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THE BIG READ 16-17

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WORLD 10

THE WALL STREET JOURNAL.

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Mark Bourdillon for The Wall Street Journal

Mario Draghi says the biggest risk to banks is that rates may rise before balance sheets are repaired.

Draghi worries rate increases will trip banks

BY NATASHA BRERETON

HORSHAM, England—The biggest risk to global economic recovery is the likely prospect that interest rates will have to rise before banks' balance sheets have been repaired, Mario Draghi, chairman of the Financial Stability Board, warned Tuesday.

Several leading central banks already have begun to withdraw some of the programs that were put in place to counter the most severe downturn since World War II.

While officials are expected to be cautious in raising rates, the International Monetary Fund estimates that close to half of global bank losses have yet to be disclosed.

"The biggest risk is that for various reasons, interest rates might have to rise again when banks' balance sheets have not been repaired yet," Mr. Draghi said at The Wall Street Journal Future of Finance Initiative.

"They may rise for monetary policy reasons, and if you think [about it], it's going to be very likely, because the process whereby banks will repair their balance sheets is a lengthy one," he said. "It's going to take several years."

The European Central Bank last week laid the groundwork for rolling back some of its special monetary stimulus in 2010, but kept in place the vast bulk of measures designed to combat the recession and banking crisis. ECB President Jean-Claude Trichet stressed repeatedly at a news conference that the steps were "not in any way" a move toward the exit.

Mr. Draghi, who is also governor of the Bank of Italy, additionally highlighted the danger posed by a "huge wall" of corporate and public debt. He cited estimates of around $4 trillion in noninvestment-grade and commercial-real-estate-based debt coming due over the next five years, "trillions" of dollars of bank debt and public debt on top of all that.

"We are actually seeing sovereign risks that materialize," Mr. Draghi noted, referring to Fitch's downgrade of Greece's sovereign debt Tuesday.

"All of this will certainly increase the risk premium in an otherwise safe asset, and may bring in some time higher interest rates," he added.

Mr. Draghi pointed out that one reason why the financial system had gotten into such a mess was that it was allowed to create an "excessive and misperceived" level of leverage.

While there is no case for the prudential regulation of hedge funds, it would make sense for central bankers to have access to more information about the industry, through greater disclosure and transparency of investments, he said.

"Monetary policy has to take into account how much leverage is being created outside the regulated banking community, and it has to know more about that so as to assess the operation of transmission channels of the original monetary impulses," Mr. Draghi said.

U.K. keeps 2010 spending plan

BY LAURENCE NORMAN AND ALISTAIR MACDONALD

Treasury chief Alistair Darling will stick to the U.K.'s spending plans for next year and detail how the government will finance increased cash for "front line" public services in his prebudget report Wednesday, a person familiar with the matter said.

Mr. Darling has argued that squeezing public spending and withdrawing economic stimulus would risk hurting the recovery.

On Wednesday he will say that services such as the police, National Health Service and education will see their budgets protected, the person said. Such language echoes a point the government has emphasized to distinguish itself from the Conservative Party before an election that must be called before June. The ruling Labour Party claims that Conservatives will announce broad cuts to public services that will pull money from the economy at a crucial time.

Given the economic uncertainty, now is "not the right time to be setting departmental budgets," this person said.

Mr. Darling will outline the priority public services whose budgets the government intends to protect. He will say that the increased spending will be paid for by a mix of savings, economic growth, taxes and spending cuts on non-frontline services, this person said. The government will repeat its promise that after next year the pace of public spending will slow.

Leading credit-rating firms have indicated that they will wait until after the election before judging whether the U.K. remains creditworthy enough to retain its AAA rating. Even so, they would prefer to see action to slow the growth of borrowing sooner rather than later. In May, Standard & Poor's placed the U.K.'s AAA credit rating on negative outlook for the first time since it started rating the country in the late 1970s.

Wednesday's report likely will see some tweaks to borrowing forecasts for the next few years. With the recession proving deeper than expected this year, public-sector net borrowing will likely be higher than the £175 billion ($287.51 billion) currently forecast for the financial year that ends in March.

The Quirk

English village of Stilton tries to milk a connection to its cheesy past. Page 33

World Watch

A comprehensive rundown of news from around the world. Pages 34-35

Editorial & Opinion

'Climategate' is bigger than a single leak at one institution. Page 13

Greece, Dubai woes roil global markets

European and U.S. stocks fell as credit-ratings firm sounded alarms on Greece and cut the ratings of six government-controlled companies in Dubai. Shares in the emirate fell sharply, wiping out the gains for 2009.

