer.

Translating English into Chinese script is one thing, Mr. Caldwell says, “but it’s another thing to speak Australian Rules football.”

Some terms are easy: Banana becomes *xiāng jiāo qiú* or “banana ball.” But specie? Mr. Caldwell is yet to settle on a translation for this much-loved maneuver, fretting possible Chinese translations don’t capture the same level of intensity.

Mr. Caldwell hopes to launch his “Footytionary” in August with around 60 initial translations for the terms of “Australian olive ball,” as the game that Aussies call footy translates into Mandarin.

Australians pride themselves on slang, from the Out-

back whimsy of Waltzing Matilda to the rustic charm of “Crocodile Dundee.” At the University of Queensland, international pharmacy students learn colloquialisms such as “feeling crook” (unwell) and “he’s cactus” (dead).

In few arenas is slang more at home in the Australian identity than in its football, where an odd vocabulary pairs with inscrutable rules.

The game’s aim is to secure the ball, resembling an American pigskin, from a center bounce and get it down the guts—the field’s middle strip—by kicking or passing to fellow players, ultimately booting it between the middle two of four posts at the end of the field for six points, called a major.

A kicked ball hitting a goal post, called a poster, gets only one point. There are many other arcane rules, too complicated to get into here.

Player positions have names

such as ruck, rover and back pocket.

“The whole scene seems very chaotic to me,” said Zhao Zheng, a 26-year-old who watched one contest on television from his Beijing apartment recently.

“I once spent three hours happily bewildered by an Australian Rules football match,” Bill Bryson wrote in “In a Sunburned Country,” on life Down Under. He described the sport, where the goal posts are often called big sticks and the ball is known as a pill or a nut, as loosely contained mayhem.

There is much uncertainty over the origin of terms. Words such as blinder, banana and daisy-cutter are used in other sports of the former British Empire, such as cricket. The genesis of phrases such as “chewy on your boot!” which fans jeer from the stands to discourage an opposing player, are debated by enthusiasts and academics.

The Australian National Dictionary Centre says a screamer—same as a specie—comes from “outstanding specimen” and was used by footy fans as early as the 1950s.

“My favorite footy word is specie,” says Chen Shaoliang, recruited by the Port Adelaide Football Club academy in March and poster child for the sport in China. Family and friends “like the show and the games, but they are still learning the game rules.”

Some terms fall into real life in Australia. A drop kick is a technique and a person, someone who isn’t very smart and hasn’t made it far in life.

In 2014, then-Prime Minister Tony Abbott threatened to “shirt-front” Russian President Vladimir Putin for the downing of a Malaysia Airlines jetliner over Ukraine. A shirt-fronting is a head-on charge to knock an opponent to the ground.

“Sport has a commentary that is absolutely the richest

language,” says Peter Faiman, who directed “Crocodile Dundee” and who barracks for (supports) the Sydney Swans team, “the most parochial language, of all.”

That parochialism is where Mr. Caldwell comes in. His job is to demystify the sport so it can compete in China. Recently, Port Adelaide signed a three-year deal with Chinese businessman Gui Guojie’s Shanghai CRED Real Estate Stock Co. Ltd. Last month, the Australian Football League agreed with China Central Television to broadcast matches.

Even before translation, some words are disputed. (Is it correctly spelled specie, specky, specy or speckie?) In Melbourne, kicking the ball to spin about its long axis is a torp, for torpedo. In Adelaide, it’s a screwie.

It takes care picking translations. A poster will convert to *zhòng zhù*, roughly meaning

“hitting the post.” The ruck, a player whose prime role is to contest a ball bounced in the field’s center, becomes as *zhèng qiú yuán* or “jump baller.”

Mr. Caldwell is starting with more-common slang to help Chinese adopters grip basics before he delves into step ladders or shirtfronts.

Some terms risk being fumbled. “A mark, for example, directly translates to ‘catch’—but that isn’t capturing the essence of AFL football,” he says.

A mark is when a player catches a ball kicked at least 15 meters without being touched. “The best translation appeared to be ‘stay ball,’ [*dīng qiú*] to get across the idea that the ball isn’t moving.”

That word, though, sounds like one for the human posterior. “I think for China viewers,” he says, “it may sound a bit naughty.”

—Li Pei in Beijing
contributed to this article.

ADS

Continued from Page One
serve the policy framework that supports all internet companies,” Emma Llanso, an official at internet-freedom group Center for Democracy and Technology, said of fending off legal attacks on Backpage. It was among groups filing briefs supporting Backpage in several suits and arguing to Congress against proposed escort-ad regulations. This year, the group formed an advisory council that includes representatives of companies such as Alphabet Inc.’s Google, Facebook Inc., Microsoft Corp., Apple Inc. and Amazon.com Inc.

Google and Facebook also have lobbied to narrow bills aimed largely at cracking down on Backpage, according to congressional aides. Lobbyists for Google weighed in on one version of a bill, which later died, that would have required firms hosting adult ads to determine ages of people in ads.

Technology companies The Wall Street Journal contacted declined to provide on-record comment on their support of Backpage’s cause or didn’t respond to inquiries.

Backpage general counsel Elizabeth McDougall said court decisions show escort-service advertising online is legal and efforts to curtail Backpage violate the First Amendment. “I feel very safe and confident in our positions,” she said. “I believe that the other industry participants and other industry organizations likely share our beliefs in this regard.” She said Backpage reviewed its records and couldn’t verify Stillwater authorities rescued minor sex-trafficking victims based on Backpage ads.

The site has scored favorable rulings in a half-dozen major cases involving attempted crackdowns by state and local officials as well as some suits by trafficking victims alleging civil wrongdoing.

Success in court

Backpage’s emergence as a champion of internet freedoms is part of a growing rift over how far those freedoms should go—and just who should enjoy them. While there are many other sites offering adult-services ads, Backpage has become the focus of the debate.

“I don’t know why they can get away with it,” a Massachusetts woman who sued Backpage in 2014 told the Journal. The woman, called “Sara Loe” in court papers, charged that traffickers marketed her daughter, then 15, in ads describing her as “new,” “sweet” and “playful,” codes for underage, according to the suit, which alleged Backpage was liable for civil wrongdoing.

A federal appeals court in March threw out that suit, agreeing with Backpage that it was protected by a provision of the Communications Decency Act of 1996 absolving websites of most responsibility for user posts. Ms. McDougall referred to the judges’ statement that the allegations were “shot through with conjecture.”

The 1996 act protects internet services that host or republish third-party speech from liability under state civil and criminal laws, and many kinds of federal law. In general, it treats internet services similarly to how laws treat common carriers such as phone companies. The act is widely credited with encouraging the rise of web services and sites ranging from YouTube to Yelp.

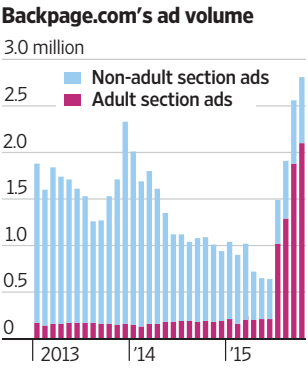
Tech-industry support for Backpage confounds anti-trafficking groups, said Eliza Reock, an official at Shared Hope International, one such group.



Washington County Attorney Peter Orput, above, says his Minnesota team found juvenile sex-trafficking victims through Backpage, which he calls a ‘dystopian hell.’ The site was created by an alternative-weekly chain built by Jim Larkin and Michael Lacey, below.

Ads Up

Non-adult ads were the bulk of Backpage’s volume until it stopped charging for many adult ads.



Larkin. Mr. Larkin didn’t respond to attempts to reach him. Messrs. Lacey and Larkin sold their Backpage interest to unidentified owners last year. The price wasn’t disclosed.

The firm in 2004 started Backpage, a classified website that includes non-adult listings. When Craigslist shut its adult-services listing in 2010, Backpage’s adult ads soared. Soon, 21 state attorneys general wrote urging it to close its adult section. Instead, Backpage announced it would increase staff to identify ads explicitly offering prostitution or trafficking in minors.

With thousands of ads daily, many using code words, Backpage scrambled to respond, emails obtained by Senate investigators show. Managers listed red-flag terms, such as “PSE” for “porn-star experience,” banned nudity and barred talk of short-term rates, emails show; a look at the site suggests the bans largely continue. A 2015 Senate report said it found evidence that, for a time, Backpage decided “moderators” who scrutinized ads could edit offending terms out of many ads. To critics, that essentially helped pimps shape ads to fly under the legal radar, a charge Backpage denies.

The report said Backpage relied on some distinctions that appeared to be aimed more at avoiding prosecution than blocking prostitution. Backpage barred references to The Erotic Review, a site where customers rate prostitutes who are assigned numbers, as in “TER 123456.” Backpage banned TER numbers but allowed numbers without a “TER” prefix, the report said. The practice continues, a look at the site suggests. Ms. McDougall said: “Six-digit or other random number combinations are not an indicator of prostitution or sex trafficking



and may be included in ads for many lawful services.”

Won’t ‘roll over’

In 2011, 51 state and territorial attorneys general sent a letter demanding Backpage shut its adult category. In a tense meeting that year between Backpage and the National Center for Missing and Exploited Children, an official of that anti-trafficking group urged Backpage to do more to block prostitution ads.

Mr. Lacey said Backpage would do all it could to keep minors out of ads, but “we are not going to roll over” and close Backpage’s adult section, according to a memo from the anti-trafficking group turned over to the plaintiffs’ lawyers in a 2012 Washington-state civil suit against Backpage. His partner Mr. Larkin, the memo said, “was basically positive and concerned.”

Plaintiffs in the suit, now in discovery, said they were trafficked as minors through Backpage, accusing it of sexual exploitation of children, vicarious liability and other wrongdoing. Ms. McDougall declined to discuss Washington-state legal cases. In court papers, Backpage has denied the civil complaint’s allegations and said it was shielded by internet freedoms.

One who sued Backpage in 2013 in a pending Washington-state civil case said she went with a friend to a theme park for her 15th birthday. On social media, they learned of a nearby party where they agreed to be photographed in skimpy attire. The young woman, “O.L.” in court pa-

pers, soon realized the hosts were posting her on Backpage.

They held her for almost a week, she said, forcing her into sex with men until her mother rescued her. Backpage “just made it easy for them,” she said of the perpetrators, who were convicted of juvenile trafficking. In court papers in the civil case, Backpage has denied the complaint’s allegations.

Messrs. Lacey and Larkin sold the newspapers in 2012, keeping Backpage. That year, they brought in Ms. McDougall, once a Craigslist outside lawyer. She sought to highlight Backpage’s ability to be part of the solution, arguing online technology could fight trafficking by providing authorities more information. Backpage has a ring binder full of thank-you messages from police investigators, who often use information Backpage provides to pursue traffickers and sometimes are friendly with the firm. “Can’t do this without your help,” one FBI agent wrote after a 2015 rescue.

Backpage has donated ad space and almost \$1 million to Children of the Night, which provides residential care for victims. “They are First Amendment people, they’re not pimps,” said Lois Lee, the group’s founder.

Meanwhile, lawmakers began considering more aggressive steps in the broader tech industry. Reps. Marsha Blackburn (R, Tenn.) and Carolyn Maloney (D, N.Y.) wrote to Google in 2012, asking what it was doing to stop sex-trafficking ads on its site. Google told lawmakers it had a “zero-tolerance” policy on sex

trafficking and was working “tirelessly” on catching “bad ads.” Google said it was developing new technologies to identify possible victims on websites.

In 2013, 49 state attorneys general asked Congress to take back much of the legal immunity it gave internet companies in 1996. Tech firms fought back. A coalition of internet-business groups wrote to the House Judiciary leadership in 2014 warning lawmakers not to “chip away” at protections “in pursuit of specific bad actors, no matter how heinous.”

D.C. lobbyists

At least half a dozen Washington lobbying firms listed legislation relating to sex trafficking as one issue they were handling on Google’s behalf in 2014. Grayling DC disclosed its work for Google was to “discuss the impact...on internet companies” of the far-reaching Senate version of a bill known as the SAVE Act, which would have required firms hosting adult ads to determine ages of people in ads and barred code words. Opponents including the Center for Democracy and Technology’s Ms. Llanso warned it would create major burdens for companies. It eventually died.

Lawmakers instead drafted narrower legislation giving federal prosecutors added leeway to pursue sex-trafficking-ad purveyors. House members made the bill less likely to snare ordinary internet firms but also potentially less likely to catch infractions. One change required prosecutors prove a site knew a trafficking victim was underage before charging the business. A version of the bill passed in 2015. Backpage sued to declare it unconstitutional because “the law as passed targets Backpage,” said Ms. McDougall.

The mother of one victim in the 2012 Washington-state civil suit against Backpage told the Journal she thinks lawmakers avoid bigger changes “because you have big internet, you have Facebook, you have Amazon, you have all these other companies that have high powered lobbyists that think somehow by changing it, it is going to affect them.” The woman, whose first name is Nacole, said her daughter, “J.S.” in court papers, ran away at age 15 to Seattle, where a trafficker recruited her and marketed her on Backpage. The perpetrator was convicted of juvenile trafficking.

In 2015, major payment-processing companies stopped processing payments to Backpage. When Backpage then made those ads free, the Senate investigation found, its adult-section ad volume soared. Users now can pay for upgraded ads using bitcoin or by buying “credits” bought with checks, cash or money orders. Senate investigators uncovered a confidential analysis valuing Backpage at about \$600 million before the payment-processing companies cut it off. Backpage declined to comment on the Senate’s financial estimates.

County attorney Mr. Orput said one adult has been charged in connection with the child sex-trafficking cases and others are under investigation. Backpage provides “important information” in investigations involving its ads and usually does it quickly, said Imran Ali, one of Mr. Orput’s prosecutors.

Still, Backpage “will look you in the eye and tell you they are part of the solution—I don’t believe that for a second,” said John Choi, county attorney in neighboring Ramsey County, who has helped lead Minnesota efforts against juvenile trafficking. “They are the platform by which children are bought and sold.”

U.S. NEWS

Obama Calls for Unity in Dallas Speech

President says racial divide has reopened after recent shootings of blacks and police

DALLAS—President Barack Obama, speaking at a memorial service Tuesday for the five police officers slain here last week, called for unity to

By Carol E. Lee,
Dan Frosch
and Alejandro Lazo

come out of a tragedy that has shaken the nation, while arguing that it has reopened—and perhaps widened—longtime racial divides.

Mr. Obama memorialized the five men, describing their lives as fathers, husbands, baseball fans, military veterans and police officers. But he then shifted to addressing gun laws and racial tensions, which have been underscored in the wake of the ambush by a black man who targeted white police officers during a protest over the fatal shootings of two black men by authorities.

Mr. Obama called the Dallas shooting an act of “racial hatred.” He drew on his own background to make the case that race relations have improved in his lifetime, but said

biases still remain.

The memorial was also attended by Vice President Joe Biden, former President George W. Bush, senators, religious leaders and dozens of uniformed police officers and dignitaries. The families of the victims and residents across this grieving city gathered inside the Morton H. Meyerson Symphony Center in Dallas.

“These slain officers were the best among us,” Mr. Bush said. “With their deaths, we have lost so much. We are grief stricken, heartbroken and forever grateful.”

Dallas Mayor Mike Rawlings introduced Police Chief David Brown as a native of South Oak Cliff, one of the city’s black neighborhoods, and the chief received a standing ovation from the hundreds of officers in attendance, who leapt to their feet to cheer him. Chief Brown has won widespread praise for his handling of the shooting, pleading with the public to support police while also vowing to continue with reforms.

Mr. Obama has been accused by some in law enforcement of inflaming tensions between police and minority communities. At the same time, some in the black community have complained that he hasn’t been enough of an



Vice President Biden, former President Bush, President Obama and their wives in Dallas on Tuesday.

advocate for their concerns about police brutality.

Before the Dallas shooting, Mr. Obama said community complaints about police violence had a legitimate basis. On Monday, he met with law-enforcement officials to address their concerns.

“He’s walked a delicate balance between expecting more from our police officers and

supporting them,” said Mayor Rawlings, a Democrat, who invited Mr. Obama to Dallas. “His ability to unify is something we need at this time.”

As the motorcade carrying Mr. Obama and other officials arrived in Dallas, a crowd on the street waved American and Texas flags, took photos and cheered.

Another crowd, many

dressed in police-dress blues or suits, filled the immense concert hall, with an 85-foot-high ceiling with more than 2,000 seats—virtually all of which were occupied. Officers erupted in cheers as Misty McBride, a Dallas Area Rapid Transit officer who was wounded in the attack, walked into the auditorium to take her seat. Ms. McBride hugged

tightly several officers.

Aboard Air Force One, en route to Dallas, Mr. Obama placed telephone calls to family members of Alton Sterling and Philando Castile—black men killed by police officers in Louisiana and Minnesota—to offer his and the first lady’s condolences on behalf of the American people for the death of their loved ones, according to a White House spokesman.

Mr. Obama, who has pressed for stricter gun controls, came to a state where gun ownership is a cherished and well-exercised right. It isn’t uncommon to see residents openly carrying weapons at public gatherings.

Mr. Obama’s approval rating in Texas is 39%, according to a University of Texas poll.

Matt Mackowiak, a Republican strategist, said the Dallas shootings won’t change the politics of gun control in Texas. “You have to remember, even in 2014, Wendy Davis supported open carry” of weapons, he said, referring to the Democratic candidate for governor.

In Texas, 41% say they support stricter gun controls, while 36% want them left alone and 18% would prefer looser laws, according to a November 2015 University of Texas poll.

Sanders Finally Endorses Clinton

By BYRON TAU
AND COLLEEN MCCAIN NELSON

PORTSMOUTH, N. H.—Vermont Sen. Bernie Sanders endorsed his former rival Hillary Clinton on Tuesday, closing the book on a long, divisive Democratic presidential primary season.

At a joint rally in New Hampshire, the two Democrats presented a united front in advance of the fall campaign against presumptive Republican nominee Donald Trump, beginning the process of consolidating the Democratic Party around Mrs. Clinton’s campaign and healing rifts within the party.

“Secretary Clinton has won the Democratic nominating process, and I congratulate her for that,” Mr. Sanders said. “She will be the Democratic nominee for president, and I intend to do everything I can to make certain she will be the next president of the U.S.”

He added: “I have come here to make it as clear as possible as to why I am endorsing Hillary Clinton and why she must become our next president.”

Mrs. Clinton will be formally nominated at the Democratic National Convention in Philadelphia later this month.

Mr. Sanders’s endorsement comes more than a month after Mrs. Clinton became the presumptive Democratic nominee. But her rival delayed endorsing her as he tried to influence the writing of the Democratic platform and push for rules changes in how the party nominates presidential



Sanders and Clinton spoke Tuesday at a New Hampshire event.

candidates in the future.

“It is no secret that Hillary Clinton and I disagree on a number of issues,” Mr. Sanders said Tuesday. “But I am happy to tell you that at the Democratic Platform Committee, which ended Sunday night in Orlando, there was a significant coming together between the two campaigns, and we produced, by far, the most progressive platform in the history of the Democratic Party.”

Mrs. Clinton, who spoke after Mr. Sanders’s endorsement, said, “It is such a great privilege to be here with Sen. Sanders....I can’t help but reflect how much more enjoyable this election is going to be now that we are on the same side. Because you know what, we

are stronger together.”

Mr. Trump wrote on Twitter Tuesday ahead of the event: “Bernie Sanders, who has lost most of his leverage, has totally sold out to Crooked Hillary Clinton. He will endorse her today—fans angry!”

Sanders had delayed backing Clinton as he pressed for a progressive platform.

Stephen Miller, a senior policy adviser to the Trump campaign, said Mr. Sanders’s endorsement made him part of the “rigged system” that he so often decried on the campaign

trail. “The candidate who ran against special interests is endorsing the candidate who embodies special interests. The candidate who ran against TPP is endorsing the candidate who helped draft the TPP. The candidate who ran in opposition to globalization is running against the candidate who has led the push for globalization,” Mr. Miller said.

While the public wrangling over the Democratic Party platform was the most visible sign of the two campaigns’ efforts to reach a detente, a Clinton aide said many other efforts have played out behind the scenes.

The Clinton campaign has met with Sanders delegates and worked to connect with the senator’s grass-roots supporters, particularly in states that he won during the primary.

Team Clinton also has hired a few members of Mr. Sanders’s campaign staff. And top Clinton campaign officials have been in contact with Mr. Sanders’s most trusted adviser, his wife, Jane.

Mrs. Clinton got a boost Monday when the Communications Workers of America delivered a full-throated endorsement of her candidacy. The union backed Mr. Sanders during the primary.

The Progressive Action PAC, the political-action committee of the Congressional Progressive Caucus, also endorsed Mrs. Clinton on Monday. The caucus’s two co-chairs, Reps. Raúl Grijalva (D., Ariz.) and Keith Ellison (D., Minn.), previously supported Mr. Sanders.

Trumped! As Radio Host in 2008, He Was a Clinton Fan

By MICHAEL ROTHFELD
AND MARK MAREMONT

Donald Trump is attacking Hillary Clinton these days, but eight years ago, in the midst of the 2008 Democratic primary race, he said she would “make a good president” and that a lot of people thought pairing her with Barack Obama would be a “dream ticket.”

His kind words for the presumptive Democratic presidential candidate came in a previously unreported clip from “Trumped!,” a syndicated radio feature that aired from 2004 to 2008 and consisted of a daily commentary of about 60 seconds from the real-estate mogul.

On the radio feature, he presented his thoughts about everything from tattoos—he didn’t like them—to Michael Jackson’s child-molestation trial, in which he sided with the late pop star. His comments were sometimes lighthearted, but Mr. Trump also weighed in on politics and policy matters, illuminating how some of his views have evolved or reversed since he began his presidential run.

The Wall Street Journal tracked down a handful of “Trumped!” audio clips—fast-paced affairs that start with his signature “Money, Money, Money, Money” theme music. It also located nearly 200 full and partial transcripts of the radio commentaries on archived webpages.

Over the four years, Mr. Trump would have made about 1,000 radio appearances, based on his schedule.

Until now, none of the audio clips had surfaced publicly during the campaign. “I’ve had every news outlet you can imagine wanting to talk,” said Mary Jo DiLonardo, the radio feature’s executive producer, who added she had no copies.

Premiere Networks, a unit of iHeartMedia Inc., which syndicated the show, said it didn’t own the copyright and referred questions to Mr. Trump’s presidential campaign, which didn’t

respond to questions.

In the early 2008 broadcast on Mrs. Clinton, aired as she and Mr. Obama still were dueling for the Democratic nomination, Mr. Trump said “at least one member of [Mr. Obama’s] team said Clinton would make a good vice president. Well, I know her, and she’d make a good president or a good vice president.”

Mr. Trump’s prior support for Mrs. Clinton is well known. He donated to her 2008 campaign and has backed other Democrats at times. He has said that as a New York businessman, he needed to curry favor with his senator.

Before her time in the Senate, Mr. Trump included a photo of Mrs. Clinton with him and his sons, in his 1997 “The Art of the Comeback,” and called her “a wonderful woman who has handled pressure incredibly well.”

In comments that presage recent controversies over Mr. Trump’s attitude toward women, he suggested in the radio commentaries that marriage made a pop star less sexy, expressed incredulity over a college chastity club and said he was surprised to hear that most women disapproved of one-night stands.

A frequent topic of the radio broadcasts was sex and women. In one segment, Mr. Trump advised men to do more chores around the house because psychological research showed they would get more sex from their wives that way.

He devoted a September 2004 segment to the partisanship of sexual prowess, highlighting findings that didn’t favor the GOP.

“Who has more fun than blondes?” he asked, according to one partial transcript. “Democrats, if you believe a new poll. Are Democrats really better in the bedroom?”

He was referring to a poll by Match.com in which respondents overwhelmingly thought Democrats were better lovers than Republicans.

U.S. Watch

REPUBLICAN CONVENTION Platform Calls for Trade Protectionism

A Republican Party panel adopted platform language Tuesday that largely adheres to presumptive presidential nominee Donald Trump’s protectionist view of foreign trade but didn’t address specific international trade pacts he has condemned.

The GOP Platform Committee’s document represents a stark and formal change from the party’s recent history, calling for an “America First” policy toward trade deals that echoes Mr. Trump’s campaign slogan.

Yet the platform committee delegates in Cleveland refrained from taking a position on the North American Free Trade Agreement or the Trans-Pacific Partnership, a major pending trade agreement among 12 Pacific Rim nations that Mr. Trump has pledged to kill.

Language opposing enacting the TPP while President Barack Obama is in office was stripped from a draft document on Monday. Instead, platform delegates backed general language condemning trade deficits while calling international trade “crucial.” The final document is likely to be approved by the full Republican National Convention next week.

—Reid J. Epstein

NATIONAL SECURITY Clinton to Receive Intelligence Briefings

Former Secretary of State Hillary Clinton will receive intelligence briefings in the run-up to the November elections, despite pressure from some Republicans to ban her access to the information following recent FBI criticism of her handling of classified emails, the nation’s top intelligence official told House Speaker Paul Ryan on Monday.

Director of National Intelligence James Clapper, in a letter to Mr. Ryan, wrote, “I do not intend to withhold briefings from any officially nominated, eligible candidate,” according to a copy of the letter reviewed by The Wall Street Journal.

Mrs. Clinton and Republican nominee Donald Trump are ex-

pected to begin receiving intelligence briefings following the Democratic and Republican conventions this month.

—Damian Paletta

CLINTON EMAILS Attorney General Defends Investigation

Attorney General Loretta Lynch defended the investigation into Hillary Clinton’s use of a private email server Tuesday, as Rep. Bob Goodlatte (R., Va.), chairman of the House Judiciary Committee, said the conclusion reached in the probe “defies logic and the law.”

Ms. Lynch said she had faith in the work done by FBI investigators and the unanimous conclusion they reached—that no reasonable prosecutor would bring criminal charges based on the mishandling of classified information on Mrs. Clinton’s server. But she has been faulted by Republicans and Democrats for an impromptu private meeting aboard her plane with former President Bill Clinton at the Phoenix airport two weeks ago—just days before Mrs. Clinton’s FBI interview and the announcement by authorities that the criminal probe would close without charges.

—Devlin Barrett and Kate O’Keeffe

PENNSYLVANIA Paterno Was Told of Abuse: Court Papers

Newly released documents in the lawsuit between Penn State and its insurer have reignited questions about whether former head football coach Joe Paterno knew about sex-abuse allegations against Jerry Sandusky as early as 1976, decades before the former assistant coach was found guilty of molesting 10 boys.

Pennsylvania State University initially sued the Pennsylvania Manufacturers Association Insurance Co. in 2012 for failing to provide coverage on claims by men who said they were abused by Mr. Sandusky. The university has paid roughly \$93 million to settle 32 claims.

A man identified as John Doe 150 alleged in a deposition made public by Court of Common Pleas Judge Gary Glazer that he was molested by Mr. Sandusky while attending a football camp on Penn State’s campus in 1976. The man alleged he informed Mr. Paterno about the incident the next day but was rebuffed. According to the man, Mr. Paterno replied, “I don’t want to hear about any of that kind of stuff, I have a football season to worry about.”

—Kris Maher



Donald Trump did brief radio commentaries from 2004 to 2008.

PERSONAL JOURNAL

The Power of Doing a Family Project

Getting children and parents to team up seems impossible but worthwhile; Here are some strategies

By SUE SHELLNBARGER

Time to clean out the garage. Anyone game for a family project? For plenty of parents, the response will be: Have you met my children? The idea of getting the whole family to team up on a shared project and pull it off without squabbling can seem like an almost mythical ideal.

It is possible to instill teamwork in a family, and psychologists say it is important to try. Patterns of collaboration set in childhood go a long way toward shaping children's future behavior in the work force.

Michael Sheehan used to challenge his three young daughters years ago to compete to "see who can get ready and in bed first," says Mr. Sheehan of Walnut Creek, Calif. The tactic worked at first but soon led to tears and accusations of unfairness, says Mr. Sheehan, who blogs at HighTechDad.com.

He dropped the ploy after noticing that his wife Sylvia got better results by encouraging the girls to collaborate, Mr. Sheehan says. When Natasha, now 17, Alexandra, 14, and Sally, 12, were younger, Ms. Sheehan pressed them to help each other get ready for school on time, telling the older girls, "if Sally's late, then everyone is late." After Natasha and Alexandra taught Sally to lay out her clothes the night before and allow time in the morning to brush her hair, all three made it to school on time.

They're also expected to team up weekly to help their parents clean the house, divvying up tasks among themselves. Ms. Sheehan hopes they're laying the groundwork for close lifelong bonds.

The sisters have learned to rely on each other. "Cleaning is a lot harder" if one of them is away, Alexandra says. Sally says collaborating "definitely gets the job done faster, and it makes things more fun when you have somebody to talk to." The sisters are pooling their savings in hopes of buying a car to share.

All the togetherness sparks some fights, but "that's just natural," Sally says. When Alexandra and Sally recently redecorated the bedroom they share, a wall collage of photos they created made the room seem cluttered to Alexandra. The sisters disagreed briefly, then came up with a compromise—hanging Polaroids on a string from



TIMOTHY ARCHIBALD FOR THE WALL STREET JOURNAL (3)

the ceiling instead, Alexandra says.

Another common pitfall for parents is "falling into the trap of thinking that everyone in the family must assign the same importance to a project as they do," says Dave Anderson, a clinical psychologist at the Child Mind Institute, a nonprofit mental-health organization in New York City. What seems like a compelling goal to a parent, such as cleaning the garage, may be meaningless to a tween or teen. "If kids don't see the point, they're going to start arguing," he says.

He suggests figuring out incentives that will motivate each child. One child might see gaining more space for sports gear as reason enough to help clean the garage. Another might like making room to park the car, clearing the driveway so she can shoot hoops.

When Cara Stevens' 14-year-old daughter Alexa suggested holding

a family tag sale next week, Ms. Stevens says, her response was, "Let's do it." Alexa's 9-year-old brother Brandon had no interest in helping until Ms. Stevens offered both children a share of the sale proceeds. Brandon quickly began sorting through games and DVDs and offered dozens of items for sale, says Ms. Stevens, a Greenwich, Conn., marketing consultant.

Many parents regard school or youth sports as the primary places for learning teamwork, and fail to notice opportunities to teach it at home. Positive reinforcement works best: Notice when a child makes a cooperative gesture at home, or helps another family member in some way.

Eddie Garcia, a youth-sports coach from Henderson, Nev., says he uses the same techniques he uses with young athletes to teach teamwork to his two children, 13-



Alexandra, Natasha and Sally Sheehan at home in Walnut Creek, Calif. The sisters, ages 17, 14 and 12, are decorating one of their bedrooms this summer, one of the project encouraged by their parents Michael and Sylvia.

"Raising Can-Do Kids."

Fostering teamwork doesn't require setting aside blocks of time, Dr. Rende says. Children can learn to collaborate by negotiating everyday disputes. Ms. Stevens and her husband Larry step back and let Alexa and Brandon work out a compromise on such questions as choosing a restaurant on a family vacation.

Encourage children to work together on household tasks, rather than assigning roles, and resist jumping in to broker an agreement when conflicts arise, Dr. Rende says. Give them a chance to find a compromise. If the talk turns aggressive, suggest problem-solving tactics from the sidelines. If two siblings are watering the garden and start battling over whether the younger sibling knows how to use the hose correctly, try coaching the older one: "Do you think you can show your brother how to use it?" or, "You learned this somehow when you were younger. What are the tricks?"

Psychologists also advise choosing collaborative games for children. And model teamwork by showing a positive attitude toward teamwork and collaborating with other adults in the children's presence.

Parents' overall attitude, conversational tone and behavior set a "family climate" of cooperation or resistance to it, Dr. Rende says. The way parents talk with children and each other sets an example. Children can learn collaboration by watching parents share decision-making or cooperate on tasks. Parents also can set a cooperative climate by working side-by-side with children on everyday tasks.

Radiologists Get a Bigger Role in Diagnosing Patients

By LUCETTE LAGNADO

One of the top radiology departments in the country is trying a simple but unusual arrangement: Radiologists play an active role in helping to make medical decisions for patients.

The move, at NYU Langone Medical Center, aims to counter a decades-long shift that has relegated radiologists, who interpret CT scans, MRIs and other images, to hospitals' backrooms. Digitization of radiology also has meant some hospitals can rely on cheaper private services.

Radiologists at NYU have begun participating in morning rounds with the medical staff of its pediatric intensive care units, where the frail patients are imaged daily to monitor their progress. The radiologists, who participate via a computer screen, provide their analysis of the latest images.

The radiologists also deliver reports to clinical oncologists and other specialists that contain much more information. The reports, traditionally a written summary of findings, now also include embedded images from the scans and MRIs, so the clinicians can view what the radiologist is describing.

Improved imaging technology, which has brought greater clarity to scans, has made radiology one of the most important tools to help doctors diagnose disease and monitor treatment. Medicare spends some \$10 billion annually on imaging, representing a substantial portion of the market. Radiologists are highly trained physicians who complete five to seven years of specialized education after finishing medical school.

As a cancer doctor, "you live by imaging," says NYU Langone oncologist Abraham Chachoua. As a cancer patient, "you live from scan to scan."



Dr. Michael Recht, above, head of radiology at NYU Langone, has been working to more closely integrate his fellow radiologists with the hospital's clinical teams. Pediatric cardiologist Dr. Sujata Chakravarti, above left center, and other staff discuss daily imaging studies of patients during 'virtual rounds' at NYU.

The NYU initiatives are led by Michael Recht, chairman of the radiology department, who oversees more than 200 physicians and researchers. The group analyzes 4,500 to 5,000 cases a day, from simple chest X-rays to scans of a beating heart.

As a cancer doctor, 'you live by imaging,' says one NYU Langone oncologist.

Dr. Recht, 58 years old, recalls making radiology rounds while he was in medical school at the University of Pennsylvania. Each morning, a radiology resident would head to the intensive-care unit to go over patients' X-rays with unit doctors. Physicians from other specialties also would regularly visit the radiology department to discuss films.

"The films told you what you needed to know to diagnose a patient and treat them," Dr. Recht

says.

As clinical doctors began to access the digital pictures on their computers beginning in the 1990s they rarely went to see the radiologists, he says. About three years ago, Dr. Recht was planning a vacation to Disney World, and he had an idea. The theme park's website let him ask questions online and chat with a staff member, he says. "I thought, boy, if they can do that why can't we?"

NYU introduced "virtual rounds" two years ago in which doctors in select units communicate directly with radiologists through computer screens that allow them to view images together.

At 8:30 on a June morning, Sujata Chakravarti, an attending physician in charge of the Congenital Cardiovascular Care Unit, gathered with another doctor, a nurse practitioner and other medical staff in front of a screen where they were greeted by a radiologist. There were eight patients in the unit, some less than a month old, either awaiting open heart surgery or recovering from it. One by one, the

radiologist went over the most recent imaging of the children and offered her analysis.

Sometimes the radiologists point out issues the ward doctors may have missed. Dr. Chakravarti cites the case of a 6-month-old girl recently operated on for a hole in her heart, a rare congenital condition. During a virtual round, the radiologist flagged a congenital defect in the infant's hip that would have affected her ability to walk later on. Orthopedic surgeons were brought in to treat the condition.

Dr. Recht has also led an effort to make radiologists' reports more doctor-friendly by embedding still images of the scans and MRIs next to the summary of findings. In the case of cancer, for example, there will be an image with an arrow pointing to the malignant lesion.

William Huang, a urologic oncologist specializing in prostate and kidney cancer at NYU, says the new radiology reports save him time.

An MRI of the prostate can contain 1,000 images. The new reports flag the important images so "I

don't have to hunt them down."

Dr. Huang also has used the radiology department's "virtual consults," which give a clinical doctor quick access to a radiologist. He recently got a call from a patient worried about a history of blood clots in his pelvic area. A radiologist agreed to review the images and assess the old blood clots, Dr. Huang said. Within minutes, Dr. Huang says he had the results: Nothing to worry about, he told the patient.

The images don't always tell the whole story and mistakes can be made, says Dr. Chachoua, a professor of medicine who specializes in lung cancer at NYU. He recently received a report about a lung-cancer patient with a new lesion in her other lung; the conclusion was that her cancer had metastasized.

Dr. Chachoua decided that wasn't the case after reviewing the patient's medical history; lack of familiarity with her history and current condition had made the images misleading, he says. In fact, the patient had an infection, which was treated with antibiotics.

FROM LEFT: ADAM WATT/NYU LANGONE; NYU LANGONE MEDICAL CENTER

ARTS & ENTERTAINMENT

Prepping for a Magic Carpet Ride

BY MARC MYERS

RELEASED in September 1968, Steppenwolf’s “Magic Carpet Ride” became one of rock’s first songs to open with an extended passage of guitar distortion. The eerie prologue lasts 20 seconds and includes chugging electronic tones before dissolving into the song’s rhythmic power chords and blues-rock vocal.

“Magic Carpet Ride’s” thick guitar riff set the tone for hard rock and heavy metal bands that followed in 1969 and ’70. The single reached No. 3 on Billboard’s pop chart.

Today, John Kay, the band’s lead singer and the song’s co-writer, performs as John Kay Steppenwolf to fund the Maue Kay Foundation [www.mauekay.org], which supports wild-life protection and conservation. Mr. Kay, 72, and the recording’s lead guitarist Michael Monarch, 66, talked about the song’s evolution. Edited from interviews: **John Kay:** In ’66, my

Toronto girlfriend, Jutta, received her immigration visa and joined me in L.A. We moved into a tiny apartment above a garage. Our organist Goldy McJohn and drummer Jerry Edmonton moved into a place a few minutes away. Then a girlfriend of Jutta’s from Toronto moved in next door with her new husband, Gabriel Mekler, who happened to be a producer at ABC/Dunhill Records. Gabriel urged me to contact Goldy and Jerry and to get a bass player and lead guitarist from local sources. He said if I did, Duhhill would likely pay for some demos.

Goldy and Jerry were all for re-forming. I called Michael Monarch, the 17-year-old guitarist who had sat in with us at clubs on the Sunset Strip. He came aboard. For a bassist, we posted a notice on a bulletin board at a record store. Rushton Moreve responded.

Gabriel submitted the demos to ABC/Dunhill, and they signed us. We soon recorded our first album.

Singles from the album were released, including “Born to Be Wild,” and we went out on a cross-county tour. When we returned in mid-’68, we went into the studio again to record our second album. But we didn’t have a complete album’s worth of stuff. One day, Jerry’s brother Dennis, who had changed his name to Mars Bonfire, came in to show us a new song he had written. At some point,



STEPPENWOLF in 1970 from left: John Kay, Jerry Edmonton, Larry Byrom, George Biondo, Goldy McJohn.

Rushton started playing this bouncy riff on his bass that he had played during sound checks on our first tour. Mars liked the riff and started playing chords against it on his Fender Jazzmaster guitar.

The guys in the booth went nuts. So we kept at it. But all we had was this cool riff. Mars suggested we add an instrumental interlude. He played these chords that led into the jam, for which I later wrote the lyrics, “Close your eyes girl/ Look inside girl/ Let the sound take you away.”

Michael, our lead guitarist, loved thick distorted guitar notes and had a Fuzz Face guitar-effects pedal. I said to Michael, “Let’s go into the studio—you do your feedback routine. Whenever I hear something approaching a note, I’ll contrast that with a high-pitched single note slide on my guitar.”

The guys in the booth were excited, and they had hit the “record” button. When we went into the booth to hear what we had,

the breakdown sounded really good. Except all we had was the riff and a breakdown. Michael went back into the studio.

Michael Monarch: I cranked my Fender Concert amp full open. Then I took my Fender Esquire and leaned into the amp, to overload it and create midrange-to-bottom feedback. I was being real physical with the instrument, bending notes and hitting the strings hard with the bottom of my fist so the strings would touch the pickup underneath.

Normally, they never touch, so when they did, it made a chugging sound. Then they asked me to do it all again. I did, but it came out different. What you hear on the opening are the two takes I recorded overlapping.

Mr. Kay: Bill Cooper, the studio’s co-owner, loved what Michael had done and spliced the electronic passage onto the start of the tape, so the song would open with this electronic overdub. Now we had a track. But we didn’t have a song. We still needed lyrics. Bill made

me a cassette tape and I took it home.

Months earlier, Jutta and I replaced our lousy stereo with a top-notch system. As soon as I put in the cassette and heard the electronic sound effects in the opening, the song’s lyrics popped into my head: “I like to dream/ Yes-yes, right between my sound machine/ On a cloud of sound, I drift in the night/ Any place it goes is right.”

The lyrics were about how great my new stereo sounded. But I had to go someplace with the rest of the lyrics. I came up with, “Last night I held Aladdin’s lamp” and all the imagery of making a wish. The “little girl” in the song wasn’t supposed to be anyone specific. For me, it was Jutta.

I didn’t drop acid before writing the lyrics, as many people later assumed. Since birth, I’ve had complete color blindness. If I had dropped acid, I would have been hallucinating in vivid black and white. I doubt that would have helped me or the song much.

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OPINION

REVIEW & OUTLOOK

South China Sea Verdict

A United Nations tribunal ruled Tuesday that China's sovereignty claims over the South China Sea, and its aggressive attempts to enforce them, violate international law. This is a necessary rebuke to Beijing, but it comes with no enforcement measures and Chinese leaders have rejected it. So its effect will depend on how China's neighbors and the United States respond. International norms can't survive without democracies willing to defend them.

China's record in the South China Sea belies its promises to pursue a "peaceful rise." By asserting "indisputable sovereignty" over an area larger than the Mediterranean and encroaching on the territory and rights of others, Beijing has threatened the rules-based order that has given Asia decades of prosperity. Its pillars include freedom of navigation and the peaceful settlement of disputes.

Though the South China Sea is the main economic artery of the world's most dynamic and populous region, the stakes are even broader. As French defense chief Jean-Yves Le Drian noted recently: "If the law of the sea is not respected today in the China seas, it will be threatened tomorrow in the Arctic, the Mediterranean or elsewhere." Vladimir Putin and other authoritarians are paying attention.

* * *

The Hague-based Permanent Court of Arbitration found that China's main claim to the sea, represented by its notorious "nine-dash line" map, has "no legal basis." It further slammed China's frequent claims to "historic" rights, confirming that these don't fly under the U.N. Law of the Sea Treaty, and that there is "no evidence that China had historically exercised exclusive control over the waters or their resources."

The ruling also undercuts China's claims in the Spratly archipelago, off the Philippine coast, where Beijing has built and militarized seven artificial islands since 2014. It found that no feature in the Spratlys is a natural "island" under the law, so none entitles its owner to a 200-mile exclusive economic zone. That means the only exclusive zone there derives from the coast and belongs to the Philippines, confirming that China has no right to threaten Philippine commercial or military vessels as it has at places like Reed Bank and Second Thomas Shoal.

As for China's artificial islands, the tribunal found that some are built on natural "rocks" that are above water at high tide and thus yield 12-mile territorial seas. But the others are built on underwater features over which no one can claim

sovereignty—making China an illegal occupier.

The tribunal also confirmed that China violated Philippine rights in seizing Scarborough Shoal, the 2012 incident that drove Manila to file suit. Beijing has since kept Philippine fishermen away from the 60-square-mile area and may want to build an artificial island there, 120 miles from the Philippine navy base at Subic Bay.

Starting construction at Scarborough is one way Beijing may express its pique at this verdict, which Chinese spokesmen have denounced as a "farce" and "nothing more than a piece of paper." China could also deploy additional firepower to the Spratlys and declare an air-defense identification zone over the South China Sea as it did over the East China Sea in 2013.

Beijing is also courting new Philippine President Rodrigo Duterte, who took office June 30 promising better relations with China. He wants bilateral talks, Chinese investment and joint resource development in the South China Sea. These can be worthy goals, but when Manila was last this eager, in 2004, then-President Gloria Arroyo signed a secret deal that applied Chinese law to Philippine waters. It also fueled Beijing's drive to bully its neighbors at sea while trying to buy them off one by one.

The better outcome would be a united front of South China Sea claimants (the Philippines, Vietnam, Indonesia, Malaysia, Brunei) negotiating jointly with China. If Beijing continues its abuses, they can file new arbitration cases, as Indonesia and Vietnam have hinted.

Then there's the U.S., the only real enforcement authority. The Obama Administration has made some helpful military moves, flying A-10 attack planes from a Philippine base near Scarborough and operating two carrier battle groups in the Western Pacific. But its much-touted freedom-of-navigation operations have been spare and timid.

With the Hague verdict, these operations should increase in frequency and scope. Patrols from Australia and others would help too. Mr. Le Drian, the French defense minister, has suggested European patrols.

Most important is to reverse military cuts, protectionism and other self-defeating policies. Curbing Chinese aggression will be a years-long effort. No U.N. tribunal decision can be a victory for the rules-based liberal order if liberal states won't defend that order. That requires more free trade, bigger navies, and a renewed commitment from Washington to protect its friends, interests and principles around the world.

has enlarged his campaign but his organization and fundraising continue to lag the Democrat's. He trails Mrs. Clinton in the Real Clear Politics national polling average by about four and a half points despite her historic unpopularity.

Mr. Trump has also continued to stoke doubts about his candidacy and to behave in ways that reflect poorly on his political and strategic judgment. He has courted pointless controversies like Trump University. Few candidates are bestowed gifts akin to Mrs. Clinton's private-email scandal, but Mr. Trump changed the subject to Saddam Hussein.

The case for unbinding the delegates is that Republicans have a great chance to retake the White House and reform the federal government. If they are going to gamble on a high-risk candidate like Mr. Trump, then they should ratify it willingly in a robust floor debate.

Mr. Trump says he's confident he'll prevail even if the delegates are unbound, and if that's true then he ought to welcome a conscience vote. The convention system is designed to produce consensus nominees, but many reluctant Republicans haven't rallied around the winner this time. Winning on the floor would add to the legitimacy of his nomination and help unite the party despite his critics. If Mr. Trump can't obtain the support of a majority of delegates, he's probably a loser in November.

* * *

Then again, denying Mr. Trump the nomination could also be futile at this stage. Defeating him would inflame party divisions, and no Republican can win without the support of Mr. Trump's core voters. This is why even a conscience vote is opposed by the Republican National Committee.

The anti-Trump lobby claims the GOP has a moral obligation to drop the businessman, but their demands would be more credible if they fielded an alternative who could win in November. Many of them are merely fronting for Ted Cruz, who doesn't want his fingerprints on any convention fight but perhaps wouldn't mind benefitting from it.

GOP primary voters never coalesced around a non-Trump candidate, and they rejected Mr. Cruz when the field narrowed to a virtual head to head. The Texan is no more likely a winner than Mr. Trump. Would the delegates—and voters in November—accept a nominee like John Kasich or Marco Rubio who polls better against Mrs. Clinton?

A conscience vote would be unprecedented, but then this entire year has no precedent. Republicans should nominate the best candidate they think has the best chance of winning in November. If that means a raucous debate on the floor, then Americans might appreciate the exercise in democratic self-government.



GLOBAL VIEW
By Bret Stephens

What diplomats call the Joint Comprehensive Plan of Action—known to the rest of us as the Disastrous Iran Deal—was agreed in Vienna a year ago this week. Now comes a status update, courtesy of our friends at the *Bundesamt für Verfassungsschutz*, or BfV.

In its fascinating 2015 annual report, published late last month, the German domestic-intelligence service reports a "particularly strong increase" in the number of Salafists, describes the reach of Russian and Chinese espionage efforts in Germany, and notes a growing number of right-wing extremists.

Then there's this: "The illegal proliferation-sensitive procurement activities [by Iran] in Germany registered by the Federal Office for the Protection of the Constitution persisted in 2015 at what is, even by international standards, a quantitatively high level. This holds true in particular with regard to items which can be used in the field of nuclear technology."

The report also notes "a further increase in the already considerable procurement efforts in connection with Iran's ambitious missile-technology program which could, among other things, potentially serve to deliver nuclear weapons. Against this backdrop it is safe to expect that Iran will continue its intensive procurement activities in Germany using clandestine methods to achieve its objectives."

The BfV report arrived days before Germany arrested a Pakistani national, identified as Syed Mustafa H., accused of spying for Iran. It also corroborates another German report, this one from the intelligence service of North Rhine-Westphalia, that Iran's nuclear-procurement efforts have increased dramatically in recent years, from 48 known attempts in 2010 to 141 in 2015. Seven other German states have reported similar Iranian procurement efforts. This violates Iran's explicit commitment to go through an official "procurement channel" to purchase nuclear- and missile-related materials.

similar All this was enough to prompt Angela Merkel to warn the Bundestag last week that Iran "continued to develop its rocket program in conflict with relevant provisions of the U.N. Security Council." Don't expect German sanctions, but at least the chancellor is living in the reality zone.

As for the Obama administration, not so much. For the past year it has developed a narrative—spoon-fed to the reporters and editorial writers Ben Rhodes publicly mocks as dopes and dupes—that Iran has met all its obligations under the deal, and now deserves extra cookies in the form of access to U.S. dollars, Boeing jets, U.S. purchases of Iranian heavy water (thereby subsidizing its nuclear program), and other concessions the administration last year promised Congress it would never grant.

"We still have sanctions on Iran for its violations of human rights, for its

support for terrorism, and for its ballistic-missile program, and we will continue to enforce those sanctions vigorously," Mr. Obama said in January. Whatever.

The administration is now weighing whether to support Iran's membership in the World Trade Organization. That would neutralize a future president's ability to impose sanctions on Iran, since WTO rules would allow Tehran to sue Washington for interfering with trade. The administration has also pushed the Financial Action Task Force, an international body that enforces anti-money-laundering standards, to ease pressure on Iran, which FATF did last month by suspending some restrictions for the next year.

And then there's the Boeing deal to sell \$17.6 billion worth of jets to Iran, which congressional Republicans led by

President Obama trumpets an agreement that Tehran violates at every turn.

Illinois's Pete Roskam are trying to stop. Iran uses its civilian fleet to ferry weapons and fighters to its terrorist clients in Syria and Lebanon.

"The administration is trying to lock in the Iran deal and prevent a future president from doing anything, including pushing back on Iran's malign behavior," says the Foundation for Defense of Democracies' Mark Dubowitz, who knows more about Iran sanctions than anyone in Washington. "Instead of curbing Iran's worst behavior, the administration effectively facilitates it."

One last detail: In June, the Journal's Jay Solomon reported that the International Atomic Energy Agency had discovered "traces of man-made uranium" at Iran's military facility at Parchin. The agency reported this finding in a footnote to a report in December, but the administration made no comment then and now dismisses it as old news. The IAEA is no longer allowed to inspect Parchin, or any other military installation, under the deal.