As shares tumbled, investors moved to safer assets, such as the dollar, while riskier assets such as oil and gold fell. The pan-European Stoxx 600 index fell 1.6% at 244.01

Worries about Greek debt contributed to a flight from risk in European financial markets following a decision by Fitch Ratings to downgrade Greece's sovereign rating. Fitch cut Greece's long-term foreign-currency and local-currency ratings to BBB+ from single-A-minus, highlighting "concerns over the medium-term outlook for public finances given the weak credibility of fiscal institutions and the policy framework in Greece."

Fitch assigned Greece's rating a negative outlook.

Meantime, Dubai stocks plunged as continued uncertainty about Dubai World's repayment plans for borrowing weighed on shares. A Dubai official appeared to muddy the waters about government support for Dubai World, saying the government had extended aid, while bondholders said they would hold out for full payment in any restructuring.

■ Articles on pages 4, 27

PAGE TWO

On Europe, Cameron confronts reality

[Agenda]

By Iain Martin

If he becomes prime minister, what will David Cameron's attitude be to his government's relations with the Europe? Listen to his recent pronouncements against proposed measures that if implemented threaten the City of London, and it sounds very much like it could be British Tory business as usual.

On Tuesday, he was at The Wall Street Journal Future of Finance Conference at South Lodge in Sussex and sounded robust when questioned.

"You don't have to be some wild-eyed skeptic," he said, "to see that Europe intends to use these events for a massive land grab." Some politicians in Europe have "always had their eyes on the City of London."

So far, standard skeptical-sounding stuff. But it masks significant developments in the thinking of the Tory leadership in Europe. The closer the possibility of their being in office gets, the more apparent it becomes that they are adjusting to what might be termed politely the need for constructive engagement. His talk might be combative, but the Tories are getting ready to play the European game with Angela Merkel and Nicolas Sarkozy while trying to convince their skeptical base that they aren't.

Shadow Chancellor George Osborne is firming up plans to plant a Conservative minister in Brussels to ensure a "more aggressive Treasury presence" when the European Union is preparing legislation. Note, again, the robust language. But these plans amount to the Conservatives recognizing the truth that Europe is the central authority on regulation that impacts on financial services and much else beyond. They are reconciling themselves to post-Lisbon treaty reality.

Reuters

Former U.K. Prime Ministers Margaret Thatcher and Edward Heath

There is the question of the new grouping the Tories joined in the European parliament, peppered with conservative Poles and Latvians. Labour, whenever possible, makes all manner of claims about this. The facts here are irrelevant, the idea being to just plant the seed of a thought in the mind of center-ground voters that the Conservatives have a problem with Europe. Expect a Tory government in London not to have too much to do with this grouping in public and to focus its efforts on the Commission and the council of ministers.

The Tories are getting ready to play the European game with Merkel and Sarkozy

Of course, there is a commitment the Tories have made to reclaim certain powers—such as in the area of the social chapter—but will such efforts get anywhere? I wouldn't bet so much as a single euro on it.

This puts Mr. Cameron in a potential tight spot with his party. To say that British Conservatives have had a difficult relationship with the EU is an understatement. They were the party that, under Edward Heath, took Britain into what was then the Common Market. Later the issue almost ripped their party apart. It contributed to their defeat in various elections.

The removal of Margaret Thatcher as prime minister in November 1990 was ostensibly connected to her leadership style, but the specific trigger was Europe and her attitude to further integration. During the 1990s and beyond, Euroskepticism was the prism through which much of the Tory party viewed the world, and for that reason, the popular-with-the-public Ken Clarke, an avuncular and shrewd former chancellor and much else besides, never got to lead his party.

When the Tories chose themselves a new, young leader, four years ago last Sunday, the winner of that contest was understandably eager not to see his tenure defined by splits over the EU. Indeed, David Cameron likes to say how refreshing it is that under him his party hasn't been consumed by such rows about Europe. But can this situation hold through a general election and after?

This week, the Conservatives have another dose of the jitters, with their poll lead Tuesday somewhat eroded and down to eight points in a survey for The Times. The rumors are of Gordon Brown going for an earlier than planned poll, possibly opting for March 25 and a short campaign kicking off in late February. It is being suggested by Labour's enemies that a March election would also suit Labour because it is short of money, which it certainly appears to be.