So let's recap. Mr. Obama says Iran is honoring the nuclear deal, but German intelligence tells us Tehran is violating it more aggressively than ever. He promised "snapback" sanctions in the event of such violations, but the U.S. is operating as Iran's trade-promotion agent. He promised "unprecedented" inspections, but we're not permitted to inspect sites where uranium was found. He promised an eight-year ban on Iran's testing of ballistic missiles, but Tehran violated that ban immediately and repeatedly with only mild pushback from the West. He promised that the nuclear deal was not about "normalizing" relations with a rogue regime. But he wants it in the WTO.

Is Mr. Obama rationalizing a failed agreement or did he mean to mislead the American public? Either way, truth is catching up with the Iran deal.

Write *bstephens@wsj.com*.

China Can't Afford To Delay Reforms

By Joerg Wuttke

Hopes that China would follow through on plans for urgently needed economic reforms are receding. In their place, fears are rising that the country will get stuck in the same kind of stagnation that has trapped Japan since the 1990s. The prospect of a failed economic transition in China poses a serious threat to global growth, dwarfing the impact of Brexit.

The Communist Party's Third Plenum meeting released a decision in November of 2013 that appeared highly promising. It proposed a wide range of reforms aimed at curtailing the role of the government in the economy.

While previous plenums had described the market as having a "basic role" in the economy and allocation of resources, the decision spoke of it playing a "decisive role." Market forces were hailed as the "invisible hand" that would catapult the Chinese economy past the dreaded middle-income trap.

But the decision has yet to live up to more than a fraction of its potential to drive the sort of long-term and sustainable economic growth that China needs. Some reforms to the tax system have moved forward, but far more still needs to be done.

Achieving this will require taking on institutional reforms that are both difficult and necessary. China needs market rules that are fair, open and transparent, something Chinese investors enjoy in the EU while European companies remain straight-jacketed in numerous sectors of the Chinese economy. It needs to allow the market to determine prices more broadly, and reduce the dominant role of state-owned enterprises (SOEs). In short, more market forces.

The 13th Five-Year Plan (2016-20) recognized that the outdated invest-

ment- and export-driven economic model will not enable China to become a modern, industrialized economy. However, and in direct contradiction to the priorities established by the Third Plenum, the plan envisions the government playing an expanded role in the economy, especially when it comes to driving innovation.

This includes picking winners by deciding which high-technology industries are priorities for government support and investment. As Japan's experience shows, this approach is less effective than establishing an effective regulatory environment and leaving it to entrepreneurs and private investors to determine where the next big opportunity lies.

In its recent report "China's \$5 Trillion Productivity Opportunity," McKinsey outlined the vast opportunities that beckon if the country successfully transitions away from an investment-led economy to one driven by productivity instead. This would be in everyone's interests.

The fact that China has built up such high levels of total debt over the past decade is also in part attributable to the failure of reforms. Inefficient SOEs insulated from market forces continue to borrow on noncommercial terms. And with a rapidly aging society, the country will not be able depend on comparatively low labor costs to drive growth for much longer.

Global economic growth remains fragile. If China does not live up to its full potential, the consequences would support doom and gloom scenarios. In short, China needs to win. The European Chamber continues to advocate for market-oriented reforms to be pushed through without delay.

Mr. Wuttke is president of the European Chamber of Commerce in China.

OPINION

Healing After Dallas, Without Obama

By Jason L. Riley

President Obama spoke in Dallas Tuesday at a memorial service for the five police officers gunned down last week—but haven’t we already heard enough from him? Mr. Obama’s initial response to the shootings was more of the same: equivocation mixed with an attempt to change the subject. He said there is no possible justification for violence against law enforcement, but then added a line about racial disparities in the criminal-justice system and finished with a nod to more gun control. “When people are armed with powerful weapons,” said the president, “it unfortunately makes attacks like these more deadly.”

When the president repeatedly assumes the worst about police, he sends a dangerous message.

Time and again during his presidency, in matters large and small, Mr. Obama has assumed the worst about police. Officers in Massachusetts, he told us months into his first term, “acted stupidly” when they responded to a 911 call about a possible burglary and arrested the black suspect for disorderly conduct. The 2014 police shooting of Michael Brown, who attacked a cop after

robbing a store in Ferguson, Mo., led to a Justice Department report criticizing the racial makeup of Ferguson’s police department and municipal workers, and concluding, without any evidence, that it is “critically important” for law enforcement “to strive for broad diversity among officers and civilian staff.” After the Baltimore riots last year that followed the death in police custody of Freddie Gray, Mr. Obama once again condemned the lawbreakers, but not without adding: “We have seen too many instances of what appears to be police officers interacting with individuals, primarily African-American, often poor, in ways that raise troubling questions.” That’s trying to have it both ways. Like others on the political left, Mr. Obama has made a habit of minimizing or ignoring the high black crime rates that obviously underlie tensions between poor minority communities and cops. More than 95% of black shooting deaths don’t involve the police, which would seem to undercut the notion that trigger-happy cops are hunting black men. Sadly, rates of murder, rape, robbery, assault and other violent crimes are seven to 10 times higher among blacks than among whites, but liberals who don’t want to alienate black voters go to great lengths to explain away this behavior and focus instead on police conduct. Yes, Mr. Obama has denounced what happened in Dallas, but he has also been winking at a Black Lives Matter movement that has spent the



In downtown Dallas, July 11.

past two years holding rallies that call for (and sometimes feature) violence against cops. Like the president, these protesters maintain that the police are motivated by racial prejudice, not by the behavior of suspects. They insist that a biased criminal-justice system explains the black crime rate, not antisocial behavior. By indulging this narrative, Mr. Obama and his fans in the liberal media were playing with fire, and the Dallas carnage was the result. Just last week, after the police shootings in Louisiana and Minnesota that sparked the Dallas protests, the Washington Post ran a long feature sympathetic to the left’s racist-cops narrative. The story offered a detailed breakdown of police shoot-

ings by race, but nowhere did it offer a racial breakdown of criminal behavior. By focusing on one and ignoring the other, the paper showed that it is most interested in pushing a political agenda. The Dallas shootings have liberals requesting more national conversations about race. But these calls are mostly disingenuous. What liberals have in mind is more of a lecture, where they do the talking and everyone else nods in agreement. The left wants America to acknowledge that white racism explains black pathology; that the racial makeup of police departments and elected officials is crucial to good relations between law enforcement and black communities; and that reducing gun

ownership will reduce gun violence. In fact, America’s ghettos had lower levels of black crime and violence in the pre-1960s era, before major civil-rights legislation had even passed and in an era when racial discrimination was legal and more widespread. The racial makeup of the Ferguson police department may not have reflected that of the city, but the same cannot be said of other locales—Baltimore, Chicago, New York—where relations between police and black civilians are also strained despite the presence of black police chiefs, beat cops, prosecutors, judges, mayors and municipal workers. Dallas’s population is about 25% black, as is the police force, yet murders in the city were up by more than 70% in the first part of this year, according to the Dallas Morning News. And if gun ownership rates drive gun violence, how do you explain the fact that rural areas of the country, where people own firearms at twice the rate of their urban counterparts, are significantly less violent? Some good may yet come out of this Dallas tragedy if political leaders and the press stop treating Black Lives Matter like it’s the NAACP circa 1955. But don’t count on Mr. Obama to lead that effort.

Mr. Riley, a Manhattan Institute senior fellow and Journal contributor, is the author of “Please Stop Helping Us: How Liberals Make It Harder for Blacks to Succeed” (Encounter Books, 2014).

How Hillary Clinton Can Resurrect Her Likability

By Peter D. Hart

With the FBI investigation into her private email server concluded, it is time for the real Hillary Clinton to find her rhythm and her voice. In the history of public-opinion polling, no Democrat has entered the general presidential election with weaker scores on personal popularity, trust or likability than Mrs. Clinton. She has ended up just another policy wonk with a series of different slogans and no central message. But there is still time for the real Hillary Clinton to emerge and become a strong, popular candidate. To do so, she must return to the basics that have marked her public life and helped her to become the first female to be nominated as the standard-bearer of a major U.S. political party. Mrs. Clinton’s personal qualities and leadership skills are formidable, but her campaign has somehow managed to hide them. When she began her quest for the presidency, her favorable rating was 44% positive

and 40% unfavorable. As she clinched the nomination, her favorable rating was 33% positive and 55% unfavorable—and those unfavorable scores are even higher among white women (57%) and independents (59%). Her trust and likability scores also are upside down, with far more Americans feeling negative than positive toward her. At what stage does the candidate say to her campaign: “We are doing something wrong and need to change”? In my opinion, the trust issue cannot be dealt with as a separate element, but must be part of the larger presentation of her total character. The problem facing Mrs. Clinton is not to find a new Hillary, but to show the true Hillary. No one questions whether she is a skilled politician. What has been lost in this campaign is the approachable person. Her campaign seems to be totally tactical, reactive, and based on her opponent and the issues of the moment. Here are three suggestions for her to consider in overcoming the nega-

tive images she has accumulated over the course of her campaign:

- *Reveal your compassionate side.* In your campaign, you have shown mettle, but you have lost your warmth and charm. Voters

Being not-Trump isn’t enough. It’s time for her to show the real Hillary.

want to break through and get to know you. When you meet with a small group of people and talk about their problems or hug a young girl who has been bullied, you connect more personally than any of the campaign’s four-point policy plans ever could. There is much to be revealed—not about the substantive issues, but about Hillary Clinton. The vote for president is the most personal vote that Americans cast, and a party platform is much less important than changing Americans’ attitudes from negative to neutral or even positive.

- *Show your leadership skills.* Voters have no sense of your special leadership abilities. As secretary of state, you appealed to Americans not because of the miles you traveled, but because of the issues you fought for and the alliances you helped make. Your personal favorability score back then was 59%. The country is ready to end Washington gridlock, and you proved your ability to work across the aisle in the Senate and across the world at the State Department, with friends and foes—but nobody knows this.
- *Be bolder and more focused.* You began your career standing for principles and positions that weren’t popular, like health-care reform, but they were the right ones and many of them were considered controversial. Yet your presidential campaign seems too finely calibrated to your opponent or to public opinion on issues like the Trans-Pacific Partnership trade pact or the Keystone XL oil pipeline. There are too many words and too many issues, and in the end there is no

message. “Hillary for America” and “stronger together” are themes that say nothing. From John F. Kennedy’s “get America moving again” to Barack Obama’s “hope and change,” a good campaign is captured by a strong half-dozen or fewer words. Find yourself, be yourself and show yourself. Every good political pro will tell you that this election is about making it a two-person race and showing why you are better than Donald Trump. I don’t disagree, but I think you will improve your odds if the voters find a reason to appreciate you, to like you, and to want to vote for you and not just against your opponent. The problem with the better-than-the-alternative approach is that it will hardly move your negative ratings, and then you are totally dependent upon elements you cannot control—events and your opponent’s performance.

Mr. Hart is the founder of Hart Research and part of the polling team for The Wall Street Journal/NBC surveys.

Reviving Relations Between Israel and Africa

By Danny Danon

Prime Minister Benjamin Netanyahu’s recent visit to Africa signaled Israel’s renewed emphasis on its relationship with the continent. Beyond the mutual economic benefits, this renaissance in Israel-Africa relations is an opportunity, among other things, to bolster support for Israel on the international stage, particularly at the United Nations. In the early years after independence in 1948, Israel enjoyed a unique relationship with many African nations. Recently freed from British rule and newly independent after thousands of years of exile and occupation of our homeland, Israel served as a role model for many African states caught in their own struggles with colonialism. A special bond soon formed between the Jewish state and the young African nations. Israeli experts shared their knowledge with their African counterparts on everything from modern banking to drip irrigation. For Israel, the possibility of breaking out of the diplo-

matic isolation imposed by our immediate neighbors in the Middle East served as an additional strategic advantage. Whatever progress was made in cultivating these relationships was thwarted following the 1967 Six Day War, and then almost completely wiped out after the 1973 Yom Kippur War. Fueled by Arab propaganda, many former African allies became convinced of the lie that Israel was now playing the role of colonizer by “occupying” Arab lands. More than 40 years after its relationship with Africa soured, Israel is now turning back the tide. As Prime Minister Netanyahu recently stated, “Israel is coming back to Africa, and Africa is coming back to Israel.” The Israeli government has announced a multimillion-dollar plan to strengthen its economic ties with Africa. On his recent visit, the heads of 70 Israeli companies joined the prime minister to help strengthen African relationships. In areas such as international development, investment and know-how, Israel is the perfect

partner for Africa. Both have been forced to find creative solutions to the kinds of problems large, wealthy, powerful states have never encountered. In water policy, for example, Israel is not only the world leader in recycling and reusing water for agriculture, we have now successfully mastered the desalination process so that all our water needs are fully met despite our arid climate. In energy innovation, our cutting-edge technologies in solar, wind and other clean- and renewable-energy sources is a major focus of many budding economic ties. There are larger, multilateral and global benefits of improved relations with Africa. For many decades, Israel has suffered under a bias at the U.N. because we have been greatly outnumbered in almost every forum. One byproduct has been the Palestinian attempts to circumvent direct negotiations through international bodies. Better relations between Israel and Africa could mitigate this escape hatch and encourage the Palestinians to return to the negotiating table.

Recently we have had glimpses of what is possible. In 2014, when the Palestinians tried to advance an anti-Israel resolution in the Security Council, Nigeria and Rwanda

This special bond brings back many mutual benefits, both economic and diplomatic.

abstained, stopping the initiative. This while certain European members of the council voted for the Palestinian resolution. Similarly, during my recent successful run for the chair of the U.N. Legal Committee, the Non-Aligned Movement headed by Iran sought to deny Israel the full rights and privileges awarded to all other U.N. member states. This attempt to boycott Israel was thwarted when African countries such as Kenya and Rwanda demanded that my candidacy be considered in the same manner as every other country

seeking a leadership position. In the end, 109 countries voted for my chairmanship, making it the first time an Israeli was elected to head a permanent U.N. Committee. We have every indication to believe that the Palestinians will continue to turn to the U.N. with the hope of imposing a solution on Israel and avoiding any of the hard decisions needed for real peace. In combating these attempts, Israel’s most important partner remains the American people. But Israel must expand its diplomatic horizons and widen our circle of friends. We are deepening our relationship with Africa because it is the right thing to do and because there are economic benefits for both sides. But Israel will also be sure to leverage these important relationships to ensure that it is finally treated fairly at the U.N., as a full member state with the rights and privileges afforded to all other nations.

Mr. Danon is Israel’s ambassador to the United Nations.

Notable & Quotable: Libertarian Gary Johnson

From remarks by Gary Johnson and William Weld, the Libertarian Party candidates for president and vice president, at the National Press Club in Washington on July 7 with Thomas Burr, the club’s president:

Thomas Burr: So following on that, Governor, 10 percent doesn’t get you elected president. So do you worry about being perceived as a spoiler to the major party candidates such as Ross Perot in ’92 or Ralph Nader in 2000? Gary Johnson: I will lose no sleep if that is the label given to me, and I will reiterate; this is a party that needs crashing. William Weld: What’s to spoil? Mr. Johnson: What’s to spoil? (Applause) . . .

Mr. Burr: Governor Johnson, we’ve had several questions submitted about this, so I’m just going to ask it. When was the last time you smoked or ingested marijuana? Mr. Johnson: I did this about two months ago, it’s been about two months. And when you tell the truth, really, you don’t have anything to fear. I’ve always maintained that you shouldn’t be on the job impaired. Well, as of two months ago, really this is a 24/7 job running for president of the United States. And as president of the United States, that is also a 24/7 job. So, in my lifetime, I think I have more than demonstrated my ability to be self-disciplined. I haven’t had a drink of alcohol in 29 years. I wasn’t an

alcoholic, it had everything to do with rock climbing and the immediacy of rock climbing and being the best that you could possibly be. But this is the truth component that I think is really also lacking in politics. Who would know that I ingested marijuana products two months ago? My best friends and if I’d have said, “Hey, I don’t use it, or I haven’t used them,” my best friends would consider me a hypocrite. And I think hypocrisy is the one unforgivable in life. Doing one thing and saying another. (Applause) Mr. Burr: Just to clarify, are you saying that if elected president, you would not ingest or smoke marijuana as president? Mr. Johnson: That is correct, yes.

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SPORTS

Heard On The Field



McIlroy: I May Not Even Watch Olympic Golf

Rory McIlroy has taken aim at Olympic golf, saying he isn't even sure he will watch it on television. McIlroy, above, spoke on Tuesday after a practice round for the British Open, which starts Thursday. He won't be playing in the Rio de Janeiro Olympics next month, citing health concerns, and it is clear he isn't a big fan of the sport even being part of the games for the first time since 1904. McIlroy says he is "very comfortable" with his decision not to go to Rio. He also said he would "probably watch the Olympics, but I'm not sure golf is one of the sports I'll watch."

Asked which sports would get his attention, McIlroy mentioned athletics, swimming and diving. He called those sports "the stuff that matters."

McIlroy went on to say he didn't become a golfer "to grow the game"—one of the reasons often cited by boosters of Olympic golf as a reason to support their efforts. He says his main goal is to win major championships.

On Monday, Jordan Spieth withdrew from the Olympics, meaning golf will return to the Summer Games without any of the top four players in the world.

Spieth, the world No. 3, joined Jason Day, Dustin Johnson and McIlroy, who all cited health concerns related to the Zika virus as their reason for passing on a trip to Brazil.

—Associated Press

MAIN: STEPHEN DUNN/GETTY IMAGES; HOF: DANNY LAWSON/ZUMA PRESS

Duncan Departs, Brilliantly, Without Vanity

Tim Duncan retired Monday morning, and his retirement announcement was so appropriately Tim Duncan-like it almost made one misty: not a ceremony, or a television interview, or a gooey letter in Derek Jeter's star-cozy Players Tribune, but a 538-word press release, from the only NBA team he ever played for, the San Antonio Spurs. A press release! It was so modest and charmingly retro it may as well have arrived by fax, or better yet, snail mail.

Would anyone have wanted it any other way? Duncan's exit was always going to happen like this. No one who loved Duncan ever thought he'd engineer a final-season vanity lap through the league, standing through awkward midcourt celebrations among opponents bearing unwanted gifts. No way. I believe Duncan would have rather spent a season curled in the baggage hold of the team bus than collecting personalized rocking chairs and electric guitars from teams he tried to bury.

He went quietly, humbly, much as he arrived, out of Wake Forest the first pick in the draft 19 seasons ago to the Spurs, who soon became a team transformed. San Antonio was a factory of consistency, winning the first of five NBA championships in 1999, a young Duncan pairing with a towering predecessor, David Robinson, and a coach, Gregg Popovich, who put himself on the bench after leaving the general manager's office. Back then, Spurs basketball was unfairly maligned as bit of a snooze, disciplined and unflashy, a departure from a star-driven game. But nobody denied they were ruthlessly good.

Duncan's collected numbers are just absurd. The Spurs won 71% of their games in Duncan's near-two decades, a run of success that the team retirement press release pointed out has been unmatched in basketball, baseball, hockey or even by those Patriots. Duncan is the only NBA player to ever be part of 1,000 or more wins with one team. He is one of only two players in league history to record 26,000 or more points, 15,000 rebounds, and 3,000 blocked shots. The other was Kar-



San Antonio Spurs center Tim Duncan retired on Monday after 19 seasons in the NBA and five championships.

eem Abdul-Jabbar, who was pretty good himself. There are 15 All-NBA team selections, 15 All-Defensive team selections, two regular season MVPs, three Finals MVPs...

We could go on. But it would only mortify Duncan.

In an era in which the NBA expertly crafted its superstars into global celebrities, Duncan hid in plain sight. He was never a national advertiser's dream (though those local H.E.B. supermarket spots were sublime), a blustery interview or a style icon. If he harbored Hollywood ambitions, he never shared them. He dressed like a member of the junior high school turtle club.

He was dead-set on being a brilliant basketball player, which he was pretty much the entire time he played. There are a zillion ways in which Duncan's impact can be measured—the stats, the rings, the honors—but his true power was as a teammate. He played basketball the

way your coaches always told you to play basketball: relentlessly, unselfishly, at both ends of the court. Along with teammates Manu Ginóbili and Tony Parker, he will be remembered as a member of a historic trio, as part of something that was bigger and even better than he was. The Spurs are a vanguard franchise that changed the way basketball teams—actually, sports teams in general—are made. Everyone knows Duncan was the foundation of the structure.

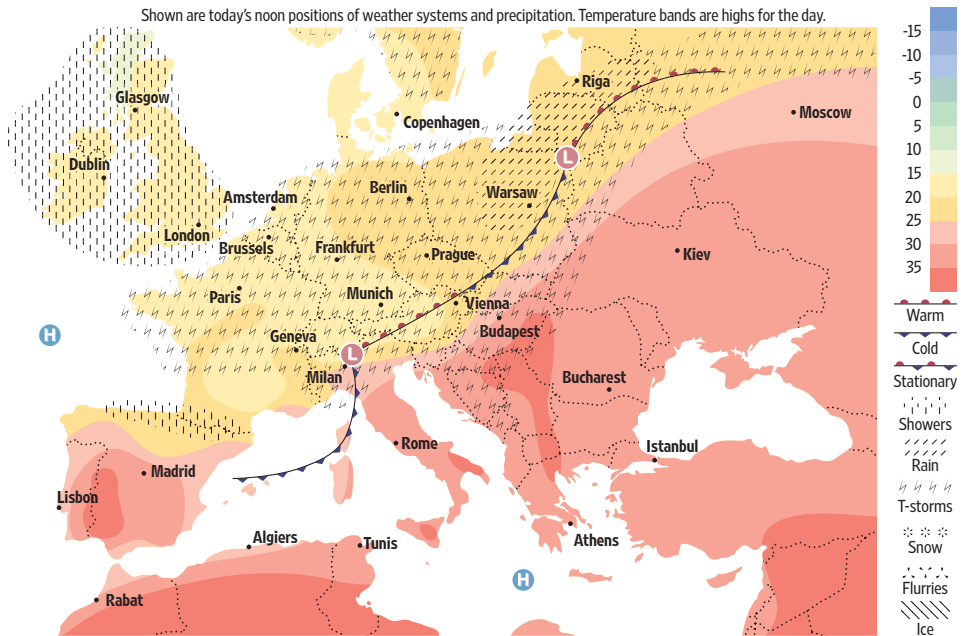
He is 40. Is he really 40? Duncan has always seemed ageless. Sure: There were a few flecks of gray here and there, and his old springiness had faded, but Duncan could still bring it from time to time, that little jump hook shot in the paint, swish, back up the court, head down, like he was ducking out of a party. Was there an athlete with more recognizable body language than Duncan—those slouchy shoulders, those in-

credulous eyeballs, those appeals to referees in which he looked like a guy who found an extra bottle of wine on the bill?

Toward the end, Duncan was used less, but he always mattered. He would have mattered if he played until he was 60. He was the center of that selfless Spurs universe. He fit in with whatever San Antonio wanted to do, with whomever they brought in, and he departs his franchise in very competitive condition.

It is a close-to-perfect career. If you saw him play, it will be your job to remind the generations who did not. Basketball is a tantalizing game of individual creativity, and it is easy to get caught up in the momentary dazzle, and ignore the genius of consistency. Even if Duncan never was the flashiest or the noisiest or the most celebrated, in his play you saw true NBA greatness, for 19 uninterrupted years. You saw history. You saw Tim Duncan.