Those Tory jitters are in part connected to Europe, with Euroskeptics saying the dip in Conservative support can be traced to Mr. Cameron's announcement in November that if elected he wouldn't hold a referendum on the Lisbon treaty. Conservative MPs report some dismay on the doorsteps and say that a portion of the core vote with passionate views is so disgusted at the alleged betrayal that it is pledging not to vote, or to defect to UKIP.

Thus Europe could end up making a significant difference in an election that will be extremely closely fought. It might suit the Conservative leadership to pretend the EU is a subject of marginal interest. It could be anything but by polling day.

Even if Europe ends up not impacting on the outcome of the election, the related question of party management afterward has the potential to upend a Cameron government with a nonexistent or small majority. It is not just that there are old-guard MPs who will hope to leverage concessions, but the prospective new intake of Tory MPs looks to be pretty Euroskeptical.

You can expect the argument he puts to his party in such circumstances to be that there is so much else on his plate—the deficit, cuts, the future of the Union—he doesn't have time for years of debilitating strife with the EU. He had better hope his party buys this new realism about Europe. I'm not certain it will.

ONLINE TODAY

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The Source

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"We were sort of ... doing it alone because we had the sense the U.S. wasn't going to follow."

Brown adviser Shriti Vadera on finding a solution to last year's financial crisis

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Question of the day

Vote: Do you think tougher capital requirements for banks could drive business away from London?

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Q: How important is global warming to you?

Very important **29%**

Somewhat important **12.9%**

Not important **58.1%**

What's News

■ **The biggest risk** to global economic recovery is the likely prospect that interest rates will have to rise before banks' balance sheets have been repaired, Mario Draghi, chairman of the Financial Stability Board, warned. 1

■ **European and U.S. stocks** fell as credit-ratings firms sounded alarms on Greece and cut the ratings of six government-controlled companies in Dubai. 4, 27

■ **German authorities** have begun a criminal probe of several executives at Landesbank Baden-Württemberg for alleged breach of trust. 4

■ **United Airlines said** it placed firm orders for 50 wide-body aircraft, consisting of Boeing's 787 model and Airbus's new A350. 21, 36

■ **Developing countries** used the U.N. climate summit in Copenhagen to demand that rich nations commit more money and accept sharper cuts in their emissions. 5

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U.S. justices take on antifraud law

By Brent Kendall

WASHINGTON—Members of the U.S. Supreme Court on Tuesday used an appeal by imprisoned former media mogul Conrad Black to voice criticism of a federal law commonly used to prosecute company executives for fraud.

During an hourlong oral argument, several justices said they were concerned with the breadth and vagueness of a law that gives prosecutors the authority to bring cases against employees who deprive companies of their honest services.

The government used the law in its prosecution of Mr. Black, the former Hollinger International Inc. chairman who is serving a 6½-year sentence for skimming millions of dollars from the company. Prosecutors also used the law in a fraud case against former Enron Corp. Chief Executive Jeffrey Skilling, a case the Supreme Court will consider next year.

Justice Stephen Breyer said the wording of the 20-year-old law could potentially criminalize the conduct of tens of millions of U.S. workers who simply goof off on the job.

He and others offered a range of hypothetical situations in which a worker might be depriving his employer of his honest services. Justice Breyer envisioned an employee who sits at his desk and reads the Daily Racing Form.

Others preferred a hypothetical from Justice Antonin Scalia: a worker who calls in sick so he can go to a ballgame. An employee's decision to skip out on the job for a day at the ballpark "could be a huge loss" to a company and thus violate the law, Justice Sonia Sotomayor said.

Several justices suggested the law needed to be narrowed, and some questioned whether it was so vague that it should be struck down. Justice Scalia said that if the whole statute had legal shortcomings, the court had no business trying to rewrite it. "That's not our job," he said.

Mr. Black's lawyer, Miguel Estrada, argued that the law is so ill-defined that it gave prosecutors broad license to go after any conduct that offended their ethical sensibilities.

Associated Press

Ex-media mogul Conrad Black, seen in 2007, is serving a 6 1/2-year sentence.

"There are any number of problems with how Congress chose to do this," Mr. Estrada said.

Justice Department lawyer Michael Dreeben tried to quell the justices' concerns, saying the law was focused only on corruption cases involving bribes, kickbacks and instances where workers took actions that benefited their personal financial interests instead of their employer's.

The law, Mr. Dreeben said, "does not mean that everything the employee does is a crime."

Prosecutors have used the honest-services law regularly in corruption cases over the past two decades. A loss for the government could make it harder for prosecutors to bring charges in some business-fraud cases.