Weather



Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	18	11	t	18	12	sh
Anchorage	23	15	c	22	14	pc
Athens	34	23	s	35	23	s
Atlanta	34	24	pc	33	24	t
Baghdad	46	30	s	47	29	s
Baltimore	29	22	t	33	24	t
Bangkok	33	26	c	33	25	t
Beijing	37	23	pc	34	23	c
Berlin	22	13	t	20	13	sh
Bogota	19	10	pc	19	10	r
Boise	28	13	s	32	14	s
Boston	31	20	s	29	22	pc
Brussels	17	10	t	18	10	sh
Buenos Aires	14	7	pc	14	5	sh
Cairo	37	25	s	37	25	s
Calgary	19	11	t	20	11	c
Caracas	31	25	pc	31	25	pc
Charlotte	34	22	pc	35	23	t
Chicago	29	22	t	30	16	pc
Dallas	36	26	s	36	27	pc
Denver	34	13	s	30	15	t
Detroit	32	22	t	32	18	pc
Dubai	40	23	s	42	34	pc
Dublin	17	9	sh	17	13	pc
Edinburgh	17	9	sh	18	10	pc
Frankfurt	21	11	t	20	10	sh
Geneva	18	9	t	18	9	sh
Hanoi	35	27	t	35	27	t
Havana	33	24	pc	32	23	pc
Hong Kong	31	27	pc	32	28	t
Honolulu	30	24	s	30	24	sh
Houston	35	26	t	35	26	t
Istanbul	31	21	s	30	22	s
Jakarta	32	25	t	31	24	t
Johannesburg	17	2	s	17	2	s
Kansas City	33	21	t	31	20	t
Las Vegas	41	27	s	42	28	s
Lima	22	16	s	22	16	pc
London	19	11	sh	21	11	pc
Los Angeles	28	17	s	29	16	s
Madrid	31	14	s	32	16	s
Manila	33	25	t	33	25	t
Melbourne	11	7	pc	13	9	pc
Mexico City	23	12	t	23	11	t
Miami	33	27	s	33	26	pc
Milan	28	15	t	28	14	pc
Minneapolis	30	18	pc	23	14	c
Monterrey	37	20	pc	38	20	pc
Montreal	33	24	pc	29	20	t
Moscow	25	18	c	26	17	t
Mumbai	30	27	sh	29	26	sh
Nashville	34	24	pc	34	22	t
New Delhi	33	28	c	34	27	t
New Orleans	33	26	t	34	27	t
New York City	30	22	s	29	23	t
Omaha	32	20	t	30	17	s
Orlando	35	24	t	35	24	t
Ottawa	34	22	pc	30	19	t
Paris	19	11	t	20	10	sh
Philadelphia	31	24	pc	33	25	t
Phoenix	43	30	s	44	30	s
Pittsburgh	31	23	t	31	21	t
Port-au-Prince	36	21	t	35	21	t
Portland, Ore.	26	14	pc	28	12	s
Rio de Janeiro	27	21	pc	29	22	s
Riyadh	43	29	s	43	31	pc
Rome	30	21	s	28	17	pc
Salt Lake City	32	17	s	34	18	s
San Diego	24	18	pc	25	19	s
San Francisco	24	13	pc	23	13	pc
San Juan	30	25	pc	31	25	pc
Santiago	12	2	r	13	-1	c
Santo Domingo	32	22	pc	32	23	t
Sao Paulo	27	17	pc	29	18	s
Seattle	23	13	pc	25	13	s
Seoul	31	23	s	31	22	c
Shanghai	34	26	t	33	26	t
Singapore	31	26	t	32	26	t
Stockholm	21	12	t	22	12	t
Sydney	14	7	s	16	7	s
Taipei	34	27	c	35	27	t
Tehran	36	23	s	36	23	s
Tel Aviv	33	24	s	32	23	s
Tokyo	28	24	c	30	23	t
Toronto	34	22	pc	28	19	t
Vancouver	21	14	pc	22	14	pc
Washington, D.C.	30	24	t	35	27	t
Zurich	17	10	t	16	9	sh

The WSJ Daily Crossword | Edited by Mike Shenk

1 2 3 4 5 6 7 8 9 10 11 12 13

14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69

Down

1 Ill-bred fellow

2 Plotting

3 "I'll give it a go"

4 Covering many subjects

5 Baron De La Warr or William Penn

6 Squeak silencer

7 Ortho dept. scan

8 Sinuous swimmer

9 Attracts, as customers

10 Strewn item

11 Fighting Big Ten athletes

12 Assented

13 Amazing, slangily

18 Central

22 Singer at Barack's 2009 inauguration

24 Discombobulate

25 Become swiftly attentive

27 Where to see "Silicon Valley"

28 Contented sigh

30 "No, really!"

31 Tourney passes

33 Skedaddle

34 Bush Sr.'s veep

39 Irish moss, for one

40 Pasture bleat

41 Mucky milieu

43 Like saddle shoes

45 Floor exercise

46 Chilling, militarily

47 One having a silent chat

48 Pacifying words

53 Bit of 32-Across

54 Pizza part

56 Maryland player

57 Leaf blower brand

58 Diner menu section

59 Some are Jewish

62 Kind of pron.

63 Fill-in

Previous Puzzle's Solution

ED	AM	ES	J	E	E	P	R	F	X
P	O	M	E	L	O	A	Y	L	A
P	O	M	E	L	O	A	Y	L	A
S	P	I	T	A	X	E	D	I	N
D	I	A	N	E	A	P	I	N	G
A	E	R	O	B	I	C	E	X	E
S	N	O	W	S	F	E	I	N	T
K	E	A	N	K	O	H	L	S	P
O	R	D	S	I	M	I	P	R	E
F	O	R	E	N	S	I	C	E	X
A	V	A	S	T	C	E	A	T	M
O	S	C	A	R	E	U	S	E	L
P	H	I	E	L	E	C	T	R	I
E	I	O	N	R	O	L	L	R	O
C	O	G	S	O	F	A	A	U	R

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

If you can't find six more

B	F	J	W	O	A	R	T	O	N	X	N	E	H	V	W
Y	M	S	I	Z	C	B	E	A	S	I	F	I	U	V	B
F	R	Z	B	O	H	I	F	N	N	P	S	A	L	B	A
S	C	J	R	F	Q	S	T	P	M	Y	O	E	T	G	S
B	O	F	I	O	U	C	A	R	X	T	C	V	K	F	E
N	H	R	P	O	D	R	J	C	Q	D	H	S	H	V	L
O	C	U	I	B	V	U	T	M	V	G	I	F	I	G	I
U	Q	J	F	M	I	F	I	D	I	I	C	O	M	I	I
A	R	K	I	T	C	M	B	F	K	Q	N	K	F	A	I

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CEOs Wary of Forecasts

Faith in expert predictions fades in wake of Brexit **MANAGEMENT | B4**

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THE WALL STREET JOURNAL.

Wednesday, July 13, 2016 | **B1**

INSIDE:

MONEY & INVESTING

Bets That Pound's Slide Isn't Over

MARKETS | B5

AMC to Buy Odeon Theater Chain



AMC is the No. 2 U.S. chain.

By ERICH SCHWARTZEL

China's Dalian Wanda Group Co. made it clear Tuesday that it plans to become the world's largest movie-theater company one way or another.

In the first major deal to take advantage of the plummeting British pound, Wanda's AMC Entertainment Holdings Inc. said it was acquiring Europe's largest cinema chain, Odeon & UCI Cinemas Group, for £500 million (\$650 million).

AMC is awaiting shareholder approval this week of a

separate deal to buy U.S. rival Carmike Cinemas Inc., but that acquisition faces resistance from major Carmike shareholders.

Deal talks between Wanda and Odeon date back to 2013, but a decades-low exchange rate brought on by the U.K.'s decision last month to leave the European Union sealed the deal, said AMC Chief Executive Adam Aron.

"This is a once-in-a-generation opportunity to acquire Europe's leading cinema chain," he said in a press release announcing the deal.

AMC is buying Odeon from

Guy Hands's private-equity firm, Terra Firma Capital Partners Ltd., in a deal valued at about £921 million, including £407 million in debt. The deal is 75% stock and 25% cash.

Odeon will remain based in London and keep its brand name. The acquisition is expected to close in the fourth quarter of the year following antitrust review by European regulators.

Since Wanda purchased AMC for \$2.6 billion in 2012, the Chinese conglomerate has steadily expanded its global theater footprint. In 2015,

Wanda bought the Australian cinema chain Hoyts Group for \$344 million.

Wanda has also been on the hunt for Hollywood holdings beyond film exhibition. In January, Wanda bought "Jurassic World" financier Legendary Entertainment for \$3.5 billion.

Odeon's 242 theaters and 2,236 screens across several European countries would make AMC the largest exhibition company in the world—a title it was supposed to already have after the Carmike deal.

AMC, based in Leewood, Please see AMC page B2

EU Clears Transfers Of Data To the U.S.

By NATALIA DROZDIK

BRUSSELS—Companies will be able to sign up as soon as August to a new trans-Atlantic data-transfer framework that will make it easier to move personal information from Europe to the U.S., after the European Union rubber-stamped the mechanism on Tuesday.

The EU and U.S. have been tweaking the framework, known as the Privacy Shield, since it was unveiled in February to ensure it guarantees strict levels of protection for Europeans' data when companies move that information to servers in the U.S.

Washington and Brussels want to avoid the fate suffered by the previous mechanism, known as Safe Harbor, which was overturned by the European Court of Justice on concerns over mass surveillance by the U.S. That court decision spawned uncertainty for thousands of companies

Privacy Shield will make the movement of personal information easier.

relying on the method to conduct basic business operations such as transferring payroll information or social-media profiles to U.S. soil.

"With new privacy protections in place, we are confident the framework will withstand further scrutiny," said U.S. Commerce Secretary Penny Pritzker.

A body representing the EU's national data-protection authorities warned in April they could challenge the Privacy Shield in court if both sides didn't provide more clarity about how Europeans' data was protected. France's data-protection authority said Tuesday that the group would analyze the completed framework and meet on July 25 to agree on a common position.

Negotiations between the U.S. and the EU to implement the privacy regulators' recommendations concluded in late June, after Washington provided more details about the circumstances in which it collects bulk amounts of data for national-security purposes and pledged this wasn't a form of mass surveillance.

In an additional letter submitted in June as part of the official Privacy Shield document, Please see DATA page B3

Nintendo Pursues 'Pokémon Go' Profit

Company's shares soar even as questions linger about gains from phone game

By TAKASHI MOCHIZUKI

TOKYO—Finding out where all the profits will go from the wildly popular "Pokémon Go" smartphone game is a search worthy of the game itself.

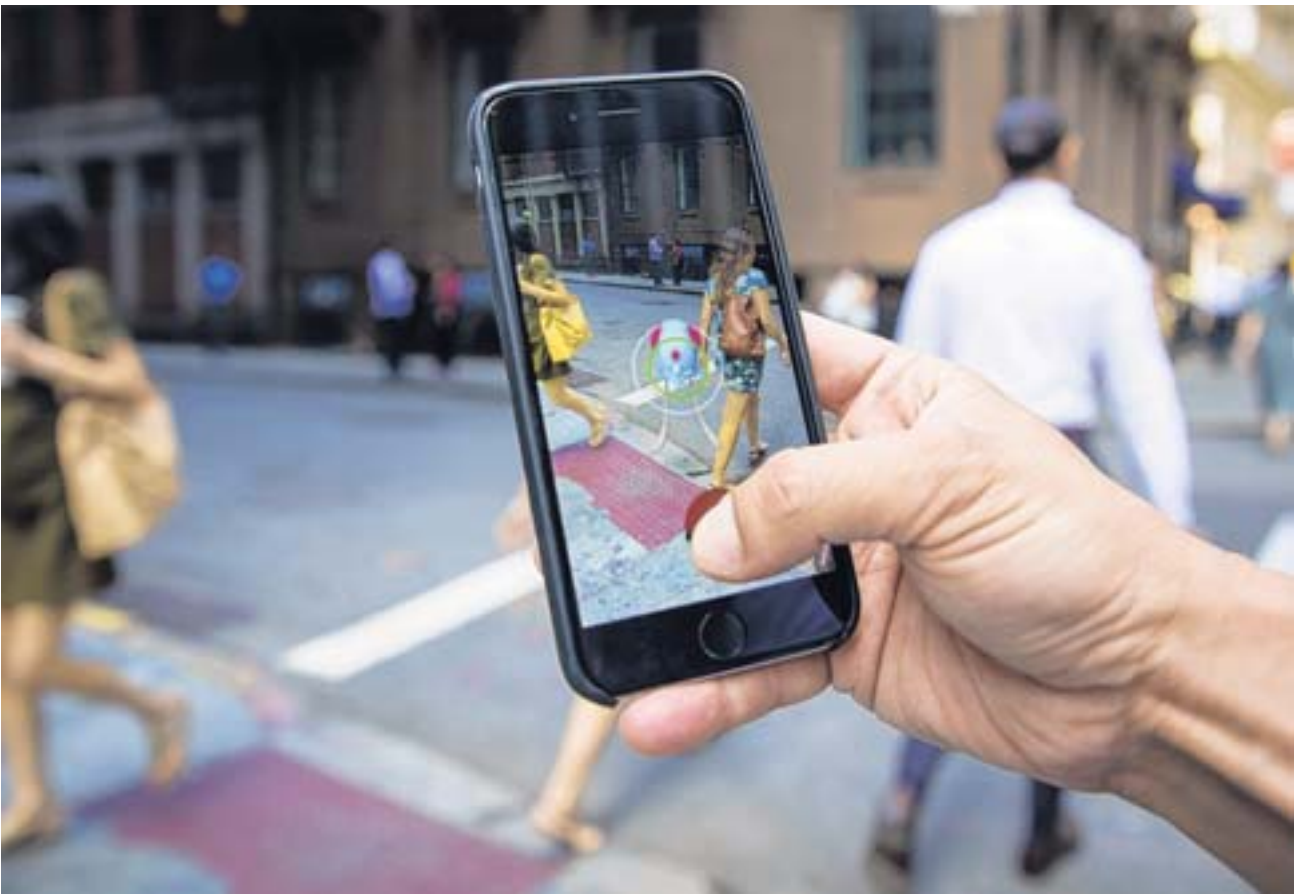
Nintendo Co. shares rose 13% to ¥22,840 (\$222.16) in Tokyo trading Tuesday following a 25% surge on Monday, pushing the videogame maker's market capitalization above \$30 billion.

The sudden change in Nintendo's fortunes rests on investors' anticipation for profits from "Pokémon Go," an application for smartphones in which players look for animated characters superimposed on real-life images on their phone screens. The app is free to download, and the revenue comes from purchases that players can make within the app, such as incense to lure the Pokémon creatures.

What isn't clear is how much of that revenue will flow to Nintendo's bottom line.

Niantic Inc., a closely held company in California that was spun out from Alphabet Inc.'s Google last year, is the developer and distributor of the game. The startup said in October 2015 that it had raised \$20 million from Tokyo-based Pokémon Co., Google and Nintendo, with an additional \$10 million investment possible if it achieved certain milestones. As is typical with startups, Niantic didn't disclose the precise ownership stakes held by its investors.

Nintendo may profit as a part-owner of Niantic, and Nintendo is also a 32%-owner of Pokémon Co., which has long controlled the merchandising of Pokémon characters and describes itself as the pro-



The 'Pokémon Go' game in New York on Monday. Nintendo is a part owner of the game's developer and of merchandiser Pokémon Co.

ducer of the "Pokémon Go" game. In addition Nintendo itself plans to sell a \$35 handheld device called Pokémon Go Plus that would make it easier to catch the digital creatures in the game.

Finally, there is an indirect benefit for Nintendo: It is beginning to roll out smartphone games featuring Nintendo-owned franchises such as "Animal Crossing" and "Fire Emblem." The experience with "Pokémon Go" has likely given Nintendo hints for making its wholly owned smartphone games a bigger success.

Adding all that up, the stock market has judged that Nintendo today is worth about \$12 billion more than it was a week ago.

Still, the uncertainty sur-

rounding the money flows has left Tokyo-based securities analysts struggling to come up with models for Nintendo's future earnings.

"All we can do now is make a guesstimate because they don't offer any information whatsoever, even a slight hint about it," said Hideki Yasuda, an analyst at Ace Research Institute in Tokyo.

J.P. Morgan analyst Haruka Mori said she assumed Niantic and Pokémon Co. would split the game revenue, excluding the portion due to Apple Inc. or Google, which operate the app stores from which the game is downloaded. Ms. Mori said that if the app had monthly revenue of ¥30 billion (\$292 million), Nintendo's annual income would likely rise

by ¥25 billion. The Pokémon Go Plus device to be sold as an add-on could raise profits by a roughly similar amount if 50 million units are sold, she said.

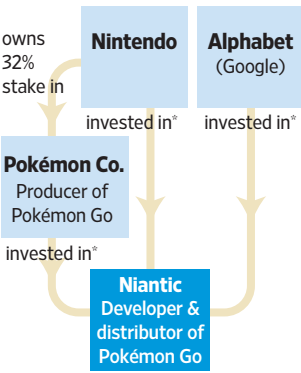
Those are big gains considering that Nintendo's net profit was only ¥16.5 billion in the year ended March 2016. Nintendo estimated that it would earn ¥35 billion in the year ending March 2017, a forecast issued before the recent craze.

A Nintendo representative referred questions about "Pokémon Go" to Pokémon Co., which said it didn't disclose how profits on its products were distributed.

"Pokémon Go" was released less than a week ago in the U.S., Australia and New Zealand.

Multiplayer Game

Nintendo isn't directly selling the Pokémon Go game but still benefits from its success.



*Amount undisclosed
Source: the companies
THE WALL STREET JOURNAL.

Tesla CEO Rules Out Disabling Autopilot

Tesla Motors Inc. Chief Executive Elon Musk has no plans to disable the company's Autopilot function in the wake of a May crash of a Model S electric car using the technol-

By Mike Ramsey,
Mike Spector
and Jonathan Bach

ogy, and the auto maker instead plans to redouble efforts to educate customers on how the system works.

Mr. Musk, in an interview, said the company is planning an explanatory blog post that highlights how Autopilot works and what drivers are expected to do after they activate it. "A lot of people don't understand what it is and how you turn it on," Mr. Musk said.

Tesla's co-founder pushed hard to launch the Autopilot feature as soon as possible because "we knew we had a system that on balance would save lives." While many auto makers offer systems that rely

on automatic braking, steering assist or adaptive cruise control to aid drivers, Tesla's system steers the car more actively than similar systems and the company has marketed it more aggressively.

The safety of Tesla's Autopilot is under scrutiny after a May 7 crash in Florida that killed 40-year-old Joshua Brown, a Model S owner who was using the self-driving system at the time of the accident. The National Highway Traffic Safety Administration said in June that it would investigate the crash, the first known fatality connected to the Autopilot system.

NHTSA on Tuesday disclosed a letter requesting documents and details of additional crashes involving Tesla's Autopilot as part of its continuing probe. Regulators are homing in on emergency braking and forward-collision warning functions that allegedly didn't respond as expected before the May 7 crash.



Tesla's Elon Musk says disclaimers are 'in super-plain language.'

A spokesman for the auto-safety regulator characterized the July 8 request as a standard step and said "NHTSA has not made any determination about the presence or absence of a defect in the subject

vehicles."

Tesla confirmed the company received the letter and said it is cooperating.

In its letter to Tesla, the agency included a question- Please see TESLA page B2

J.P. Morgan Will Give Tellers, Others a Raise

By EMILY GLAZER

J.P. Morgan Chase & Co. tellers are getting raises.

James Dimon, chief executive of the U.S.'s largest bank by assets, announced that the firm will boost the pay for 18,000 of its lower-tier employees over the next three years at a time when those jobs are shrinking across the industry, according to an op-ed article that appeared in the New York Times on Tuesday. The plans were confirmed by a J.P. Morgan spokesman.

The move mirrors similar efforts at other companies and efforts to increase the national minimum wage. Starbucks Corp. said Monday it would increase pay for workers by between 5% and 15%, while Wal-Mart Stores Inc. and Target Corp. have also outlined plans in recent months to raise wages to counter a tight labor market. Late last week, the Democratic

National Committee included a call for a national \$15-an-hour minimum wage in its 2016 party platform.

J.P. Morgan's pay raise also comes as it and other banks are trying to cut expenses. This is because subprime interest rates, combined with subpar economic growth, have pressured profitability. That headwind has grown stronger in the wake of the U.K.'s vote to leave the European Union.

Yet, for J.P. Morgan, the symbolism of the move is likely larger than its financial impact. The raise is expected to cost the bank around \$100 million over three years on top of employees' regular wages, assuming an average increase of about \$3 an hour.

In 2015, J.P. Morgan had total compensation expenses of \$29.75 billion. That same year, the bank paid its top five named executive officers, who Please see PAY page B2

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Peugeot Parent Posts Weaker Sales in Asia

By ALEXA LIAUTAUD

PARIS—French auto maker **Groupe PSA** said a sharp decline in demand for its cars in China offset buoyant first-half sales in Europe where the outlook has turned less bright after the U.K.'s vote to leave the European Union.

The maker of Peugeot and Citroën brand cars said on Tuesday that its overall sales fell less than 1% to 1.54 million vehicles in the six months ended June 30, from 1.55 million in the same period a year earlier.

Its sales in China and Southeast Asia fell 19% to 296,507 units in contrast with a 74% rise in demand for its Peugeot and Citroën brands in Europe, to 1.06 million.

The auto maker's performance contrasts with a rebound in overall car demand in China, up 9.2% in the first half to 11 million vehicles, and the performance of other for-

eign manufacturers—including French rival **Renault SA** whose first-half sales in China and the rest of Asia rose 13%.

Peugeot gave few details about its poor showing in China other than to note it was adapting to a “fast-changing” market in the country and the southeast Asian region more generally. Surging demand for sport-utility vehicles and a tax break have contributed to this year's recovery in the Chinese car market.

Peugeot, which manufactures vehicles in China under a joint venture with Dongfeng Motor Group Co., is planning a big marketing push in the second half of year with the launch of five SUVs in the next two years as part of plan to have 18 new models in the showrooms in China by 2020.

Shares of the Paris-based company have dropped sharply in the weeks since the U.K. voted to leave the European Union.

Hershey Trust Change Fuels Deal Uncertainty

By HEATHER HADDON

A board member of the trust controlling **Hershey Co.** has resigned, another sign of uncertainty at the famous chocolate maker as it faces pursuit from a larger rival.

Joan E. Steel, a board member at the Hershey Trust Co. since 2012 who served on its audit committee, resigned over the weekend without giving reason, trust spokesman Kent Jarrell said Monday. The charitable trust that controls Hershey's board is searching for a replacement, but its nine remaining members are enough to conduct board business, Mr. Jarrell said. “It's a quorum.”

Ms. Steel couldn't immediately be reached for comment. The \$12 billion trust paid her \$92,667 for her work on the board, according to its most recent federal charitable filing. Ms. Steel founded Alpha Wealth Advisors, a LLC based in Chicago, according to Illinois Secretary of State records. She also has served on the board of trustees for Loyola University Chicago.

Three other board members—Stephanie Bell-Rose, John Fry and Richard Zilmer—have resigned from the trust since late 2015, said the Hershey Trust spokesman.



The chocolate maker has been approached by Mondelez.

Snack giant **Mondelez International Inc.**, which makes Oreo cookies and Cadbury chocolate bars, recently sent a letter to Hershey proposing a tie-up at \$107 a share, half in cash and half in stock. Hershey's board quickly and unanimously rejected the roughly \$23 billion offer in early July. Any deal would require the approval of the Hershey Trust, which owns about a 30% stake and controls about 80% of the vote, and has opposed a sale in the past.

Milton Hershey established the trust in 1905 to oversee the affairs of a charitable school he established alongside his chocolate company, and the well-being of the larger Hershey, Pa., community. Pennsylvania's attorney general has oversight of the trust under state law.

Brewers Vow Calorie Data

Six large beer makers have pledged to put nutrition information on packaging or online

By TRIPP MICKLE

The biggest brewers in the U.S. said on Tuesday they plan to add nutrition labels to beers including **Heineken** and **Corona**, detailing the amount of calories, carbohydrates and alcohol in each brew.

The voluntary step was met by criticism from consumer advocates, who called on the industry to include ingredient information on bottles and cans. Brewers, including **Anheuser-Busch InBev NV** and **MillerCoors LLC**, said they would provide that information online or on cardboard packaging.

“If the industry takes pride in its ingredients it should list them on labels and not simply on the web,” said Michael Jacobson, president of **Center for Science in the Public Interest**. He said in a statement that many brewers artificially color, flavor, sweeten and preserve products.

Beer Institute President Jim McGreevy said brewers “wel-



Heineken and others to list alcohol content for brands by 2020.

come that debate” over adding ingredients to products but are “very proud” of their plan to provide nutritional information to consumers.

Nutrition labels will be added by 2020 to all beers made by AB InBev, MillerCoors, Heineken NV, **Constellation Brands Inc.**, Craft Brew Alliance Inc., which makes Kona Longboard Island Lager, and North American Breweries, which makes Labatt Blue. The six brewers account for

more than 80% of U.S. beer volume, according to the Beer Institute, a lobbying group.

The craft beer industry, which represents more than 10% of U.S. volume, and Pabst Brewing Co. which has about 2.5% market share, didn't commit to adding the labels.

A number of the nation's most popular beers already feature nutritional information, including Bud Light, Budweiser, Miller Lite and Coors Light. The Alcohol and To-

Cnooc Unit to Idle Oil-Sands Facility

By CHESTER DAWSON

CALGARY, Alberta—**Cnooc Ltd.**'s Canadian subsidiary said Tuesday it would idle a troubled oil-sands facility following two accidents at the site, a move that raises questions about the Chinese company's \$15 billion investment in Canadian oil sands.

Nexen Energy ULC, the Cnooc subsidiary, had already cut its oil-sands production after a July 2015 pipeline leak and then again after an explosion at its Long Lake crude-processing unit in northern Alberta, which killed two workers in January. Production at the site has been limited to just 15,000 barrels a day since then, compared with 50,000 barrels a day this time last year. The company said it

would lay off some 350 employees beyond its previously announced job cuts due to its decision to scale down operations.

Regulatory authorities in Alberta say their investigations into the two accidents are continuing.

Nexen CEO Fang Zhi said the damaged processing unit wouldn't be repaired pending a review of the long-term viability of its oil sands operations amid a global slump in crude oil prices. “The prolonged low price environment and unique operational challenges that Nexen has faced at our Long Lake facility have factored into this decision,” he told reporters at a news conference in Calgary.

Nexen said the two employees who perished in the Janu-

ary explosion were conducting maintenance on part of Long Lake's oil processing unit known as a hydro cracker, which turns heavy crude into lighter crude. Its internal in-

Nexen's decision to idle its Long Lake plant will result in the loss of 350 jobs.

vestigation found the men caused the hydro cracker blast by performing unspecified tasks “outside the scope of approved work activities.”

The company said the spill of 31,500 barrels of oil on the grounds of its Long Lake site was caused by the buckling of a six-month old pipeline that

wasn't properly moored in a marshy area. It faulted its own assessment of the pipe's resiliency but also contractors and subcontractors—who Nexen didn't identify—with standard work on the pipe's design, construction and installation.

The rupture in the pipeline is estimated to have occurred on June 11 last year during a shutdown for routine maintenance, which was more than one month before the leak was detected, Ron Bailey, Nexen's senior vice president for Canadian operations, told reporters.

“The delay in discovery was primarily the result of shortcomings in the pipeline's automatic leak detection system and our ability to monitor this system,” Mr. Bailey said.