The Black case is one of three on the court's current docket that examine the honest-services law. The justices also heard arguments Tuesday involving an Alaska state politician who said he was wrongly prosecuted under an honest-services theory.

Next year, the court will consider a similar appeal by Enron's Mr. Skilling, who is challenging his conviction for conspiracy, securities fraud, insider trading and lying to auditors.

Decisions in the three cases are expected by the end of June.

Mr. Black was convicted on three counts of mail fraud and one count of obstruction of justice, though he was acquitted on nine other fraud counts. Prosecutors alleged he and other Hollinger executives supported lavish lifestyles by siphoning off millions from the company through bogus management fees and noncompetition agreements as the company sold off many of its smaller newspapers.

The media mogul built Hollinger into what once was the world's third-largest newspaper company. At one time, it operated more than 300 newspapers, including the Daily Telegraph in London, the Jerusalem Post in Israel, the Chicago Sun-Times and Canada's National Post.

The company is now much smaller and operates under the name Sun-Times Media Group Inc.

Greece's debt burden

As nation's credit rating is downgraded, fears of a debt crisis grow

By Brian Blackstone
And Marcus Walker

Financial markets reacted sharply to a downgrade of Greece's credit rating on Tuesday, sending the euro as well as Greek bonds and equities lower amid rising fears that Greece's growing problems could turn into the most serious debt crisis that the euro zone has faced.

Citing Greece's lack of decisive action to rein in its budget deficit of nearly 13% of gross domestic product, Fitch Ratings cut the country's rating to triple-B-plus from single-A-minus, the lowest level in the 16-nation euro currency zone.

The downgrade came only a day after another ratings company, Standard & Poor's, warned it might cut its own single-A-minus rating for Greece, heightening fears that the country's government and banks might struggle to refinance their heavy debts over the coming year.

Mounting investor concern over Greece's public finances is exposing structural weaknesses in Europe's decade-old monetary union, which has a single currency and monetary policy but 16 different fiscal policies. Greece's mounting problems underscore longstanding concerns that the euro zone lacks the tools to make sure member countries' debts don't spiral out of control.

European institutions such as the European Commission, the EU's executive arm, and the European Central Bank have only limited power to force Greece to obey EU fiscal rules. The commission, for example, can impose fines but such a step could make Greece's financial problems even worse.

The risk of a full-blown debt crisis in Greece presents the European Central Bank and the commission with a dilemma: whether to bail out the country and reduce the pressure for fiscal discipline, or see a euro-zone member go under, damaging the credibility of Europe's great common-currency experiment.

The euro is the centerpiece of Europe's political unification, but skeptics have long warned that a monetary union isn't sustainable without more powerful pan-European governance.

Greece's problems of soaring debt and a stagnant economy are shared to varying degrees by other euro-zone members, including Portugal, Ireland and Spain, creating the risk of contagion if investors flee Greek assets.

"This raises question marks over the long-term viability of the euro's current membership," says Simon Tilford, chief economist at the Center for European Reform, a nonpartisan London think tank. "On current trends we'll end up with economic stagnation and mounting political tensions in the euro zone, and at worst, fiscal crises and a loss of political support for continued membership."

The risk premium investors demand for holding 10-year Greek government bonds rose to as much as nearly 2.3 percentage points over German government bonds.

Some analysts see financial markets and rating firms potentially succeeding in putting Greece under pressure to change, where EU officials' exhortations have so far failed.

Greek policy makers "need to get serious about the situation" or be faced with a "very difficult" financial-market environment, said Sweden's Finance Minister Anders Borg, who chairs EU finance ministers' regular meetings, a key forum for coordinating economic policies.

Greece's finance minister, George Papaconstantinou, pledged steps to restore his country's fiscal credibility, which could include supplementary measures to Greece's 2010 budget.

"We will do whatever is needed to meet our medium-term goals," Mr. Papaconstantinou said.

Greece's newly elected socialist government has so far failed to persuade EU officials or financial markets that it will take the painful measures, especially spending cuts, that analysts say are necessary to avoid a debt crisis. In contrast, Ireland is expected on Wednesday to announce billions of euros in spending cuts, including public services.

"Greece is now sailing very close to the wind," London consultancy Capital Economics said in a research note.

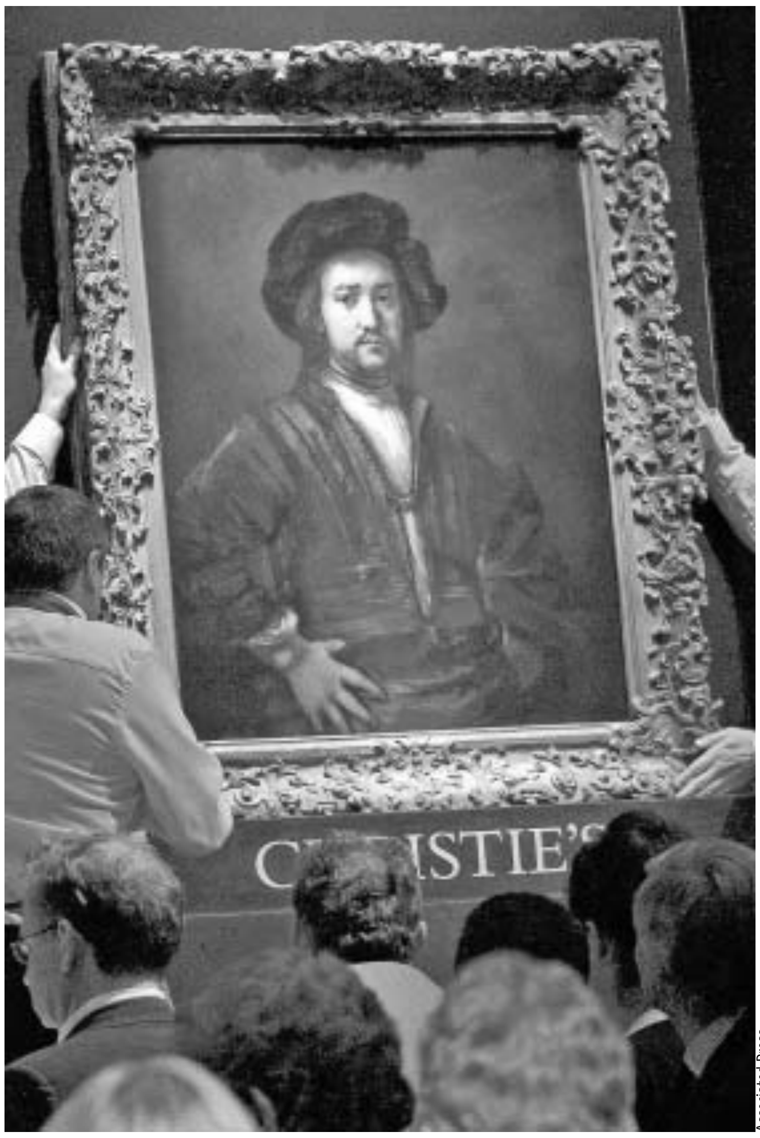
The risk premium that investors demand for holding 10-year Greek government bonds rose to as much as nearly 2.3 percentage points over German government bonds, which are seen as safe, on Tuesday. That spread hit its widest point since April.

That risk premium makes it more expensive for Greece to refinance its debt, adding to its fiscal woes.

Disappointing economic news from Germany also contributed to the euro's weakness, analysts said: German industrial production unexpectedly fell by 1.8% in October from September, highlighting the patchiness of the euro zone's economic recovery.

Equity markets in the U.S. and Europe fell after the Fitch announcement, with Greek shares down more than 6%. Investors seeking relatively safe havens drove up the prices of government bonds in the U.S., U.K. and Germany.

A record Rembrandt



Associated Press

A portrait that hadn't been seen in public for nearly four decades sold for a record £20.2 million ($33.2 million) at Christie's in London. The sale underscores collectors' willingness to buy older masterpieces even as global prices remain shaky for living artists. Rembrandt van Rijn was in financial straits when he painted "Portrait of a Man." He had declared bankruptcy two years earlier, in 1656, and was eventually compelled to sell his art collection and house in Amsterdam.

Germany probes LBBW

By David Crawford

BERLIN—German authorities have launched a criminal investigation against several senior executives at the country's largest public-sector bank, alleging breach of trust in connection with investments the bank made in U.S. mortgage-backed securities toward the end of the real-estate boom.

Prosecutors in Stuttgart said they had opened investigations against six current members and one former member of **Landesbank Baden-Württemberg**'s management board, the bank's central decision-making body. On Monday and Tuesday, police searched the company's Stuttgart headquarters and the officials' homes to seize evidence.

Bettina Franke, a spokeswoman for LBBW, confirmed that prosecutors are investigating the executives. The executives, speaking through Ms. Franke, all declined to comment.