TESLA

Continued from the prior page
naire seeking details on Autopilot's design and engineering, and reports of crashes, deaths, injuries or other claims related to the technology.

Mr. Brown's crash “calls for an examination of the design and performance of any driving aids in use,” regulators said in an earlier document opening their probe. Tesla responses to some questions from the more recent information request are due July 29, while others are due Aug. 26.

Tesla called the Autopilot function a beta feature when it launched it last year and designed it so that the system is off by default until a driver activates it. “It says beta specifically so people do not become complacent,” Mr. Musk said. He said disclaimers provided to drivers are “written in super-plain language.” Some customers have said Tesla's warnings should be clearer.

The company issued some data related to Autopilot when the NHTSA preliminary investigation was disclosed nearly two weeks ago. The Palo Alto, Calif., auto maker said the May 7 accident was the first fatal crash in more than 130 million miles driven with Autopilot since the system made its debut in October. The car's system failed to distinguish the truck's white trailer for a bright sky, so the vehicle's automatic emergency brake didn't activate, Tesla said. The Autopilot system allows cars to drive themselves under certain circumstances, though



A Tesla Model S dashboard display showing Autopilot activated.

Tesla warns motorists that the technology doesn't make vehicles autonomous and that they should remain engaged behind the wheel.

NHTSA's July 8 letter requests details of Tesla's own investigations and reconstruction of the May 7 incident.

Since NHTSA disclosed the investigation in late June, there have been at least two crashes in which Tesla drivers say Autopilot was engaged.

The most recent example is of a driver of a Tesla Model X SUV who told local authorities the feature was active when the vehicle crashed into railing wires along the side of Montana State Highway 2 near Whitehall on Saturday.

The driver was en route from Seattle to Yellowstone National Park, according to Montana Highway Patrolman Jade Shope. The Model X hit the railing before moving back on to the roadway, Trooper Shope said. It is unclear whether the driver had his hands on the wheel when the accident occurred, he said.

A Tesla spokeswoman said

the car had its autosteer feature enabled and that data suggests the driver's hands weren't on the steering wheel. Failing to periodically place hands on the steering wheel violates terms drivers agree to when enabling the feature, the Tesla spokeswoman said. The technology reminded the driver to put his hands on the wheel shortly before the crash, she said. Tesla advises against using autosteer on undivided roads such as the one in the Montana crash, she said.

An earlier incident involved Albert Scaglione, of Farmington Hills, Mich., who was driving outside Pittsburgh on July 1. He recalls crashing his Model X into a guardrail on the Pennsylvania Turnpike.

“We were on Autopilot,” Mr. Scaglione told The Wall Street Journal on Tuesday. He said he was hospitalized for a few days and was in two different trauma centers. Tesla said last week it had “no reason to believe that Autopilot had anything to do with this accident,” based on information it had at the time.

AMC

Continued from the prior page
Kan., said in March it was acquiring Carmike for \$1.1 billion, or \$30 a share.

AMC is the second-largest movie-theater chain in the U.S., and Carmike is No. 4. A tie-up between the two is considered the biggest possible

deal in the U.S. movie-theater industry due to antitrust rules.

But major Carmike shareholders balked at the price, with some saying AMC is undervaluing their company by at least \$10 a share. A vote to approve the acquisition was scheduled for early July but was postponed until Friday.

“We intend to continue to work this week with Carmike to see if the AMC/Carmike

transaction can be saved, but we again note that the economics of a transaction get marginal very quickly for AMC above the \$30 deal price,” AMC said.

In New York trading Tuesday, news of the Odeon acquisition, sent AMC stock up 7.3% to \$29.80. Carmike shares rose 2.2% to \$30.39.

—Austen Hufford contributed to this article.

Pokémon Chasers Hit Wall in China

China's aspiring Pokémon catchers are going to great lengths to play the hit smartphone game "Pokémon Go," which isn't officially available in the country.

By *Eva Dou in Beijing and Juro Osawa in Hong Kong*

But after days of trying, some still haven't caught any of the cartoon creatures.

The smartphone app "Pokémon Go," which was released less than a week ago in the U.S., Australia and New Zealand, lets players scour parks, subway stops and other locations for cute monsters. It uses a technology called augmented reality, which blends digital images with a person's view of the real world through the phone's camera. The game already ranks among the most downloaded and top-grossing smartphone apps.

Google accounts, which are needed to play, aren't available in the country.

But Chinese app stores don't carry the game, and Google accounts—which are necessary to create a player account—are inaccessible in the country without software to circumvent China's internet blocks known as the Great Firewall. Chinese players who manage to download the game are greeted with a landscape devoid of Pokémon, as the game blocks users with Global Positioning System signals from certain locations, including China.

The producer of the game, **Pokémon Co.**, which is 32%-owned by **Nintendo Co.**, declined to comment about rollout plans for other countries.

In the spirit of Chinese entrepreneurship, inaccessibility in China has spurred a cottage industry of workarounds. Chinese online marketplace Taobao, run by internet giant Alibaba Group Holding Ltd., is full of listings for Apple Inc.'s app store and Alphabet Inc.'s Google accounts that claim they will allow Chinese users

to access "Pokémon Go," as well as software that falsifies the phone's location to make it appear to be in another country. But even with these hacks, some Chinese users couldn't play.

Kai Wang, a 24-year-old graduate student in the southwestern city of Chongqing, downloaded the game four days ago by borrowing his friend's U.S.-based iPhone app-store account.

Even though he has the app on his phone, Mr. Wang couldn't play it because the GPS for the game appears to be blocked and he keeps getting an error message saying that there is no GPS signal.

"Every day we see pictures online from people in the U.S. capturing interesting Pokémon. It's frustrating," said Mr. Wang, who grew up watching Pokémon television shows and reading Pokémon comic books.

On Monday, one of his friends who had also downloaded "Pokémon Go" sent him a message saying that the app's GPS was starting to work. By the time he saw the message and tried to play the game, it was blocked again.

Other Chinese Pokémon fans wrote on social network Weibo that they had also spent days trying to open the game without success. Those who managed to play the game posted screenshots boasting their Pokémon catches. Some users in northern parts of China reported they were able to log into the game.

Similar Chinese games have also become popular, partly due to players mistaking them for "Pokémon Go."

Despite the limited access in China, "Pokémon Go" is popular enough that Chinese bank ICBC issued a warning on Monday. "Please do not use excuses like 'There is a Pikachu behind your counter' to trespass in secure areas of the bank," ICBC posted on its Weibo account.

The potential market for "Pokémon Go" is huge in China. It is the world's biggest market for mobile games, with revenue last year reaching \$71 billion, followed by the U.S. and Japan, which generated \$6.2 billion each, according to market-research firm Newzoo.

abide by stricter rules around how they process data and how long they hold on to it.

Under the new system, commerce and data-protection authorities in the U.S. and EU will review the mechanism every year to ensure operations continue to run smoothly. The U.S. has also promised to brief the commission on any legal changes that could affect the Privacy Shield, the EU said.

"The Privacy Shield will strengthen the trans-Atlantic economy and reaffirms our shared values," said EU Justice Commissioner Vera Jourová, whose portfolio made her the lead negotiator on behalf of the EU for the deal. "Our attention must now turn to getting the Privacy Shield up and running in practice."

Companies will be able to sign up to the Privacy Shield starting Aug. 1 once they have implemented any changes to comply with the stricter rules. Some lawmakers and privacy activists have expressed skepticism the new mechanism will hold up in court.

—*Sam Schechner in Paris contributed to this article.*

Electric-Car Startups Bloom

Backed by Chinese tech giants, Future Mobility plans to sell premium cars globally

BEIJING—An electric-car startup backed by internet giant **Tencent Holdings** Ltd. plans to start selling its premium cars globally by 2020, joining other Chinese firms in taking aim at an increasingly crowded luxury market.

Four month-old **Future Mobility** Corp. seeks eventually to sell several hundred thousand fully electric, highly automated China-built vehicles a year. The company is also backed by Chinese luxury-car dealer Harmony New Energy Auto and **Foxconn Technology Group**, which assembles iPhones for **Apple** Inc. Apple has been working on its own autonomous electric car.

Deep-pocketed technology companies have backed a wave of new automobile companies in China, where a drive to cut fuel consumption and pioneer the auto industry of the future has encouraged startups. Analysts, citing increasing competition and uncertainty over a subsidy-fueled boom in electric vehicles, question how such ambitions can be turned



JASON LEE/REUTERS

A BMW i3 electric car plugged into a charging station in Beijing.

into reality.

"Our target is to create the first Chinese brand which is premium and internationally successful," Carsten Breitfeld, chief executive of Future Mobility, said in an interview on Tuesday. It aims to sell cars in China, Europe and the U.S. and to compete with Audi AG, **BMW** AG and **Daimler** AG's Mercedes-Benz, which account for three quarters of China's luxury-car market.

Future Mobility soon will complete its first round of fundraising, Mr. Breitfeld said.

Last year China's industrial regulator amended rules to al-

low nonautomotive companies to invest in the electric-car industry, which Beijing has subsidized to the tune of tens of billions of dollars.

Internet giants jumped in. China's annual motor show in April showcased smart vehicles powered by software from online-shopping firm Alibaba Group Holding Ltd. and search provider Baidu Inc. Last month, a Baidu executive said the company plans to mass produce a driverless car within five years.

Tencent, China's biggest social-network company, has a research team working on

Acquisition Spree

Tencent Holdings President Martin Lau has spearheaded major deals for China's internet giant.

Tencent's top 10 acquisitions

Date announced	Target company	Country	Industry	Deal value excluding debt
June 21, 2016	Supercell Oy* (84.3%)	Finland	Mobile games	\$8.6 billion
Dec. 9, 2015	Postal Savings Bank of China (16.9%)	China	Financial services	7.0
May 13, 2016	Xiaoju Kuaizhi/Didi Chuxing Technology (18%)	China	Ride-sharing	4.5
Jan. 19, 2016	China Internet Plus Holdings/Meituan-Dianping (18.3%)	China	On-demand services	3.3
March 10, 2014	JD.com (15%)	China	E-commerce	2.1
June 15, 2015	Xiaoju Kuaizhi/Didi Chuxing Technology	China	Ride-sharing	2.0
Jan. 9, 2015	Bitauto Holdings (28.3%)	China	Online used car information	1.3
July 3, 2015	Tongcheng Network Technology Share (50%)	China	Online travel	1.0
March 12, 2015	Dianping	China	On-demand services	0.9
June 27, 2014	58.com (19.9%)	China	Online classified ads	0.7

*Pending Note: Deal value is the overall value of the investment round; it may include investors other than Tencent. Source: Dealogic THE WALL STREET JOURNAL.

Facebook to Tap Microsoft Software

By **JAY GREENE**

Facebook Inc. has signed a deal to use **Microsoft** Corp.'s online email and other software, even as it develops its own workplace communication and collaboration service.

On Tuesday, Facebook was expected to announce plans to use Microsoft's Office 365, the web-based version of the software giant's suite of workplace productivity programs. Facebook previously used the on-premises versions.

The social network's 13,000 employees will tap some portions of Office 365, including its email and calendar. But they won't have access to Yammer, Microsoft's workplace social network, or Skype for Business, for messaging and videoconferencing, which directly compete with Facebook's own services.

Facebook has described email as "inherently top-down" compared with the collaborative nature of its own service, Facebook at Work, a

workplace version of its popular social network introduced last year. Facebook at Work lets co-workers communicate and share content through the company's familiar web user interface, along with security and administration features designed for corporate technology managers.

Facebook's employees use Facebook at Work internally. But email still has its place, said Tim Campos, the company's chief information officer. "Facebook at Work doesn't end the

need for email," he said. "It's not a binary thing."

Email use continues to grow even as Facebook at Work, as well as rival products from Slack Technologies Inc. and many others including Microsoft itself, draw away corporate customers. The Radicati Group Inc., which tracks collaboration and messaging technology, estimates that 215.3 billion emails will be sent daily by the end of 2016, and that number will grow 5% annually through 2020.

GE to Link Network With Microsoft Cloud

By **AUSTEN HUFFORD**

General Electric Co. and **Microsoft** Corp. announced a partnership to bring GE's industrial "internet-of-things" platform to Microsoft's computing cloud, as both companies shift legacy businesses into areas more focused on mobile and the internet.

The companies said Monday that GE's Predix software platform, which enables industrial machines to connect to the "industrial internet," would hook up with Microsoft's Azure cloud

platform, allowing users to analyze and share data from their machines using Microsoft applications.

Predix is a software and cloud platform that provides a standardized way for companies to connect their industrial devices—from train wheels to package shipping machines—to the cloud to monitor and optimize them.

Microsoft has been investing in its Azure platform, as competition in the market for on-demand computing power continues to heat up. It is bat-

tling with similar offerings from **Amazon**.com Inc.'s **Amazon Web Services**, or AWS, Alphabet Inc.'s Google Cloud Platform and IBM's SoftLayer.

Predix already runs on AWS, and GE is working with Oracle Corp. to integrate the technology into its offerings.

International Data Corp. analyst Al Gillen said Monday's announcement "is not a win for Microsoft as much as it is a catch up." Azure operates in many countries, and the availability of Predix may make Azure "more attractive for

some country- and regional-level customers," Mr. Gillen said.

The partnership will allow Predix customers to access Microsoft Azure capabilities such as natural language processing, artificial intelligence, data visualization and integration with Microsoft's Office 365 suite of online workplace productivity apps and other software. A developer preview will be released toward the end of the year and the platform will be released commercially by the second quarter of 2017.

Business Watch

ACCORHOTELS

Investment Arm to Become Subsidiary

French hotels group **AccorHotels** SA said it is turning its hotel ownership and investment arm into a subsidiary, opening the way for third-party investors to take control of the operations.

The owner of the Ibis and Sofitel chains is in the midst of a turnaround plan led by Chief Executive Sebastien Bazin, a private-equity specialist.

Shortly after taking over in

2013, Mr. Bazin split the company's operations into two units: The HotelServices unit concentrating on hotel operations and HotelInvest, which is focused on real estate and asset management.

AccorHotels said HotelInvest had a gross asset value of €7 billion (\$7.7 billion) in 2015.

—*Nick Kostov*

GOOGLE

EU Extends Deadline For Response to Claim

Alphabet Inc.'s Google has been given more time by the European Union to respond to accusations that it has abused its market dominance with its Android mobile operating system.

The European Commission, the bloc's antitrust regulator,



MARTIN LIESSEL/BLOOMBERG NEWS

French group AccorHotels owns the Sofitel chain of hotels.

Tuesday said it is giving Google six extra weeks, until Sept. 7, to respond to the EU's charges which were levered against it in April.

"Google asked for additional

time to review the documents in the case file," a commission spokeswoman said.

The commission has accused Google of using its Android mobile-operating system, which

runs more than 80% of the world's smartphones, to strong-arm phone makers and telecom companies into favoring Google's search engine and browser on their devices.

The EU initially gave Google until July 27 to respond to the Android charges. It is common for the regulator to grant extensions to companies to respond to formal antitrust charges.

—*Natalia Drozdiak*

AVID LIFE MEDIA

Ashley Madison Owner to Rebrand

Avid Life Media Inc., parent company of affair website Ashley Madison, on Tuesday said it is renaming itself **Ruby** Corp. amid a push to rebrand itself beyond the infidelity moniker.

Ashley Madison—which bills

itself as "the online personals & dating destination for casual encounters, married dating, discreet encounters and extramarital affairs"—was thrust in the spotlight last year when cybercriminals posted online stolen customer information, including customers' credit-card details, addresses and sexual preferences.

The renaming is "an important step in our journey to completely rebuild the company as a relevant, digital dating innovator that truly cares for our customers," said recently named Ruby Chief Executive Rob Segal.

Avid Life Media also said it is repositioning its flagship brand Ashley Madison, dropping its tagline "Life is Short. Have an Affair." for "Find Your Moment."

—*Anne Steele*

MANAGEMENT

WORKAROUNDS

First Jobs: Health Warrior CEO Fed Himself Off Spots In Police Lineups

An occasional look at executives' early jobs. Shane Emmett, 38, co-founder and CEO of Health Warrior Inc., a maker of snack bars, on a part-time job during his student days at Oxford University:

I had a budget of £30 [currently about \$39] a week for food, which allowed for a very spartan diet.

A friend told me about a gig with the local Thames Valley Police Department, standing in police lineups. It paid about £30 an hour.

Getting selected as a person of interest was the golden ticket. You got to stay a little bit longer and make around £90. I made enough money to buy a good pesto sauce.

It was very humbling. I'd have these moments of clarity where I'd think, I'm actually standing in police lineups for food money.

They call you if your head-shot, height and weight matched the suspected criminal. I was very popular; I went almost every week.

I realized that I probably looked like a criminal most of the time. I was thin, 6' 2" with short hair.



Robots Eye Jobs In Food Service, Manufacturing

Managers and dental hygienists: your jobs are safe. Safe from robots, anyway.

A McKinsey & Co. report says those jobs are among the least likely to be automated in the next decade. The consulting firm analyzed more than 2,000 work tasks for more than 800 occupations, using data from the U.S. Bureau of Labor Statistics and other sources to determine which industries and jobs are most at risk.

Manufacturing, food service and retailing are the most susceptible to automation, based on currently available technology, while sectors like health care and education were less likely, according to the report.

Researchers categorized work tasks into those most and least susceptible to automation. Predictable, repetitive tasks, such as packaging objects, welding on an assembly line and food preparation, were the most likely to be automated using currently available technologies.

Such tasks account for about one-fifth of the time spent in U.S. workplaces, and even more in some types of manufacturing. The report estimates that 59% of all manufacturing activities could be automated.

CEOs Put Less Stock in Predictions

Executives' faith in expert forecasts fades as uncertainty grows; Brexit is latest jolt

The forecast for business predictions these days is cloudy.

Chief executives tap consultants, expert prognostications and polls about market and

By Rachel Emma Silverman, Joann S. Lublin and Rachel Feintzeig

political conditions to help inform business decisions. But from the Brexit surprise to the rise of Donald Trump and the frequent revisions to U.S. job market numbers, expert analyses have been landing far off the mark—and executives are growing wary.

Uncertainty has been a given for business since the financial crisis, but business leaders say recent events have diminished their faith in forecasts. Some are tapping new data sources to guide decisions and spending, while others say they have resolved to keep operations flexible to prepare for sudden changes. A few corporate leaders say they are rethinking how much expert forecasting they are willing to pay for.

"The so-called experts and global economists are proven as often to be wrong as right these days," says Scott Wine, chief executive of Polaris Industries Inc., a Medina, Minn., manufacturer of off-road vehicles and motorcycles.

Following Britain's surprise decision last month to exit the European Union, Mr. Wine plans to lean heavily on his global workforce and customers for insights about local political sentiments and the investment climate. "We have not made a practice to gauge our employees about geopolitical risk. But it's something we will do going forward," he says.

Ken Lamneck, CEO of Tempe, Ariz.-based Insight Enterprises Inc., which sells information-technology products to companies, says he has become more cautious when sizing up predictions. He cites forecasts for currency fluctua-



Ken Lamneck, chief executive of Insight Enterprises, says he has begun turning more to fellow tech-industry CEOs for advice.

tions, where "analysts were pretty far off" recently, resulting in damped revenue expectations. He has begun turning to fellow tech-industry CEOs for advice.

Mr. Lamneck also spends more time looking backward, comparing past forecasts with what actually happened. He uses that margin of error to assess new data, such as the predicted growth rate for his industry. Sometimes, that means Insight might invest less in, say, hiring salespeople, than a rosy forecast might warrant.

Mr. Lamneck says he is more closely scrutinizing the research that the company buys from advisory firms like IDG and Gartner.

"We'll look at, 'What's the real value of these services that we're paying for?'" he says, adding that the reports are more useful for strategy ideas than for market-growth forecasts.

A study of about 28,000 expert geopolitical predictions over 20 years found that most were only slightly better than chance, especially when pre-

dicting events more than a year off, according to Philip Tetlock, a professor at University of Pennsylvania's Wharton School of Business who studies forecasting.

Dr. Tetlock suggests businesses carefully track both internal and external forecasts and keep score on who gets the important calls right—a step that few companies take.

"If you can't make an accurate forecast, who do you hold accountable for results? It be-

'You always have to take this stuff with a grain of salt,' IAC chief 'Steve' Miller says.

devils managers and investors," says Eric Ries, a management consultant who helps startups and established firms like General Electric Co. navigate uncertainty.

Mr. Ries advises his clients to rely less on forecasts and instead road-test ideas with customers and make fast adjustments when needed. He urges them to supplement big-data predictions with close observation of their customers.

A painful experience with a prediction gone wrong taught Robert S. "Steve" Miller, chief executive of auto-interiors manufacturer International Automotive Components and a veteran turnaround specialist, to favor flexible business models.

In 2008, Mr. Miller was executive chairman and prior CEO of Delphi Corp., the largest U.S. auto-parts maker. Few experts predicted the severity of the economic down-

turn that year, which caught Delphi and countless other companies unprepared.

The manufacturer, which had sought bankruptcy-court protection in 2005, came perilously close to liquidation as auto sales plunged. Delphi's inability to predict the downturn "greatly extended the time we spent in bankruptcy," Mr. Miller recalls.

During bankruptcy, he slashed Delphi's hourly work-

force, cut 40% of salaried staff and closed 21 of the 29 U.S. factories. Delphi emerged from bankruptcy in 2009.

Mr. Miller now relies on a fluid manufacturing process at IAC. The company can easily move manufacturing equipment to a different location when auto makers' sales volume shrinks, he says.

He and fellow directors review corporate strategy quarterly, and Brexit's effect will be on the agenda for their July 27 review. Mr. Miller says the referendum's result will only add to the complexity his company faces.

Still stung from his experience in 2008, the IAC leader says he places little stock in current economic predictions. He is equally skeptical about predictions describing future effects of the Brexit vote.

"You always have to take this stuff with a grain of salt," Mr. Miller suggests. "You can't run your business with only one track in mind—which is the direction that forecasters and experts are telling you it will go."

As Emojis Pop Up in Work Email, Experts Weigh In

By DAHLIA BAZZAZ

In the span of a few years, emoji—the smiley faces, hearts, flags and other small pictures installed in most smartphone, email and chat programs—have become ubiquitous in digital communication. Even work email.

More than half of workers say they have used emoji to communicate at work, according to a recent survey of 661 employees and managers conducted by OfficeTeam, a staffing company and subsidiary of Robert Half International. More managers than workers approved of emoji at work, a finding that reflects research

showing that small, playful icons serve a surprisingly serious purpose in managing the emotional tone at work.

A 2014 study of emoticon use in more than 1,600 emails sent at three Scandinavian companies found that individuals were most likely to use a :) in the body of an email when making a request of a colleague.

Bosses use emoticons like smiley faces to soften the imperious tone of requests, in turn making themselves seem "less authoritative" and more familiar with employees, according to the study, written by researchers at three Scandinavian universities and published in the July 2014 Journal of Computer-



Mediated Communication.

Workplace emoticon users, the authors argue, are primarily trying to clue recipients into how their message should be interpreted. (People often use exclamation points in work email for similar reasons, since written communications can come across as more terse than

spoken exchanges.)

Jacqueline Whitmore, the author of a book on business etiquette, advises gauging the tone of office communications before sending an emoji to a colleague. Allowing higher-ups to send the first smiley (or octopus) and only using them with familiar colleagues are both good practices.

Ms. Whitmore says it is also important to consider the recipient. A small picture of a winking ghost may build fellow-feeling among colleagues, but may fall flat among clients.

To play it safe, the best emoji to send is a variation of the smiley face. To be avoided, in Ms. Whitmore's view: anything de-

noting anger or romance.

"Learn to communicate without them, and use them only as an enhancement," said Ms. Whitmore. "When it doubt, leave it out."

Kent Grayson, a marketing professor at Northwestern University's Kellogg School of Management, says emoji are no different from slang words.

"You might have a workplace where it's OK to use slang words because the workplace is a little more casual," said Mr. Grayson, who has researched the relationship between icons and deception. "If not, you want to be careful that you don't imply a sense of imprecision or frivolity."

12,650

Minutes a month

COMPLETING A CODING BOOT CAMP

8,640

Minutes a week

ATTENDING PANEL DISCUSSIONS

5

Minutes a day

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MONEY & INVESTING



Mall Shoppers Pay More Heed to Security

THE PROPERTY REPORT | B9



Chinese Zombie Firms Still Alive After Defaults

GLOBAL FINANCE | B7

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Wednesday, July 13, 2016 | B5

As of 4 p.m. ET **EUR/GBP** 0.8366 ▼ 1.68% **YEN/DLR** ¥104.72 ▲ 1.86% **GOLD** 1334.10 ▼ 1.54% **OIL** 46.80 ▲ 4.56% **3-MONTH LIBOR** 0.67335% **10-YR TREAS** ▼ 23/32 yield 1.512%

Investors Bet Sterling's Slide Isn't Over

Many asset managers are positioned for declines, even after the recent plunge

By MIKE BIRD

The pound's dramatic fall since Britain voted to leave the European Union is its swiftest decline on record. But positioning in currency markets suggests most investors are ready for more to come.

The latest data from the **U.S. Commodity Futures Trading Commission** indicate that investors believe the pound will continue to fall even after its 12% plum-

met against the dollar since June 23. They join the chorus of analysts also predicting sterling's journey south isn't over.

Some classes of money manager actually increased their net short position in the first week of July, despite the major decline that followed the vote.