The case in the southwestern state of Baden-Württemberg raises legal questions about whether management can be held liable for what may have been poor investment decisions. The investigation comes amid a growing popular backlash in Germany against banks for the huge investment losses taxpayers have been forced to shoulder. Over the past year, Germany has provided commercial and public-sector banks with more than €150 billion ($222 billion) in guarantees and other financial assistance.

A spokeswoman for the prosecutor's office said the investigation is initially focused on investments totaling more than €100 million in U.S. mortgage-backed investments. The bank invested in securities including shares in special investment vehicles, packaging hundreds or thousands of mortgages made after December 2006. The investments led to losses of at least €1 million and possibly more, she said. LBBW declined to comment on that figure.

Prosecutors are investigating whether the executives knew the investments were unsound at the time they were made. Germany's financial oversight agency, BaFin, warned of the risks associated with investments in securities backed by U.S. subprime loans held by another public-sector bank, Sachsen LB, in April 2005. Sachsen LB collapsed in 2007 as a result of the soured investments and was sold to LBBW.

Mortgage-backed securities didn't come under serious pressure until early 2007, a fact that could make it difficult to prove the executives were negligent, said Hans-Peter Burghof, a professor of banking and finance at the University Hohenheim in Stuttgart.

If prosecutors succeed in securing indictments, the case could prompt similar investigations in other parts of the country. Germany has eight so-called Landesbanken. Controlled by the state governments, the Landesbanken provide wholesale-banking services to Germany's large network of local savings banks. In the years before the financial crisis, many Landesbanken were attracted to the rich returns in the U.S. housing market and invested heavily in mortgage-backed securities.

When the market turned, the German banks were among the hardest-hit investors. LBBW, which has a balance sheet totaling €448 billion, posted a €2.1 billion loss last year and is expected to suffer a loss this year. Other Landesbanken have suffered worse losses. Earlier this month, the federal government had to seize control of WestLB, the country's third-largest Landesbank, to save it from collapse.

Volatility could hurt Russia, says Kudrin

By Ira Iosebashvili

MOSCOW—Russia is a "weak link" in global capital markets and will be vulnerable to capital flight as other countries see their economies improve and raise interest rates, Finance Minister Alexei Kudrin said Tuesday.

"For the moment, in this global economy our capital market is still a weak link," Mr. Kudrin said at an economic conference in Moscow. As developed economies raise interest rates, "volatility will be felt on our equity markets, in our currency exchange rate, and in our trade balance."

Russia has been hit by a wave of speculative capital in recent months, as international investors were drawn by higher oil prices and interest rates, benchmarked against the central bank's 9% refinance rate. That tide of money has pushed the ruble higher by 5.5% against the dollar since September, hurting the profits of exporters with ruble-denominated expenses.

The central bank has said it will limit corporate borrowing abroad by state-controlled Russian companies in an effort to smooth out exchange-rate volatility and develop the country's relatively shallow local debt market. Mr. Kudrin called for world-wide regulation of financial markets.

He said that while groups like the World Trade Organization have global oversight over their sectors, "when it comes to equity markets, everything is regulated on a national level, leading market players to jump from one market to another." He added that the issue would be discussed within the framework of the Group of 20 leading economies.

The central bank has talked about possible controls on cross-border currency transactions, although it hasn't decided whether to act.

So far, nothing has worked to turn away short-term speculative foreign investment or to drag down the ruble—a threat to Russia's nonoil exporters. The ruble weakened Tuesday, falling to more than 30 to the dollar for the first time in more than two months.

Russia's is looking to overseas debt markets to finance the government's deficits. The finance ministry is seeking to issue its first Eurobond in a decade. Mr. Kudrin said the list of investment banks that may participate in the sovereign bond will be available "within days." The country plans to issue up to $17.8 billion in Eurobonds by February.

EUROPE NEWS

China raises the ante on emissions cuts

By Alessandro Torello And Selina Williams

COPENHAGEN — Developing countries at the United Nations climate summit demanded that rich nations commit money and accept sharper cuts in their emissions, highlighting the divisions among the world's rich and poor nations that stand in the way of a new global climate deal.

Representatives of China, the world's largest greenhouse-gas emitter, said President Barack Obama's proposal that the U.S. reduce its greenhouse-gas emissions by 17% from 2005 levels by 2020 isn't ambitious enough. Su Wei, the Chinese chief negotiator, said industrialized countries must provide money and technology for developing countries as they seek to limit their greenhouse-gas emissions and face the challenges of climate change.

"They have the responsibility to provide financial support and technology transfer," he said.