Sterling fell from about \$1.50 on the evening of the Brexit vote, to below \$1.30 for much of the last week. On Tuesday, the pound climbed to \$1.3262 in afternoon New York trading, from \$1.2999 late Monday, amid a wider rally across markets. But investors and analysts think its direction is down.

Asset managers in the

first week of July had 81,986 more short contracts than long contracts, meaning that they generally expect the currency to continue falling. That is the largest net short position since the end of March, despite the collapse in the pound since then.

Leveraged money, a category largely made up of hedge funds, also recorded a growing net short position. The category actually had a net long position in the final week of May, a few weeks before the vote, but last week had 29,819 more short than long contracts.

There is a common view in markets that extreme positioning—where investors overwhelmingly agree on the

direction a currency will move—means that it is unlikely to move much further in that direction. In this idea, there is nobody else taking the other side of the trade so prices can't move further.

But HSBC currency strategists believe that logic is wrong.

"Whilst extreme positions are likely to be followed by sharp price moves, this price move may be in either direction," the research note says. "Positioning tells you about future volatility, not about future direction."

Many politicians who had argued for Brexit say that a cheaper pound is good news for the U.K., given that it

makes the country's exports more competitive and its assets cheaper. On Tuesday, U.S. movie-theater chain operator AMC Entertainment Holdings Inc., which is owned by China's Dalian Wanda Group Co., bought U.K.-based peer Odeon & UCI Cinemas Group for £500 million (\$650 million) in a deal the U.S. company said was made more attractive by the fall in the pound.

But if investors aren't sure just how cheap the pound will get, some may hold off on acquiring U.K. assets, to avoid making paper losses.

In one example, for a U.S. investor, British property has effectively gotten 12% Please see **POUND** page B6

Panned

How many dollars one pound buys



THE WALL STREET JOURNAL.

Insider Says He Tipped Off Plumber

By CHRISTOPHER M. MATTHEWS

A former **Barclays PLC** director pleaded guilty on Tuesday to passing insider-trading tips to his plumber in exchange for bathroom renovations and cash.

Steven McClatchey, 58 years old, pleaded guilty to one count of conspiracy and one count of wire fraud in U.S. District Court in Manhattan. Mr. McClatchey said he passed on information about mergers-and-acquisition deals that he misappropriated from Barclays and passed them to his friend, Gary Pusey.

Mr. McClatchey worked for seven years at the Manhattan office of the British bank, where he was responsible for tracking the bank's involvement in potential mergers and acquisitions. He distributed a weekly document to select Barclays employees called "M&A Global Weekly Business Update," which included deals that were likely to become public the following week.

Mr. McClatchey said Tuesday that Mr. Pusey, a plumber, gave him cash in exchange for the tips. Prosecutors said Mr. Pusey also performed tiling and other renovations for Mr. McClatchey in exchange for the inside information. Mr. Pusey then used the tips to make profitable trades on the stocks of around 11 publicly traded companies, pulling in \$76,000 Please see **GUILTY** page B6



A farmer in Ivory Coast moves his cocoa beans last year.

LEGIAN KOULA/EUROPEAN PRESSPHOTO AGENCY

The key ingredients of chocolate are getting more expensive this year.

Cocoa butter, African style, spot price



Sources: Thomson Reuters (cocoa butter); FactSet (sugar)

Raw sugar prices



THE WALL STREET JOURNAL.

Higher Costs Bite Chocolate Makers

By JULIE WERNAU

Hershey Co.'s rebuff of a \$23 billion bid by **Mondelez International Inc.** this month comes as rising commodity prices are making it more expensive to produce a chocolate bar.

The cost of two crucial ingredients in chocolate, cocoa butter and sugar, has risen sharply this year. It is an unwelcome development for chocolate makers, who already had raised prices on candy bars and other chocolate products following previous spikes

in commodities. Increasing competition from snack bars and healthier treats also is crimping chocolate makers' ability to raise prices further.

Chocolate still drives the bulk of sales at Hershey, said Erin Lash, senior equity analyst at Morningstar in Chicago.

The company is by far the biggest player in U.S. chocolate, with 45% of the market, and about 88% of its net sales are in North America. The company doesn't break out chocolate as a percentage of sales, but Nielsen data indicate choc- Please see **COSTS** page B6

EU's Hill: 'Be Brave,' And Don't Regulate

By JULIA-AMBRA VERLAINE

BRUSSELS—Excessive financial regulation piled on after the financial crisis is impeding growth, and European regulators need to understand the impact they have had on the marketplace, Jonathan Hill, the EU's outgoing financial-services chief, said Tuesday.

"Recognize that the broader economic and political environment in which regulations are drawn up change over time" and "be brave enough to not regulate," Mr. Hill said at a conference hosted by the think tank Bruegel.

A British citizen, Mr. Hill resigned after the U.K. voted last month to leave the **European Union**. Valdis Dombrovskis is to succeed him effective July 16.

The outgoing commissioner revealed conclusions of his so-called call for evidence, a project he initiated late last year to assess the cumulative impact of regulation. He received nearly 300 responses from financial institutions spelling out problems.

He said the commission would write to Mario Draghi in his role as head of the governing body of the **Basel Committee on Banking Supervision**, the global banking-standards setter, requesting the supervisor revisit the impact of bank-leverage rules on derivative markets, trade finance and market liquidity.

Earlier Tuesday, EU finance Please see **RULES** page B10

OPEC Sees Risks in Europe

By SUMMER SAID

OPEC said the U.K.'s vote to leave the European Union could curb global economic growth next year, notably in Europe, where the risk is that demand for oil could fall.

European oil demand "faces substantial downside risks...as a result of uncertainties related to the region's economy, resulting from the U.K. referendum, among other challenges," OPEC's Vienna-based research department said in its monthly report released Tuesday. Economic growth and demand for crude oil are closely tied.

The Organization of the Petroleum Exporting Countries downgraded its global growth forecast for this year to 3% from 3.1%. Meanwhile growth in the eurozone could slow to 1.2% in 2017 from 1.5% this year, OPEC said.

It forecast new oil demand of 1.2 million barrels a day next year, about 300,000 barrels a day above the average of the past 10 years.

Lukewarm

European oil demand is projected to be flat this year, as OPEC foresees Brexit-related headwinds.

Change in demand from previous year*		2016 demand, millions of barrels a day*	
India	5.67%		4.3
China	2.54%		11.1
Middle East	1.73%		8.3
Americas	1.14%		24.7
Europe	0.18%		13.7
Former Soviet Union	0.04%		4.7
Latin America	-0.46%		6.5

*Projections Source: OPEC

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European demand represents around 14.5% of global oil demand. It is expected to reach 13.74 million barrels a day this year, roughly unchanged from 2015.

On the supply front, production from countries outside the group, which controls

more than a third of the world's oil supply, is expected to fall by 880,000 barrels a day this year, to 56.03 million barrels, compared with 2015.

U.S. crude futures rose 4.6% to \$46.80 a barrel in New York. Brent crude gained 4.8% to \$48.47 a barrel.

Why You Are Likely a Lousy Investor and Don't Know It

Adapted from the book "Heads I Win, Tails I Lose" by Spencer Jakab that was published by Penguin Random House on Tuesday.

Has a better piece of advice ever been ignored more often than "don't try to time the market?"

Oh, sure, index funds have made huge strides in recent years. Investors even have fancy new weapons dubbed "smart beta" in their arsenal to supposedly do a bit better than just tracking baskets of stocks or bonds. Yet we are as far as ever from low-fee, market tracking Nirvana.

All these smart innovations somehow haven't kept smart people from doing dumb things with their savings.

It sounds strange, but the "average" investor lags behind the average return by 4 to 7 percentage points per year—sort of like the children of Gar-

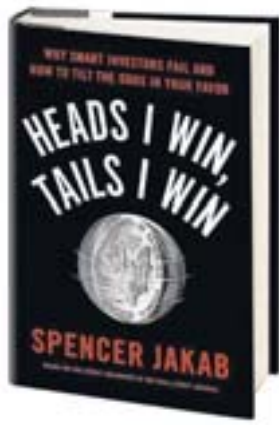
ison Keillor's Lake Wobegon in reverse. Even more than high costs, the surest path to Lake Moneybogue is zigging when you should zag. Investors are constantly under the false impression that they or some expert knows something that will help them gain an edge.

Unfortunately, people in the prediction business aren't very good at it. The old joke says

that economists were invented to make weathermen look good. But what if you had a 100% accurate way of knowing what lay ahead for the economy? Surely it would be like pure gold. That idea is so wrongheaded that we have to turn to fiction to debunk it.

In "Back to the Future Part II," Marty McFly and Doc Brown travel 30 years into the future to the year 2015 to prevent Marty's son from committing a crime and going to prison (Marty went 30 years back to 1955 in the first movie). While walking around the future Hill Valley, Marty buys an antique sports almanac covering the years 1950 through 2000. It turns out to be a very bad idea. Doc convinces him that he risks wreaking havoc by using it to enrich himself and jeopardizing the space time continuum.

Before he can get rid of the book, though, his now elderly nemesis, Biff, sees Doc's DeLo- Please see **BOOK** page B6



MONEY & INVESTING

Dow Industrials Close at Record

Nasdaq is in the black for first time this year; auto, banking shares give Europe a boost

By **AKANE OTANI**
AND **CHRISTOPHER WHITTALL**

The Dow Jones Industrial Average logged a new record and the Nasdaq Composite Index turned positive for the first time this year, as a rally that sent the S&P 500 to fresh highs a day earlier gathered momentum Tuesday.

The rebound of the tech-heavy Nasdaq, combined with the broader market milestones, was an encouraging sign to analysts who had worried about the durability of stock-market gains built mostly on relatively safe trades.

After outpacing other major indexes for the past four years, the Nasdaq has lagged the S&P and Dow industrials in 2016, as investors piled into high-dividend sectors like utilities and telecoms, while pulling out of shares of tech and health-care companies. Investors tend to turn to the former, considered bond proxies, when they are uncertain about economic growth.

“As the environment looks less scary, it makes sense to go after what was perceived as being these riskier, growth-oriented stocks,” said Karyn Cavanaugh, senior market strategist at Voya Investment Management. “Once people think there’s a little less risk, they’ll go pay for these growth stocks.”

On Tuesday, the Dow industrials rose 120.74 points, or 0.7%, to 18347.67 to climb past its previous closing record of 18312.39 set May 19, 2015. The S&P 500 added 0.7%, and the Nasdaq also rose 0.7%, bringing its year-to-date gains to 0.3%.



Peugeot gained 6.5% after it reported a rise in European demand for its cars. Above, the new SUV Peugeot 3008.

The Dow industrials ended their longest stretch without a record since the period spanning October 2007 to March 2013. The blue-chip index hit six record highs last year, 28 in 2014 and 52 in 2013, after five years without one.

Stocks that had been beaten down after the U.K. unexpectedly voted to leave the European Union have shown signs of resurgence in recent weeks. The Nasdaq Biotechnology Index, which wiped out 8.0% in the two sessions after the June 23 referendum, has since risen 3.2% through Monday’s close.

Government-bond yields continued to rise from recent record lows brought on by the U.K.’s unexpected vote to leave the EU, as investors moved out of haven investments and pushed down prices.

The yield on the 10-year U.S. Treasury note rose to 1.512%, from its record low of 1.366% on Friday.

Gold, another asset that surged after the U.K. vote, fell 1.5% to \$1,334.10 an ounce.

In the U.S., investors are now turning their attention to earnings season, which ramped up on Monday with Alcoa beating expectations for revenue and earnings. The aluminum company’s shares gained 5.4% by late afternoon.

A strong set of corporate earnings would be “the icing on the cake” for the Federal Reserve in terms of confirming the need to start raising interest rates, said Peter Westaway, chief European economist at Vanguard.

While global markets have largely recovered losses since

the U.K. voted to leave the EU last month, many investors predict trading will remain choppy in the coming months.

“There are several issues that are still to come this year that will probably cause some volatility,” said Matthias Hoppe, a portfolio manager at Franklin Templeton Investments, highlighting the U.S. presidential election and a potential resurfacing of investor concerns over China as well as renewed jitters over Brexit when the U.K. begins the formal proceedings to leave the EU.

In commodity markets, U.S. crude-oil prices surged 4.6% to settle at \$46.80 a barrel after the Organization of the Petroleum Exporting Countries said production from non-OPEC countries would fall more than

previously expected.

Shares in Europe and Asia climbed. The Stoxx Europe 600 rose 1.1%, lifted by auto and banking shares.

UniCredit, Italy’s largest lender, gained 13% after the bank said it had raised around €328 million (\$363 million) through the sale of part of its equity stake in financial-services company FincoBank Tuesday, a move aimed at boosting its capital base.

Shares in Daimler rose 4.4% after quarterly results topped analyst expectations, while Peugeot gained 6.5% after it reported a rise in European demand for its cars.

In Asia, Japan’s Nikkei Stock Average closed 2.5% higher in response to hope for a fresh round of monetary and fiscal stimulus in the country.

COSTS

Continued from page B5
olate represents about 80% of the company’s U.S. sales.

For Mondelez, 27% of its business is tied to chocolate, or about \$8 billion out of \$30 billion in annual sales. Mondelez makes Oreo cookies and, outside the U.S., Cadbury chocolate bars.

Cocoa-butter prices are at multiyear highs as cocoa-bean processors struggle with unusually small cocoa beans in West Africa, where about 70% of the world’s cocoa is grown.

At the same time, a sharp drop in sugar production after years of glut has pushed world sugar futures up 38% year to date, driving up costs for a commodity that makes up about 50% of the weight of most chocolate bars, according to chocolate makers and commodity-trading houses.

Today, cocoa butter, the most crucial ingredient in a chocolate bar, costs 21% more to procure than a year ago.

“It’s been a tough time for the chocolate guys,” said Ken Lorenze, vice president at Connecticut-based brokerage JSG Commodities.

Cocoa processors take the beans, remove the shells, cook and grind up the “nib” on the inside to turn it into a thick paste called cocoa liquor. The paste is then pressed to separate the fat (cocoa butter) from residual solids (a cake that is used to make cocoa powder).

“You really can’t make chocolate without cocoa butter, and it’s getting more and more expensive,” Mr. Lorenze said.

Still, the bulk of the costs of making chocolate are in transportation and marketing costs. According to Cocoa Barometer, a consortium of non-profit groups focused on sustainability in the cocoa sector, purchasing cocoa beans from farms makes up about 6.6% of



Cocoa beans are stored at a warehouse in Ivory Coast. About 70% of the world’s cocoa is grown in West Africa..

the total costs of creating chocolate.

Sustainability advocates long have argued for price increases to farmers, most of whom live below poverty levels.

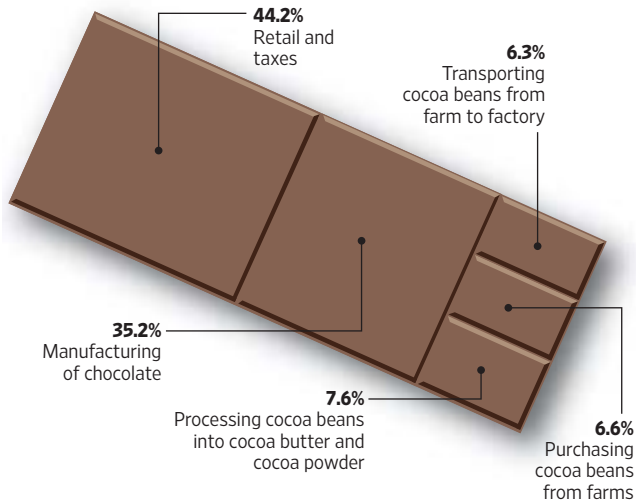
The recent rise in the price of a candy bar isn’t helping consumption, he added. Last year, Mars Inc., Hershey, Nestle SA, Lindt & Sprüngli AG and Mondelez increased prices as much as 8%.

The cocoa crop in Ghana, the world’s second-largest producer, experienced an unusually high drop in 2015, after farmers there applied key pesticides late in the crop’s development. Hershey said in its last earnings call that the price increases had hurt demand and were in part to blame for a 3.6% drop in sales volume in the second quarter.

Most multinational chocolate companies weren’t anticipating further price spikes for cocoa butter and instead expected a recovery this year, said Jeff Rasinski, director of commodities and corporate procurement at Blommer

Bean Counter

How the costs of producing and selling a bar of chocolate break down



Note: Numbers don’t add up to 100 due to rounding
Source: Cocoa Barometer

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Chocolate Co.

Merchants have been shedding short positions in the cocoa market since May, when the dollar-denominated contract had 78,810 net bearish bets, according to data from

the U.S. Commodity Futures Trading Commission. As of last Tuesday, the contract had 61,208 net bearish bets as merchants abandon those positions.

Retail prices are expected

to rise 2.2% this year in the U.S., according to Euromonitor International, the lowest year-over-year percentage increase in a decade. That modest price increase is because chocolate makers feel they have to absorb rising costs because they can’t pass them on to consumers, analysts say.

Currency markets also have added to the confusion around the pricing of cocoa, one of the few commodities that is still widely traded in pounds sterling. While cocoa-futures prices recently rose in terms of pounds, prices fell in terms of euros and U.S. dollars.

Chocolate makers are also dealing with a continuing slowdown in demand in their biggest markets. Chocolate confections account for an estimated \$67 billion in sales in North America and Europe this year, compared with \$8.9 billion for snack-bar sales, according to Euromonitor International. But those so-called healthier treats have been outpacing growth of the confectionary category for at least a decade.

BOOK

Continued from page B5
rean time machine parked on the street. Unbeknownst to Doc and Marty, he borrows it to make a quick round trip to 1955. Meeting his teenage self, he hands him the almanac. After Doc and Marty accomplish their mission, they return to 1985 to find a dystopian world dominated by a fabulously wealthy and corrupt Biff.

Given the far greater sums available by betting on stocks, though, whispering names like Apple and Microsoft into teenage Biff’s ear seems far more valuable. Let us pretend instead that old Biff does the next best thing and gives him an economic history book with the dates of every coming recession.

Biff would sink all of his savings into the stock market and pull it out the day before a downturn began. This would be months before economists realized it. Companies pay millions of dollars for forecasters to get it right, yet they never do. The same goes for identifying the end of a recession, at which time Biff would boldly dive back into the market with uncanny prescience.

But fast forward (or is it backward?) to 1985, and all Doc and Marty find is a very frustrated Biff. Even ignoring taxes and fees, a \$10,000 investment in 1955 would be worth \$122,000 by 1985 invested this way rather than \$149,000 if Biff had just let his money sit untouched in stocks.

Biff’s problem was that he sat out some awful times but some awfully good ones too. For example, the annualized return over that whole period for the S&P 500 and its predecessor index was 9.6%. But a new bull market usually starts when a recession is still under way, and it is with a bang, not a whimper. The annualized return between the start of a new bull and the end date of a recession is around 70%.

Rely on another statistic like unemployment rather than economic growth, and you won’t do any better. Between 1933 and today, the three-month period before the jobless rate peaked in each recession had fantastic returns. Just owning stocks during 14 such episodes strung end-to-end, a period of 3 ½ years, would leave you with seven times your money. Shying away from the market during what seem like bleak times will open up a yawning gap between what you are and should be earning.

Ah, but there is no such thing as a flux capacitor so, even if your timing happened to be uncanny, you probably wouldn’t get it exactly right. And, if you are like the typical investor, you would get it mostly wrong by just trying.

Investors are way off in their estimate of how their portfolio has done, routinely guessing several percentage points a year too high. While that comes as a shock, they are even more surprised to be told that it is missing good times rather than suffering through selloffs that hurt them the most.

Like Biff, investors sit out on some really good days by trying to avoid bad ones. Nearly all of those happen around scary episodes such as October 1929, October 1987 and in 2008 following the collapse of Lehman Brothers. Pretend, for example, that you took your money out of the market following the choppiest episodes over the last 20 years and wound up missing the epic rebounds that made up the 40 best days. You actually would lose money. A couple of days a year on average produce all of the market’s return.

Happily, there is one form of market timing that has worked like a charm over the long run. It only does, though, if you take not only expert opinion but your own opinion out of the equation. Biff never really had a chance. You, on the other hand, have a very good one using low-cost, passive funds rebalanced on autopilot.

The key is to stop shooting yourself in the foot.

GUILTY

Continued from page B5
in illegal profit, prosecutors said.

Mr. Pusey, 47, pleaded guilty in May to his participation in the scheme and has been cooperating with the government, according to a criminal com-

plaint filed by the Manhattan U.S. attorney’s office. The Securities and Exchange Commission also filed civil insider-trading charges against the two men.

Barclays, which is described in the complaint only as “Investment Bank A,” said it has cooperated with the government “since learning about this incident involving a former em-

ployee.” Mr. McClatchey worked in a back-office role and didn’t interact directly with clients, according to a person familiar with the situation.

Mr. McClatchey’s sentencing is scheduled for October. He agreed not to appeal any sentence of five years in prison or less under the terms of his plea deal.

POUND

Continued from page B5
cheaper since the end of voting on June 23.

But if Deutsche Bank’s gloomy forecast for the pound is accurate, sterling will drop more than 10% further by the end of the year,

and an investor buying now would make a mark-to-market loss.

Despite the drop in the pound, the continued uncertainty around the U.K. political and financial outlook “is a key reason to suppose that [sterling] faces intermittent and potentially accelerated downwards pressure in coming months,” said Paul Meggyesi,

foreign-exchange strategist at J.P. Morgan, in a research note.

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MONEY & INVESTING

LendingClub’s New Problem: Borrowers

By TELIS DEMOS
AND PETER RUDEGEAIR

Online lenders once dazzled investors with the promise that sophisticated, fast data mining could identify the best borrowers. In practice, the results haven’t always been as impressive.

Charge-off rates, which reflect loans on which a lender doesn’t expect to collect, have risen as much as 38% since 2013 at **LendingClub Corp.**, the largest online lender, all while consumer credit was improving broadly.

In recent months, online lenders have been contending with more immediate setbacks, such as job cuts, a drop-off in venture-capital funding and the forced resignation of Renaud Laplanche as LendingClub chief executive following alleged loan-sale improprieties.

But concerns about the overall effectiveness of quickly evaluating borrowers through algorithms have mounted as well. While online lenders have enjoyed rapid growth compared with traditional channels like bank branches during the last half decade of benign credit conditions, skeptics have questioned for years how their loans would perform in a weaker economy.

Online lenders generally offer unsecured consumer loans up to \$30,000 or so. While banks can tap existing customers as new borrowers, the online firms have expanded by reaching new customers through direct mail, online advertisements and podcast sponsorships.

As part of their loan-approval process, most lenders have automated the processes of checking borrowers’ credit metrics and looking up their

histories while in many cases avoiding more labor-intensive practices of collecting and reviewing pay stubs or tax returns. For instance, through the first quarter of 2016, LendingClub had verified actual income for 26.8% of loans, down from 49% in 2013. A LendingClub spokeswoman

among those verified than those that weren’t verified—roughly 12% and 7%, respectively.

In absolute terms, LendingClub’s recent loans aren’t going bad at rates anywhere near the double-digit charge-offs during the financial crisis. But bad loans have been

Concerns have risen about the effectiveness of evaluating borrowers via algorithms.

said the company has taken “a series of steps to strengthen borrower quality while continuing to make affordable credit available to consumers and small businesses.”

The company also has argued that verifying every applicant’s income is unnecessary. For loans made in 2012, for example, there was a higher portion of bad loans

trending higher at online firms compared with some popular bank offerings. From loans made in 2013 through the first quarter of 2015, gross charge-offs of LendingClub’s lower-graded loans a year after issuance jumped to 6.31% from 4.58%, an increase of 38%, or 1.73 percentage points.

Charge-off rates on top-graded loans—which go to

borrowers with stronger credit histories—rose less sharply, to 1.51% from 1.46%, according to a presentation by the firm in May.

Charge-offs are ticking up at some other lenders. As of May, about 4.2% of the principal amount lent by Prosper Marketplace Inc. in the first quarter of 2015 had been charged off, according to MyCRO, a data tracker from online lending and securitization platform Insikt.

Loans made a year or two earlier had seen charge-offs of 3.0% and 3.8%, respectively, after a similar amount of time had passed. A Prosper spokeswoman had no immediate comment.

Meanwhile, the percentage of loans written off by banks on their credit-card books last year hit the lowest level since the 1980s, according to Federal Reserve data. The rate

was 3.16% in the first quarter versus 3.78% at the beginning of 2013, according to the regulator’s data.

Part of the problem for online lenders may be that many borrowers are using their online loans to pile on more debt rather than using them for the purpose of eliminating higher-rate card balances, which is how they say they intend to use the proceeds.

LendingClub borrowers are among those who have become more indebted. Debt-to-income ratios, a common credit measure, for LendingClub borrowers rose to 19.2 in 2015 from 13.8 in 2011, according to an analysis of loan data by research firm MonJa.

To entice investors who otherwise might be worried about loan quality, LendingClub and rivals such as Prosper have raised interest rates paid by borrowers.

China Can’t Let Go of Zombie State Firms

By CHUIN-WEI YAP

DALIAN, China—When China let **Dongbei Special Steel Group** default on a bond payment this spring, it was supposed to mark a new determination to allow long-coddled state industries to suffer the consequences of their bad decisions.

Three months later, the result has been...nothing. The ailing steel mill has missed five more payments on its \$6 billion in debt, but has yet to formally file for the equivalent of bankruptcy protection, close unproductive units or start a restructuring of its operations.

In more-mature economies, defaults usually usher in wrenching change, including boardroom purges and asset sales. But China’s nascent efficiency drive already has been forced to take a back seat to short-term concerns about growth and employment.