Developing countries want billions of U.S. dollars to reduce their own emissions and limit the impact of global warming, but rich nations have been shy in pledging specific figures. The U.S. and the European Union have said they are willing to provide their "fair share" of a total global figure of $10 billion a year from 2010 to 2012.

That amount "would not buy developing countries' citizens enough coffins," said Lumumba Stanislaus Di-Aping, Sudan's U.N. ambassador, who represents the Group of 77, a body that includes China, India and Brazil.

Mr. Di-Aping said a draft text circulated by Denmark is a threat to the successful outcome of the negotiations. The U.N. played down the importance of such a text, with UNFCCC Executive Secretary Yvo de Boer saying the draft is an "informal paper," given to a number of people for "the purposes of consultations."

The document appears to hand more power to rich countries and sideline the U.N.'s role in future climate-change negotiations. U.K. newspaper the Guardian, which obtained a copy of it, reported on its Web site Tuesday, citing what it says is a leaked document.

The Group of 77 estimates that developing countries would need as much as $200 billion to $300 billion a year to face climate-change challenges, said Ambassador Sergio Serra, one of Brazil's negotiators. It would cost between 0.5% and 1% of the gross domestic product of rich nations per year by 2020, the ambassador said.

"To have a satisfactory agreement, we would need some considerably higher commitment on the financial side by developed countries by the end of the meeting," Mr. Serra said.

Separately, the U.K.'s Meteorological Office said the current decade has been by far the warmest on record as it released new figures at the climate-change talks.

"The last 10 years have clearly been the warmest period in the 160-year record of global-surface temperature maintained jointly by the Met Office Hadley Centre and the Climatic Research Unit at the University of East Anglia," the U.K.'s national weather service said.

In a separate announcement, the World Meteorological Organization said 2009 is likely to rank in the top 10 warmest years on record since the beginning of instrumental climate records in 1850.

The Met Office's announcement follows controversy over leaked emails from the University of East Anglia's Climatic Research Unit that have shaken climate science. Climate skeptics say the emails show that key data have been manipulated to strengthen the argument for climate change being man-made.

Reuters

A delegate from Guinea-Bissau attends Monday's opening session of the Climate Summit in Copenhagen. Developing countries want billions of U.S. dollars to reduce their own emissions and limit the impact of global warming.

FUTURE OF FINANCE

Cameron aims to take on the deficit

Leader of Conservative opposition also warns that cutting spending too abruptly could jeopardize economic recovery

By Alistair MacDonald
And Laurence Norman

HORSHAM, England—The leader of Britain's opposition Conservative Party said tackling the country's massive deficit is "vital" but moving hastily to slash spending could put the fragile recovery at risk.

THE WALL STREET JOURNAL.
FUTURE OF FINANCE INITIATIVE

Comments by Tory leader David Cameron at The Wall Street Journal's Future of Finance Initiative conference suggest that the Conservative Party—running ahead of the ruling Labour Party before next year's election—is still calibrating how quickly and deeply it would cut spending if it assumes power.

Mr. Cameron has forecast an "age of austerity" for the U.K., which racked up a £175 billion ($287.5 billion) budget deficit as part of its bid to emerge from the financial crisis.

During Tuesday's interview, Mr. Cameron called for tackling the deficit aggressively. But he added: "Of course, there is a danger, if you do too much too early, you would choke off some demand." Thus far it has been the Labour government, aiming to draw battle lines before the election, that has warned against rushing the deficit pullback.

Mark Bourdillon for The Wall Street Journal

David Cameron promises flatter taxes and a fight against the EU's 'land grab' on Britain's 'precious' financial-services industry.

The Conservatives on Tuesday set out plans for an independent agency to oversee fiscal policies if they win the election. The Conservatives said the Office for Budget Responsibility, which would be headed by Alan Budd, a former Bank of England Monetary Policy Committee member, will publish its own short- and medium-term fiscal forecasts at least twice a year, before the government issues its prebudget statement and budget. The office also would issue an annual assessment of all government liabilities and the long-term sustainability of public finances.

At the Journal conference, Mr. Cameron promised flatter taxes and a fight against the European Union's "land grab" on Britain's "precious" financial-services industry.

With his party's lead in the polls slipping recently, Mr. Cameron has about six months to convince the country that he should become the first Conservative prime minister since 1997. He has billed his party as the right one to tackle the U.K.'s record deficit and restore its finances with aggressive measures—a message cheered by many economists who will be looking for any change in tone by the party.