As a result, China’s twin problems of overcapacity and souring debts at state-run companies are likely to drag on for years, holding back growth and keeping the country awash in unwanted goods.

“They will find ways to smooth it out over time,” said Bernhard Kotanko, a partner at consultancy Oliver Wyman. “We’re talking a minimum 10 years.”

Beijing faces high stakes in dealing with debts at its state-owned companies. International trading partners are ratcheting up pressure for it to stop supporting producers that are flooding world markets. On Sunday, trade ministers from the Group of 20 wealthiest nations called excess industrial-production capacity a global problem for commerce and workers. While they didn’t single out China, a statement they issued nevertheless highlights the country’s role as a major exporter of products such as steel.

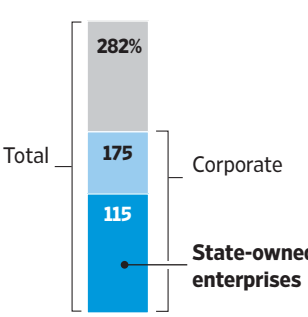
But the process of letting companies fail will be painful and risky. China is sitting on the world’s largest pile of corporate debt as a percentage of GDP. Some \$1.3 trillion comes due in the second half of this year. Of that, some \$24.7 bil-

Learning a Lesson?

As debt rises, China is trying a new tactic to boost investor prudence by allowing more state-owned companies to default, among them steelmaker Dongbei Special Steel Group.

China’s state-owned companies bear the bulk of its corporate debt...

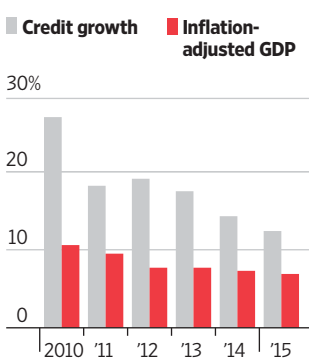
Debt as a percentage of GDP*



*As of June, estimate

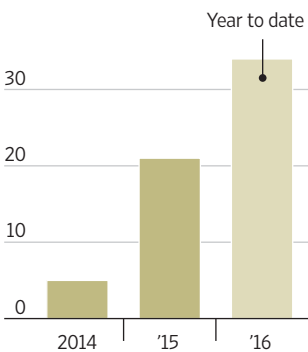
Sources: Moody’s Investors Service (debt); People’s Bank of China (credit); National Bureau of Statistics (GDP); Wind Info (bond defaults)

...as overall credit continues to grow at twice the pace of the economy...



...and defaults rise in the Chinese bond market.

Number of defaults



THE WALL STREET JOURNAL.



Dongbei Special Steel Group has missed several payments on its \$6 billion in debt.

lion is among the most toxic, owed by rust-belt producers such as Dongbei that have less cash than short-term debt, according to Fitch Ratings.

Defaults nearly doubled in the first half of this year from a year earlier, as the government tried to spur corporate overhauls. The International Monetary Fund and other analysts warn that shocks from a large wave of defaults in China could ripple through global markets.

Dongbei is a sprawling steelmaker stitched together a decade ago by Liaoning prov-

ince, which merged three producers and owns 70% of the closely held company. It is the country’s largest producer of specialty steel—alloys treated to increase resistance, such as to corrosion or heat—and employs 10,000 in the dusty city of Dalian. It exports nearly a third of its output to markets including the U.S., Japan and Europe.

The company got in trouble by spending heavily during the boom, when it gorged on credit from fund-management companies and state-owned banks. Outlays included \$2 bil-

lion on a huge new headquarters in 2012, just as steel prices were collapsing. Dongbei now looms over 305 hectares (754 acres)—570 football fields—and has the capacity to produce more than twice its actual output of 1.8 million metric tons. Company data show that its debt is twice the level of its annual revenue.

When Dongbei missed a debt payment of \$121 million in March, it was hailed as a watershed in the government’s efforts to unwind debt-fueled excess. It was one of the biggest state-owned firms to

stumble, and the default came as Beijing called for bankruptcy and mergers to reshape the corporate sector.

“We won’t let ‘zombie enterprises’ survive for long,” Sun Xuegong, a senior official at the economic planner National Development and Reform Commission, said last month.

Yet the company has stayed largely intact, according to interviews with creditors, employees and suppliers. Instead of reorganizing its operations, Dongbei and its owner, the provincial government of Liaoning, are pressing creditors to accept payment for just a third of what they are owed, swap another third into equity and roll over the rest, according to an official who helped organize meetings between the company and its creditors.

At meetings in April and May in the red-curtained auditorium of the Golden Bull Hotel owned by Dongbei near downtown Dalian, dozens of bondholders opposed plans to satisfy bond commitments with equity stakes, knowing that in the end they would have to take less than what they are owed, said the official, who attended the meetings.

Neither Dongbei nor the Liaoning government responded to calls and faxes seeking comment.

Dongbei is among at least six state companies that have reneged on debt in a little more than a year. Only two, **Baoding Tianwei Group Co.** and **Guangxi Nonferrous Metals Group Co.**, have filed for bankruptcy reorganization.

The Liaoning government has a powerful interest in saving Dongbei. Formal bankruptcy would oblige the province to lay off and retrain potentially angry workers. The province already is dealing with scores of failing rust-belt industries. Its economy was the only one among the country’s 31 provinces to contract in the first quarter.

In the months after the default, Dongbei has reduced monthly pay by more than a third per employee, to about \$368.

Fund’s Nintendo Wager Pays Off

By RICK CAREW

A monster bet by a Hong Kong-based hedge-fund manager is paying off with the “Pokémon Go” sensation.

Seth Fischer’s **Oasis Management Co.** stands to make tens of millions of dollars after a three-year campaign to push **Nintendo Co.** into mobile gaming. The success of “Pokémon Go,” a new smartphone game part-owned by Nintendo, has boosted the Japanese company’s shares by more than 50% in the past week, adding more than \$10 billion to its market capitalization.

Mr. Fischer, who had about 4% of his \$1 billion fund in Nintendo at the end of June, is one of a number of foreign activist investors making money by pushing Japan’s corporate sector to be more shareholder-friendly.

U.S.-style activist campaigns like Mr. Fischer’s, which include critical letters, public presentations of alternative strategies and private prodding of management teams, are uncommon in Japan, where news that a company is creating an investor-relations department has been known to send its stock soaring.

However, under Prime Minister Shinzo Abe, Japan’s government has recently encouraged companies to become more responsive to shareholders.

There are signs that activist investors are finding more success in Japan lately. New York hedge-fund Third Point LLC, headed by Daniel Loeb, in April won a boardroom battle to replace the 83-year-old chief of the 7-Eleven empire, owned by Japan’s Seven & i Holdings Co. Mr. Loeb wanted the company to shed its big-box retailers in Japan and focus on its core convenience-store franchise globally.

Mr. Loeb had earlier urged changes at Japanese entertainment company Sony Corp. He was rebuffed, but profitably sold his shares in Sony.

Nintendo said its push into mobile gaming is part of its own strategy.

“Our decision to tap into the smartphone game [market] was not due to any particular advice from any particular investors,” a Nintendo spokesman told The Wall Street Journal in response to questions about Oasis and the role of outside shareholders.

Mr. Fischer, 44 years old, launched his public campaign for a shift in strategy at Nintendo with a speech at the Hong Kong offshoot of the Sohn Conference on June 6, 2013, after building an initial stake in the company.

Mr. Fischer, who invests nearly two-thirds of his fund in Japanese companies, urged Nintendo to evolve from its console-focused business toward mobile games.

The opportunity for Nintendo to move into mobile gaming was “so obvious, but nobody was talking about it,” Mr. Fischer said in an interview on Tuesday.

A Bad First Half For Disaster Costs

By ULRIKE DAUER

FRANKFURT—Natural disasters caused substantially higher losses in the first half of 2016 than a year earlier, Munich Re AG said Tuesday, with earthquakes in Japan, storms in the southern U.S. and Europe, and wildfires in Canada causing the greatest damage.

Through the end of June, some 350 natural disasters world-wide cost \$70 billion, up 19% from \$59 billion in the same period of 2015, the German reinsurance giant said. Overall costs include insured costs, as well as costs to the economy related to repairing buildings and infrastructure, and to possibly lower output because of production halts or business disruption.

Of the \$70 billion, global reinsurers and insurers shoul-

dered \$27 billion. A year earlier, the industry paid out \$19 billion to policyholders.

Reinsurers use the figures to help set a framework for prices in discussions with customers, primary insurers and large companies at an annual reinsurance conference, which takes place in Monte Carlo in September.

In the first half, the costliest disasters were two earthquakes that hit the Japanese island of Kyushu in April and cost \$25 billion overall, of which insurers paid \$5.9 billion. The costs were in part the result of damaged or destroyed buildings. Many local plants, among them car manufacturers and suppliers, had to suspend production, sometimes for several weeks.

Heavy storms in the U.S. and Europe that brought hail, torrential rain and flash floods



Japanese earthquakes caused \$25 billion of damage in April, of which insurers paid \$5.9 billion.

ranked second, with estimated overall costs of \$20 billion. This included the series of storms that hit Texas and neighboring states from March through May and cost \$12.3 billion overall, of which \$8.8 billion was insured.

In Europe, storms in May and June caused losses of \$6.1

billion, about half of which was insured. During that period, flash floods hit southern Germany, and rainfall swelled the Seine and tributaries in France to near-record levels. The Netherlands was hit by large hailstones that destroyed crops.

Wildfires in Canada’s Prov-

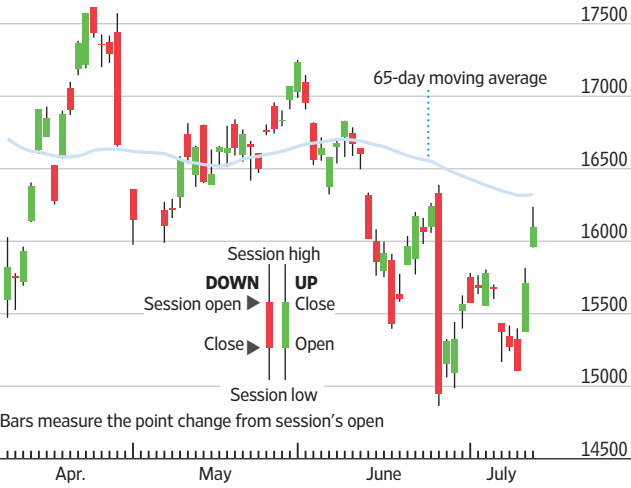
ince of Alberta in early May caused overall economic damage of \$3.6 billion, \$2.7 billion of which was insured.

Despite the higher economic cost, natural catastrophes caused fewer fatalities in the first half. These fell to 3,800, compared with 21,000 in the first six months of 2015.

MARKETS DIGEST

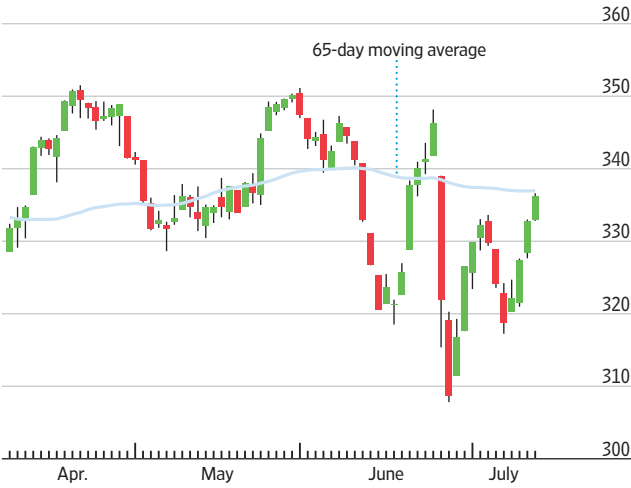
Nikkei 225 Index

16095.65 ▲386.83, or 2.46%
High, low, open and close for each trading day of the past three months.



STOXX 600 Index

336.26 ▲3.54, or 1.06%
High, low, open and close for each trading day of the past three months.



S&P 500 Index

Data as of 4 p.m. New York time
2152.14 ▲14.98, or 0.70%
High, low, open and close for each trading day of the past three months.



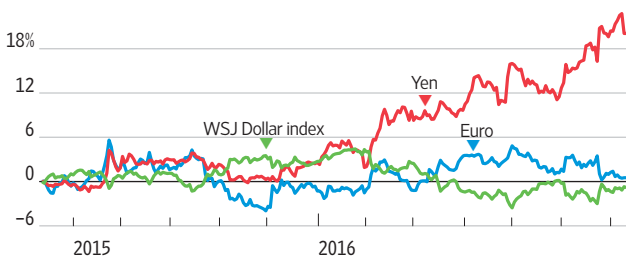
International Stock Indexes

Region/Country		Index	Close	Latest NetChg	% chg	Low	52-Week Range	High	YTD % chg
World	The Global Dow		2372.17	25.58	▲1.09	2033.03		2567.62	1.5
	MSCI EAFE		1637.06	18.42	▲1.14	1471.88		1956.39	-4.6
	MSCI EM USD		854.92	8.19	▲0.97	691.21		1044.05	7.6
Americas	DJ Americas		518.32	4.01	▲0.78	433.38		519.26	6.4
	Brazil Sao Paulo Bovespa		54299.71	339.60	▲0.63	37046.07		54977.70	25.3
	Canada S&P/TSX Comp		14480.70	118.82	▲0.83	11531.22		14748.00	11.3
	Mexico IPC All-Share		46421.95	244.34	▲0.53	39256.58		46545.32	8.0
	Chile Santiago IPSA		3153.24	9.12	▲0.29	2730.24		3243.62	7.1
U.S.	DJIA		18347.67	120.74	▲0.66	15370.33		18371.95	5.3
	Nasdaq Composite		5022.82	34.18	▲0.69	4209.76		5231.94	0.3
	S&P 500		2152.14	14.98	▲0.70	1810.10		2155.40	5.3
	CBOE Volatility		13.57	0.03	▲0.22	10.88		53.29	-25.5
EMEA	Stoxx Europe 600		336.26	3.54	▲1.06	303.58		406.80	-8.1
	Stoxx Europe 50		2855.79	24.28	▲0.86	2556.96		3541.18	-7.9
	Austria ATX		2164.29	53.77	▲2.55	1929.73		2567.85	-9.7
	Belgium Bel-20		3393.52	32.35	▲0.96	3117.61		3867.21	-8.3
	France CAC 40		4331.38	66.85	▲1.57	3892.46		5217.80	-6.6
	Germany DAX		9964.07	130.66	▲1.33	8699.29		11802.37	-7.3
	Greece ATG		551.92	3.83	▲0.70	420.82		797.52	-12.6
	Hungary BUX		27396.22	-21.84	▼-0.08	20452.90		27590.83	14.5
	Israel Tel Aviv		1444.56	9.65	▲0.67	1378.80		1728.89	-5.5
	Italy FTSE MIB		16721.00	460.36	▲2.83	15017.42		24157.39	-21.9
	Netherlands AEX		445.44	4.69	▲1.06	378.53		506.05	0.8
	Poland WIG		45140.51	264.89	▲0.59	41747.01		53694.88	-2.9
	Russia RTS Index		955.41	14.06	▲1.49	607.14		968.03	26.2
	Spain IBEX 35		8506.00	200.90	▲2.42	7579.80		11612.60	-10.9
	Sweden SX All Share		483.21	1.62	▲0.34	432.78		543.12	-4.3
	Switzerland Swiss Market		8143.13	26.02	▲0.32	7425.05		9537.90	-7.7
	South Africa Johannesburg All Share		52547.52	377.15	▲0.72	45975.78		54760.91	3.7
Asia-Pacific	BIST 100		81141.57	1906.62	▲2.41	68230.47		86931.34	13.1
	FTSE 100		6680.69	-2.17	▼-0.03	5499.51		6813.41	7.0
	DJ Asia-Pacific TSM		1392.64	9.49	▲0.69	1188.42		1512.74	0.2
Asia-Pacific	S&P/ASX 200		5353.20	16.10	▲0.30	4765.30		5706.70	1.1
	China Shanghai Composite		3049.38	54.46	▲1.82	2655.66		4123.92	-13.8
	Hong Kong Hang Seng		21224.74	344.24	▲1.65	18319.58		25536.43	-3.1
	India S&P BSE Sensex		27808.14	181.45	▲0.66	22951.83		28504.93	6.5
	Japan Nikkei Stock Avg		16095.65	386.83	▲2.46	14952.02		20841.97	-15.4
	Singapore Straits Times		2901.82	25.68	▲0.89	2532.70		3373.48	0.7
	South Korea Kospi		1991.23	2.69	▲0.14	1829.81		2087.89	1.5
	Taiwan Weighted		8841.46	54.99	▲0.63	7410.34		9054.20	6.0

Source: SIX Financial Information;WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Tue in US\$	Tue per US\$	US\$ vs. YTD chg (%)
Americas			
Argentina peso-a	0.0686	14.5675	▲12.6
Brazil real	0.3055	3.2729	▼-17.4
Canada dollar	0.7687	1.3010	▼-6.0
Chile peso	0.001520	658.10	▼-7.1
Colombia peso	0.0003426	2919.00	▼-8.1
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0547	18.2981	▲6.4
Peru sol	0.3048	3.2810	▼-3.9
Uruguay peso-e	0.0329	30.390	▲1.6
Venezuela bolivar	0.100100	9.99	58.4
Asia-Pacific			
Australia dollar	0.7633	1.3101	▼-4.5
China yuan	0.1496	6.6858	▲3.0

Key Rates

	Latest	52 wks ago
Libor		
One month	0.47935%	0.18700%
Three month	0.67335	0.28850
Six month	0.96600	0.46345
One year	1.28450	0.77895
Euro Libor		
One month	-0.36500%	-0.08143%
Three month	-0.30086	-0.01429
Six month	-0.19271	0.05843
One year	-0.07171	0.16786
Euribor		
One month	-0.36900%	-0.07100%
Three month	-0.29100	-0.01900
Six month	-0.19100	0.04900
One year	-0.06100	0.16800
Yen Libor		
One month	-0.06214%	0.06000%
Three month	-0.03186	0.09786
Six month	-0.02671	0.13571
One year	0.05464	0.24400
	Offer	Bid
Eurodollars		
One month	0.5500%	0.4500%
Three month	0.7500	0.6500
Six month	1.0000	0.9000
One year	1.3000	1.2000
Prime rates		
U.S.	3.50%	3.25%
Canada	2.70	2.85
Japan	1.475	1.475
Hong Kong	5.00	5.00
Policy rates		
ECB	0.00%	0.05%
Britain	0.50	0.50
Switzerland	0.50	0.50
Australia	1.75	2.00
U.S. discount	1.00	0.75
Fed-funds target	0.25	0.00
Call money	2.25	2.00
Overnight repurchase rates		
U.S.	0.48%	0.23%
Euro zone	n.a.	n.a.

Sources: WSJ Market Data Group, SIX Financial Information, Tullett

Top Stock Listings

Cur	Stock	Sym	Last	% Chg	YTD% Chg
Asia Titans					
HK\$	AliaGroup	1299	47.10	1.95	1.07
¥	AstellasPharma	4503	1667.50	2.43	-3.70
AUS	AustNZBK	ANZ	24.20	1.17	-13.35
AUS	BHP	BHP	19.93	1.68	11.59
HK\$	BankofChina	3988	3.13	1.29	-9.54
HK\$	CKHutchison	0001	84.75	2.60	-18.82
HK\$	CNOOC	0883	9.67	0.83	19.83
¥	Canon	7751	2948.50	2.31	-19.77
¥	CentralJapanRwy	9022	18830	0.11	-12.82
HK\$	ChinaConstructBk	0939	5.29	1.93	-0.38
HK\$	ChinaLifeInsurance	2628	16.86	1.93	-32.83
HK\$	ChinaMobile	0941	91.10	2.71	4.11
AUS	CmyWthBkAust	CBA	74.50	0.54	-12.90
¥	EastJapanRailway	9020	9546.00	-0.14	-16.63
¥	Fanuc	6954	16795	3.93	-20.33
¥	Hitachi	6501	437.90	4.29	-36.67
TW\$	Hon Hai Precisin	2317	83.30	0.97	3.09
¥	HondaMotor	7267	2646.00	2.70	-32.33
KRW	HyundaiMtr	005380	132000	0.76	-11.41
HK\$	Ind&Commil	1398	4.29	1.18	-8.33
¥	JapanTobacco	2914	4358.00	0.14	-2.53
¥	KDDI	9433	3234.00	2.18	2.54
¥	Mitsubishi	8098	1860.00	0.73	-8.28
¥	MitsuiUFJFin	8306	472.60	5.85	-37.58
¥	Mitsui	8031	1221.00	-0.25	-15.53
¥	Mizuho Fin	8411	154.50	5.60	-36.55
¥	NTTDoCoMo	9437	2832.00	-0.32	14.01
AUS	NatAusBnk	NAB	25.11	0.48	-16.85
¥	NipponSt&SmtMtl	5401	2066.50	4.34	-14.47
¥	NipponTelegr	9432	4912.00	-0.04	1.57
¥	NissamMotor	7201	1000.50	3.46	-21.81
¥	NomuraHldgs	8604	387.10	3.59	-43.00
¥	Panasonic	6752	963.90	3.52	-22.30
HK\$	PetroChina	0857	5.39	1.51	5.89
HK\$	PingAnInsfChina	2318	34.45	1.92	-19.70
S	RelianceIndsGDR	RIGD	29.75	0.17	-2.78
AUS	RioTinto	RIO	49.40	-0.24	10.49
KRW	SamsungElectronics	005930	1464000	-1.68	16.19
¥	Seven&Hldgs	3382	4382.00	2.29	-21.05
¥	SoftBankGroup	9984	5845.00	2.94	-4.79
¥	SumitomoMitsui	8316	2998.00	5.16	-34.91
HK\$	SunHingKaiPfr	0016	102.10	2.00	8.91
TW\$	TaiwanSemiGrp	2330	171.00	0.59	19.58

Cur	Stock	Sym	Last	% Chg	YTD% Chg
HK\$	TakedaPharm	4502	4426.00	0.98	-27.02
	TencentHoldings	0700	180.90	0.50	18.47
	TokioMarineHldg	8766	3587.00	3.97	-23.88
	ToyotaMotr	7203	5443.00	2.68	-27.31
AUS	Wesfarmers	WES	40.87	-0.32	-1.78
AUS	WestpacBanking	WBC	29.38	0.65	-12.46
AUS	Woolworths	WOW	21.20	-0.52	-13.47
Stoxx 50					
CHF	ABB	ABB	19.23	0.52	7.07
€	AXA	CS	18.16	5.03	-28.00
€	Alliande	AI	93.37	1.30	-9.92
€	Allianz	ALV	126.95	1.40	-22.38
€	AnheuserBusch	ABV	115.95	0.09	1.35
€	AstraZeneca	AZN	4476.00	-1.76	-3.04
€	BASF	BAS	69.49	0.99	-1.74
€	BNP Paribas	BNP	42.34	5.15	-18.94
€	BT Group	BT.A	406.80	2.33	-13.76
€	BancoBilvizAR	BBVA	5.28	4.31	-20.94
€	BancoSantander	SAN	3.80	6.50	-16.61
€	Barclays	BARC	148.55	2.17	-32.14
€	Bayer	BAYN	93.13	0.42	-19.58
€	BP	BP.	461.80	0.61	30.49
€	BritishAmTob	BATS	4839.50	-1.63	28.33
CHF	FinRichemont	CFR	58.10	3.11	-19.42
CHF	CreditSuisse	CSGN	10.84	3.14	-49.52
€	Daimler	DAI	57.65	4.40	-25.69
€	DeutscheBank	DBK	12.79	6.32	-43.24
€	DeutscheTelekom	DTE	15.11	0.87	-8.56
€	Diageo	DGE	2134.00	-1.27	14.95
€	ENI	ENI	14.81	0.95	7.32
€	GlaxoSmithKline	GSK	1639.00	-1.41	19.37
€	HSBC Hldgs	HSBA	476.70	-0.45	-11.10
€	INGGroep	INGA	9.64	3.26	-22.58
€	ImperialBrands	IMB	4012.50	-1.10	11.88
€	IntesaSanpaolo	ISP	1.92	6.56	-37.89
€	LVMHMoetHennessey	MC	139.70	1.60	-3.59
€	LloydsBankingGroup	LLOY	56.25	2.55	-23.02
€	L'oreal	OR	173.45	-0.37	11.69
€	National Grid	NG.	1092.50	-2.24	16.53
CHF	Nestle	NESN	78.00	...	4.63
CHF	Novartis	NOVN	80.65	-0.80	-7.09
DKK	NovoNordiskB	NOVO-B	373.20	0.13	-6.66
€	Prudential	PRU	1284.00	3.38	-19.13
€	ReckittBenckiser	RB.	725.00	-2.17	18.67

THE PROPERTY REPORT

Shoppers on Alert at Malls

Landlords weigh security measures as consumers look for more than bargains

By ESTHER FUNG

Amid a wave of gun violence in public venues across the U.S. and around the world, mall shoppers are paying more attention to safety.

Some said they want to see more guard patrols or signs at shopping centers warning of random bag checks. Others suggested mall security officers be armed.

Weapons “must be displayed as a deterrent,” said Magdalene Lee, a software engineer who goes window shopping in Manhattan regularly. Ms. Lee added, “I don’t think they should carry submachine guns or rifles—it would be overboard.”

The spate of shootings in public areas in recent months has put the issue of security squarely on the minds of both consumers and landlords, who now must balance the need for safety with the need to create pleasant environments for their customers.

“There is a general feeling among myself and my peers that customers want to see more security now. Five to 10 years ago, you wouldn’t necessarily see that,” said Brenda Heck, head of security at **Caruso Affiliated**, a Los Angeles-based retail-real-estate developer. “I think their mind-sets have been changed by the increased level of incidents.”

Shopping centers are more vulnerable than other public areas like transport hubs because they have multiple exits and people often carry large parcels. It can be difficult for private-property owners to balance visible and intrusive security while looking to attract customers to shop, relax and be entertained.



Mall owner Caruso has a police hut at a Los Angeles property.

Mall landlords “don’t want to have metal detectors, they don’t want to check your bags, [because] they feel like it will drive customers away,” said Jennifer Hesterman, a retired Air Force colonel and a counterterrorism expert. “What I find is that it’s changing, customers want to feel safe when they shop.”

Ms. Hesterman, who is a consultant to mall owners in the U.S., said one issue she presses is for mall owners to extend their protection measures beyond the mall and into the parking lot and restaurants that ring the perimeter, where owners could be their eyes and ears.

Security officials and mall owners tend to highlight community engagement and partnerships with various law-enforcement agencies as part of

their security measures, and are discreet on other measures that have to go unnoticed.

“While some security measures deployed at shopping centers, such as the use of bollards, uniformed patrols by law-enforcement officers and surveillance-camera systems will be evident to consumers, many more protective measures will not,” said Rae Logsdon, senior vice president of communications at the International Council of Shopping Centers. Bollards are short posts that could look like landscaping planters but reduce the risk of a vehicle driving into areas packed with people.

At the Grove, a high-end mall in Los Angeles, Caruso has engaged the Los Angeles Police Department to set up a small police hut in the retail area. It is similar to a Japa-

nese *koban*, which is a small neighborhood police post where a few officers are stationed and can interact with the community and respond to emergencies more quickly, Ms. Heck said.

“The role of security officers and staff is very different if you compare it to 10, 20 years ago, primarily because the threats have changed significantly,” said Ms. Heck, who used to work at the Federal Bureau of Investigation’s national security division with a focus on counterterrorism operations, as well as at the global security team at Walt Disney Co.

Shopping-center owners also face the challenge of providing security without disrupting customers’ experience. People have different opinions about whether mall security officers should carry guns, for instance.

“We do not feel that it is in our best interest at this time to have private security officers armed,” said Greg Maloney, chief executive of JLL’s retail unit. “However, if we feel we need to, we will hire off-duty officers who are trained to use their weapons to police our area.”

Shopping-center owners and security managers also highlight the need for discretion on some security measures. “We are not going to fall victim to letting people know exactly what we are doing and have that bite us someday,” Mr. Maloney said.

Shopping-center owners in the U.S. consider metal-detector screening a drastic step for now, even though it is common in countries like Israel and Turkey.

“It would be unfortunate if you get to a situation where you’ll have to create a fortress,” said Michael Ellis, managing partner at Hollywood-based architecture firm 5+Design, who has designed shopping centers in the Middle East and China.

WeWork’s Top Rival: Anyone And Everyone

By ELIOT BROWN

When shared-office-space firm **WeWork Cos.** opened its first location in Manhattan in 2010, it had the market largely to itself.

Today, the co-working business is mushrooming. New locations pop up seemingly weekly in old warehouses and new skyscrapers alike as small and medium-size businesses eschew coffee shops and small offices for the incubator-like workspaces where members share common spaces.

In New York, there are at least 180 co-working locations, up from about 25 in 2009, according to Newmark Grubb Knight Frank, with WeWork controlling about half the city’s six million-square-foot market.

Throughout the U.S., the number of co-working spaces rose to nearly 3,000 in 2015 from about 250 in 2010, said Steve King, a researcher who studies co-working at small-business-focused data firm Emergent Research.

“This year, it’s just kind of gone nuts,” he said.

WeWork raced to the market’s forefront by expanding aggressively and generally managing to fill its new spaces within months of opening.

The co-working sector’s rapid growth underscores a big challenge for WeWork: low barriers to entry. Competition can come from anyone who has a lease and the money to set up offices.

That could pose a problem for WeWork investors, which include money managers like **T. Rowe Price Group** and **Fidelity Investments**. The company’s lofty valuation of \$16 billion is greater than all but two publicly traded office landlords, despite controlling a fraction of their square footage.

Some WeWork investors have compared WeWork with taxi-service provider **Uber Technologies Inc.** and overnight-home-rental provider **Airbnb Inc.**, saying WeWork will transform the office-space market.

But Airbnb and Uber enjoy high barriers to competition. The more drivers and hosts in their networks, the harder it is for an upstart to challenge them.

WeWork, by contrast, leases all its office space itself and then rents it out, making it more like a large hotel chain than a network that connects a buyer and seller—and more susceptible to competition.

WeWork executives said they don’t worry about the small players. They say that it is difficult to grow large—and they have a huge head start on any competitor given the more than \$1.4 billion they have raised and the fast-growth techniques they have developed.

“Scale matters,” said Artie Minson, the company’s president. “The bigger you are, the cheaper it is for you to build, the more efficient you can build...the more financial flexibility you have to take deals.”

In general, the bigger competition comes from existing, traditional office space into which companies like WeWork

are making inroads, Mr. Minson said.

Still, the upstarts are multiplying and growing. Take Shlomo Silber, who in 2012 was a small-time real-estate player who flipped New York brownstones and apartments when he opened a small co-working space on a whim.

Today, his company, **Co-workrks**, is one of the larger co-working companies in New York, with five locations and 170,000 square feet. Friends and family have largely funded the company, which plans greater expansion.

“There’s still a very high demand,” he said.

Others include Primary, a health-focused startup that opened a 25,000-square-foot space with sleek modernist design and a yoga studio near a WeWork in lower Manhattan, and Yard, which has opened six locations, including one in Manhattan’s Flatiron neighborhood, where there are more than a dozen co-working spaces.

But no large competitor has materialized. The closest are companies like **Regus**, an executive-suite giant gradually expanding into co-working, and startups like Industrious, a New York-based company with similar design to WeWork aimed at a slightly more mature crowd. It has a dozen locations with plans for expansion.

While large real-estate investors have pondered big investments in the sector, none have dived in.

Top executives at New York developer Related Cos. and fitness giant Equinox are among those that have been considering large investments in the sector, particularly as Equinox expands into hotels, people familiar with the matter said.

Harvey Spevak, Equinox’s chief executive, said he has “no current plans to enter the co-work space,” but said it would fit well with Equinox given the company’s experience in hospitality. “We think we would bring a lot because of that expertise,” Mr. Spevak said.

In the future, he said, he expects large brands to dominate co-working. “Over time, despite the low barriers, there will definitely be a maturing of the category, and the best concept will be the ones that carry the day,” he said.

The outlook overseas, particularly in China, which is bubbling with new co-working companies, is harder to gauge.

WeWork, which views China as a major source of growth, last week opened its first location there, a small space in Shanghai with 500 desks that is already more than 90% full, executives said. But they have acknowledged the challenge of fending off competitors that can mimic WeWork’s menu of services.

Miguel McKelvey, a co-founder of WeWork with Adam Neumann, said at a startup conference last month that in China, “there are quite a few derivations” of co-working, including near exact replicas of WeWork.

“That’s tough,” he said, adding that he thought WeWork has “something unique to offer.”

Services Firms Feel a Chill

By PETER GRANT

Even before Britain’s vote to exit the **European Union** battered shares of the world’s leading commercial real-estate-services firms, signs were mounting that the party was coming to an end for an industry that had boomed in recent years.

Now, as Brexit’s repercussions ripple through the market, Wall Street is bracing itself for what could be a prolonged slump in the sector. Already, tenants and investors, especially in Europe, have become more wary of leasing and buying property as they reassess their real-estate activity.

A deal slowdown would reduce commissions for real-estate-services firms like Los Angeles-based **CBRE Group Inc.**, Chicago-based **JLL**, Toronto-based **Colliers International Group Inc.** and London-based **Savills PLC**, a prospect that has sent the companies’ shares tumbling.

Longer term, the fallout from Brexit will likely redraw the mergers-and-acquisitions map in a business that has been going through an unprecedented wave of consolidation in recent years.

Companies with low debt and untapped credit lines on their balance sheets, like CBRE and JLL, might be able to take advantage of the carnage. Their acquisition targets, especially in countries such as the U.K., might be more receptive in a post-Brexit world.

“Those people have been looking for homes,” said Colin Dyer, chief executive of JLL, in an interview last week. “But they’ll be looking even harder in the future.”

But a decline in commission revenue could mean headaches for more highly leveraged firms, like Cushman & Wakefield Inc., which was acquired last year by an investment group led by private-equity firm TPG and combined with Chicago-based DTZ and Washington-based Cassidy Turley.

For Cushman, keeping up with the competition might mean having to take on more debt or get a capital infusion from ownership. Neither alter-



A deal slowdown would reduce commissions for real-estate-services firms like Savills.

native has been particularly appealing to Cushman’s management team, which has preferred to finance expansion through cash flow.

What is more, with bears rampaging in the industry, Cushman likely will need to put off its widely expected initial public offering. Analysts had predicted the IPO would come later this year or early next year. That looked possible when other firms were trading at record highs, but not today when some are trading at more than 30% discounts to that level.

“If your peers are trading poorly, your owners are going to say why am I taking this thing public now,” said Brandon Dobell, who tracks the industry for William Blair & Co. “Giving away cheap equity tends to not be a great idea to put before the board.”

A Cushman spokeswoman declined to comment on whether the Brexit vote has affected the firm’s timing on an IPO. But she pointed out in an email that the firm’s exposure to Europe is less than some of its biggest rivals.

“We are well-positioned with a very diversified revenue from all major markets around the world,” she said.

A consolidation in the commercial-property services industry in recent years has been fueled partly by investors and major corporations looking to the firms to take on more real-estate roles in more countries. At the same time, firms have been trying to insulate themselves against a downturn in transactions by building and acquiring other businesses, such as property management, that get recurring fees and are less dependent on economic cycles.

Until recently, the firms have had the wind at their backs thanks in part to the enormous increase in commercial real-estate sales volume throughout the world. In 2015, a record \$1.3 trillion worth of commercial property and development sites traded hands globally, according to data firm Real Capital Analytics.

These deals boosted commission revenue and the shares of services firms. CBRE, JLL, Savills and Colliers all hit post-crash record highs last year.

But the real-estate rally began losing its bloom last year as deal volume began to fall and concerns grew about the health of China and other drivers of the world economy.

The surprise Brexit vote added fuel to the fire.

There is now “lack of clarity” in Europe on tariffs, politics, exchange rates, the regulatory environment, imports and export and the movement of talent and skills, Mr. Dyer said. “What do people do? Slow everything down or wait until clarity emerges,” he said.

To reassure post-Brexit markets, CBRE in late June issued a news release pointing out that last year the U.K. accounted for about 10% of the firm’s global earnings before interest, taxes, depreciation and amortization.

Meanwhile, executives at firms focused more on the U.S. market, like Newmark Grubb Knight Frank, say they could benefit if investors shift more of their attention away from Europe to North America.

“The more money that comes to America, the better for us,” said Newmark CEO Barry Gosin.

Newmark is owned by BGC Partners Inc., a spinoff of Cantor Fitzgerald. Shares of BGC, which also owns other financial-services businesses, also fell in the wake of Brexit, but not as much as the broader commercial real-estate-services sector.



WeWork co-founder Adam Neumann at its Fulton Center

HEARD ON THE STREET

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FINANCIAL ANALYSIS & COMMENTARY

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OVERHEARD

Some Brexit supporters see the European Union as an intolerable drag on economic growth. Tell that to Ireland, which on Tuesday revised its 2015 growth in gross domestic product up from an already remarkable 7.8% to an absolutely staggering 26.3%.

Of course, investors shouldn't take that number at face value. Ireland has always faced problems in measuring its economy, due to its openness and the substantial role played by multinational corporations there.

Now, last year has been distorted by company relocations—some due to the infamous tax-inversion deals—leading to a jump in the stock of capital assets in Ireland's national accounts. This is a one-time effect, albeit an enormous one.

But the 2015 number still matters.

Irish debt as a share of GDP now should sink below 80% from its recent peak of 120%. True, the absolute amount of debt hasn't changed one cent. But on this measure—an important one in eurozone policy deliberations—Ireland is leaving its crisis behind swiftly.

And in truth, Ireland's economy has been performing well, with unemployment falling, tax revenues rising and consumer spending growing.

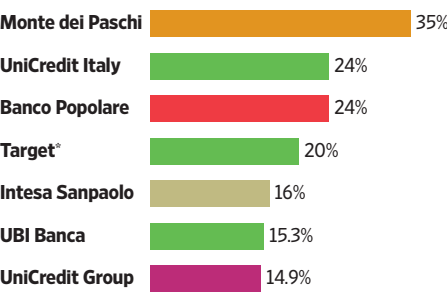
But Brexit poses a threat. Ireland's close ties to the U.K. put it on the front line for spillover effects.

In the long term, Ireland could perhaps benefit as an attractive destination for foreign companies looking for a route into the EU. Still, the transition, with the U.K. facing a potential recession, will be bumpy.

Irish economic statistics will remain volatile, although not quite on the scale of 2015.

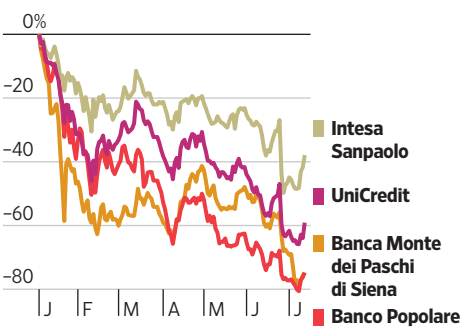
Italy's Nonperformers

Ratio of gross nonperforming loans to total loans at first-quarter 2016



*Target given to Monte dei Paschi by European supervisors
Sources: the companies (ratios); FactSet (performance)

Italian banks' share performance



THE WALL STREET JOURNAL.

A Bank's Test for Europe

Brussels is caught in a game of chicken with the Italian banking system and both sides are wrestling with highly unpredictable outcomes.

Italy wants to use public money to shore up its weakest banks and help them all to keep lending. But since the financial crisis, regulators have fought to ensure banks are no longer too big to fail and have made it all but impossible to use taxpayers' money.

In the middle of this standoff is **Banca Monte dei Paschi di Siena**, Italy's third-biggest bank by assets, which has the highest ratio of bad loans to total loans and the lowest-valued shares.

This has come to a head because "stress tests" at the end of July are likely to further expose Italian capital needs. And right now, no private investors seem willing to invest.

Things got worse after the British vote to leave Europe sparked a Europe-wide selloff in bank stocks that has left big Italian lenders like UniCredit trading at less than one-quarter of book value. Monte dei Paschi trades at less than one-tenth.

The solution is legally difficult and precarious. If public

money is used, it risks undermining new regulations at their first test. If it isn't, Italy's banking system could face a full-blown systemic crisis.

In the past, public money wouldn't even be considered an option unless a bank was failing. And nowadays, the rules have been changed to make it very hard to use taxpayers' funds even if that is the case.

But Monte dei Paschi isn't failing. It is expected only to need capital to stop it from falling below minimum requirements in the stress test.

In this instance, in Europe, public money can be used in a so-called precautionary recapitalization under strict conditions. The bank must be solvent, there must be no chance to raise money privately and, most important, the money mustn't be used to make up for recent or likely future losses.

This is tricky because Monte dei Paschi has been told by supervisors to sell down more of its bad loans, which likely will lead to losses.

But if it can sidestep this issue and get public money, European state-aid rules say that junior bondholders must suffer some losses.

This is troublesome because plenty of these junior bonds are held by retail investors.

Senior bonds and deposits aren't under any threat because none of the banks that could get a precautionary recapitalization would be failing.

But there still is a fear that losses on junior bonds could spark a broader sell-off of all bank bonds by retail investors and even a wave of deposit withdrawals from the weakest banks. Italian deposits up to €100,000 (\$110,465) are protected by deposit insurance, and Italy has ranked all deposits senior to any other bank debt by law. However, these things aren't always well understood or trusted by retail savers.

The get-out clause in state-aid rules is that these losses can be avoided if they would endanger financial stability. Those on the Italian side think they will. Elsewhere in Europe, there are doubts.

Any losses on junior bonds won't be big enough to cause a crisis. What matters will be how savers react. If retail junior bondholders could somehow be compensated that might help. But a misstep could be disastrous.

—**Paul J. Davies**

Brexit Isn't Alone As Crisis in Fashion

Brexit won't help British fashion retailers. But expectation-busting quarterly results from online specialist **ASOS** offer a troubling reminder that the sector's problems run deeper than politics.

Most European fashion retailers have published horrid figures this year. The U.K. leader, **Marks & Spencer**, said last week that like-for-like sales in its clothing and home categories fell 8.9% year over year in the quarter through July 2. New Chief Executive Steve Rowe has been weaning customers off promotions and delayed the summer sale, but even without these distortions, like-for-like sales probably would have fallen 4%, the company said.

Meanwhile, ASOS reported a 26% constant-currency increase in sales for the four months through June. That included 28% growth in the U.K., which accounts for roughly two-fifths of the total. Investors bid up the shares 4% Tuesday morning.

These are extreme examples, but the trend is broad-based. Data from the credit-card arm of **Barclays** estimated year-over-year U.K. consumer-spending growth at 3.6% for the month running up to the referendum. But nearly all the growth was online, with e-commerce up 15% and in-store sales essentially flat.

Brexit is likely to have two effects on British fashion retailers. First, since the main ingredient of clothes is cotton, which is priced in dollars, the pound's fall will push up costs. Companies can choose to raise prices, dampening demand, or—as ASOS has said it would—keep prices low and take a margin hit.

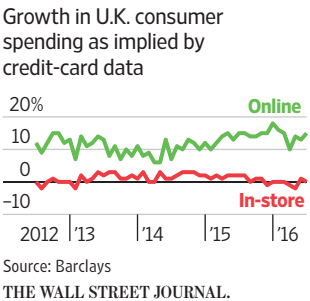
More speculatively, Brexit is expected to knock consumer spending. That is mainly because the weak pound will make all imports more expensive, generating inflation that will squeeze real wage growth. Political uncertainty may weigh on consumer confidence, though Barclays's credit-card data cast doubt on this: It found that spending in the week after the vote was 2.1% higher than in the previous week.

Retailers are bound to feature Brexit as a reason for their woes over the coming months. But investors shouldn't be fooled into ignoring longer-term trends. As in the U.S., many traditional fashion retailers have been struggling to digest a confusing cocktail of forces: competition with e-commerce, including **Amazon.com's** revamped clothing offer; the fashion for sports-wear or "athleisure" that has so benefited the likes of **Adidas**; possibly even fashion fatigue as millennial consumers prioritize experiences over goods.

Investors can't know exactly how Brexit will affect European consumer confidence, nor where gyrating currencies will end up. They should instead focus on the retailing trends they do know.

—**Stephen Wilmut**

Widening Gap



MONEY & INVESTING

Venture Investors Target China

By **ROLFE WINKLER**

Veteran Silicon Valley investor **Jim Breyer** and Chinese firm **IDG Capital Partners** have raised one of the largest venture-capital funds in China despite concerns that the market for later-stage startups is overheated.

Mr. Breyer, best known for his early investment in Facebook Inc., and IDG Capital, one of China's top investors, jointly announced Tuesday they raised \$1 billion to invest in growth-stage companies both in China and those looking to enter the country. The new fund will make investments in a wide range of industries, including technology, media, health care and energy.

The fund is the seventh and largest China investment fund that IDG and Mr. Breyer have sponsored dating back to 2005, according to Dow Jones LP Source. The first five were a collaboration between IDG and Mr. Breyer's old U.S. firm, Accel Partners, and the last two between IDG and Mr. Breyer's new firm, **Breyer Capital**.

At \$1 billion under management, IDG Capital Fund III nearly doubles the prior fund's \$586 million. That fund, raised in 2014, was smaller in part because it focused on early-stage startups, while the new one is targeting more-mature companies. The last growth fund, raised by IDG and Accel Partners, was \$750 million in 2011.

One challenge, Mr. Breyer said in an interview, will be finding investments in what he called a frothy market.



Jim Breyer and IDG Capital will look at growth-stage companies in a wide range of industries.

"When late-stage company valuations are as high as they are today in China and the U.S., prospective returns are much lower than they have been," he said. "I try to remind myself and my Chinese partners: 'Do not pursue high returns in a low-return environment.'"

Of the 10 largest global venture-capital funding rounds this year, six of them involved Chinese companies, according to Dow Jones VentureSource. They include a \$4.5 billion investment in **Didi Chuxing Technology Co.** that valued the ride-hailing company at \$28 billion, and a \$3.3 billion deal for **Meituan-Dianping** that gave the e-commerce company a valuation of more than \$18 billion.

Mr. Breyer said that considering the high valuations for private companies, the firm will deploy its capital slowly

over three to four years for new investments. "One of the hardest parts of the business is to continuously try to master is to come to work and in some cases not make new investments for a year," he said.

There are other challenges to investing in China. The country restricts foreign investments in certain classes of companies that hope to go public, including internet companies. That may have been a bigger problem a year ago, when the Chinese stock market was rising to new highs. At that point, even some companies trading publicly in the U.S. went private so they could relist in China.

But the Shanghai Composite Index crashed last summer. It is down more than 40% from its 2015 high, reducing excitement locally for highflying tech companies. The volatility was also blamed by many

venture capitalists for piercing the bubble that had started to inflate valuations of late-stage U.S. private companies.

The decline in valuations has at least taken some air out of the market, which could bolster future returns. And Mr. Breyer nonetheless remains excited about Chinese investment opportunities. "We believe there are some emerging opportunities around enterprise in China and cloud computing that many global investors outside of China [are] underestimating," he said.

The Breyer-Accel-IDG partnership over the years has resulted in some big winners. One is **Legendary Entertainment**, which Accel, Breyer Capital and IDG-Accel invested in six years ago and which sold itself for \$3.5 billion earlier this year to Chinese conglomerate **Dalian Wanda Group Co.**

Finance Watch

UNICREDIT
A Second Deal To Raise Capital
Italian lender UniCredit SpA said late Tuesday it launched the sale of a stake of up to 10% in Polish subsidiary Bank Pekao SA, the second consecutive transaction aimed at shoring up its capital position since a new chief executive has taken the helm of the bank.

UniCredit currently owns 50.1% of Pekao, while the rest is listed on the Warsaw stock exchange.

The transaction follows the sale of a 10% stake in online bank FincoBank SpA announced on Monday and concluded Tuesday.

—**Giovanni Legorano**

ITALY
Bad Loans Pile Up

Italian banks' burden of bad debts—gross nonperforming loans—rose 3% in May from the previous year to €200 billion (\$221 billion), the Bank of Italy said Tuesday.

Nonperforming loans net of provisions for losses increased 2% in May to €85 billion from the same period last year.

The data refer only to bad loans in which the debtor is deemed insolvent. Total gross impaired loans, which include loans to debtors deemed in temporary difficulty, past-due loans and other types of impaired loans, stand at €360 billion, according to the latest data from

the central bank.

—**Giovanni Legorano**

CHINA VANKE
Developer, Partners Eye Property Assets
Property developer **China Vanke Co.** said it is teaming up with partners to purchase 12.9 billion yuan (\$1.93 billion) of commercial property from **Blackstone Group LP** and others.

The Shenzhen- and Hong Kong-listed developer will contribute 3.9 billion yuan to the joint acquisition for a 96.6% stake in the commercial-property companies, Vanke said in a stock-exchange filing Tuesday.

Vanke said it wouldn't issue any shares to fund the acquisition.

—**Esther Fung**

QATAR NATIONAL BANK
Surge in Lending Bolsters Earnings
Qatar National Bank, the largest Middle Eastern lender by assets, said a sharp jump in lending helped lift first-half net profit by 12% from the year-earlier period.

QNB, which is half-owned by Qatar's sovereign-wealth fund, said net profit in the six months ended June 30 amounted to 6.2 billion Qatari riyals (\$1.7 billion). Loans and advances climbed 39%, to 497 billion riyals.

The Qatari lender's profit increase and loan expansion comes at a time when banks across the region are grappling with the impact of low energy prices.

QNB's assets rose 36% from a year ago, to \$190 billion at the end of June. Two Abu Dhabi banks recently said they would merge and form an entity with \$175 billion in assets.

—**Nicolas Parasie**

RULES

Continued from page B5
ministers urged caution over new standards expected to emerge from the Basel Committee in a review of current bank-capital requirements.

They said the Swiss-based supervisor's proposals shouldn't bring about significant increase

in overall capital requirements.

Mr. Hill has regularly spoken out against international regulatory arbitrage, where financial institutions exploit differences in national regulations, in areas such as risk-weightings for bank capital and other initiatives coming out of the Basel Committee.

"In the banking sector, we need to be sure that measures being considered by the Basel Committee—like the leverage ratio,

the net stable funding ratio, and the fundamental review of the trading book—work for Europe," he said.

According to Mr. Hill, many respondents said they were concerned about the impact of those measures and how they overlapped with existing rules. Unintended consequences include future damage to trade finance, market liquidity and access to clearing services.

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FUND NAME	NAV					-%RETURN-			
	GF	AT	LB	DATE	CR	NAV	YTD	12-MO	2-YR
■ 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 01 01 MYS 07/01 USD 291567.21 4.1 -7.0 -8.0									

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