On Tuesday a report by Moody's Investors Service underscored investor sensitivities, sending the pound lower when the agency cited the challenges facing the U.S. and U.K. compared with the fiscal outlook of other AAA-sovereign-rated nations. A round of economic data reflecting flat manufacturing output and disappointing growth in retail sales shed more light on Britain's moribund economy.

Mr. Cameron's comments come as U.K. Treasury Chief Alistair Darling prepares his prebudget report, which will detail spending and tax measures. Mr. Darling is likely to announce a tax on significant bonuses for bankers, people familiar with the matter say. Mr. Cameron didn't reject the idea of the tax, which has been criticized by London's financial-services district, the City.

If "you look back in the past when you have had exceptional times, there have been times when exceptional taxes have been brought in and have worked," Mr. Cameron told a room of bankers and investors.

He assured the audience he would defend the City from a European Commission directive that hedge funds and private-equity funds claim will impose onerous regulation on them.

"You don't have to be some wide-eyed Euro-skeptic to realize that Europe tends to use these sorts of events for the opportunity of a massive land grab in terms of regulation" and some politicians in Europe have "always had their eyes on the City of London," Mr. Cameron said.

On Monday, Mr. Darling accused the European Commission of "not understanding hedge funds."

Mr. Cameron made clear that he will engage in Europe, sending a Treasury minister to Brussels. The Tory leader has proved adept at using language to appeal to the Euro-skeptic wing of his party while keeping an eye on the reality that in government he would have little choice but to engage with Europe.

Mr. Cameron said he hoped to see a simpler and "flatter" tax system, but ruled out the possibility of a Conservative government ever seeking a direct flat tax, saying that isn't possible for a large country such as Britain.

Mr. Cameron appeared to move away from the views of his finance spokesman George Osborne, saying that banks shouldn't have their size capped as a way to regulate so-called too big to fail institutions. Mr. Osborne has indicated there could be merit in splitting up banks that are too big to fail although he has also said the preferred method would be to use capital restrictions to mitigate excessive risk-taking.

Vadera's nightmare on 10 Downing Street

How close did the financial system come to total meltdown last year? So close, according to Shriti Vadera—one of the key architects of U.K. Prime Minister Gordon Brown's response to the crisis—that she still has nightmares about it.

Baroness Vadera discussed the precarious state of the financial world in the months that followed the collapse of Lehman Brothers in late 2008. As it became clear that a series of measures, including emergency share sales, would not be enough to end the crisis and get banks lending again, U.K. authorities searched for a broader solution to the crisis.

"All of last summer, the real obsession was why didn't we have a resumption of lending," she said. "The thing that we didn't understand or realize was the depth of the bad assets and the degree of capital that was needed." In an effort to find a solution, a delegation accompanied Mr. Brown to New York, where his public agenda called for a trip to the United Nations. Another item on the agenda was to study the Troubled Asset Relief Program, the U.S. plan to shore up the financial system there.

Mr. Brown's aides returned to England unsatisfied.

TARP "came out of left field," Baroness Vadera said. "It seemed so much to not solve the heart of the problem and so we had to come back and think about capital and the most frightening thing, of course, was we were sort of in one sense doing it alone because we had the sense that the U.S. wasn't going to follow."

What the U.K. ultimately settled on was a plan that involved taking massive stakes in some of the nation's largest banks and establishing an insurance scheme for dodgy assets on banks' balance sheets.

"It seems so obvious now, but it wasn't obvious then," she said.

—Dana Cimilluca

Wills to live

Governments will need to agree to share the costs when cross-border banks collapse if "living wills" are to avoid banks having to set themselves up as stand-alone entities in overseas markets, Howard Davies, director at the London School of Economics, said Tuesday.

"It may be that if there can't be any agreement on burden-sharing across borders that living wills will result in a degree of 'subsidiarization' which I think may unfortunately be logical," said Mr. Davies.

The U.K.'s Financial Services Authority is working with large U.K. banks to help them construct living wills, designed to be blueprints on how they could be wound down quickly if they run into financial difficulties. The regulator has said that if the wills end up showing that a bank is too complex to easily wind down, then the banks may have to take steps to simplify their structures.

Bank subsidiaries in the U.K. are regulated by the FSA, whereas branches are overseen by the bank's home regulator. The greater use of subsidiaries would give the FSA the power to ensure banks from other countries have enough capital and liquidity to help them weather financial difficulties.

Mr. Davies, who was the first chief executive of the FSA when it was formed in the late 1990s, said the Group of 20 industrialized and developing nations should commit to implementing future regulatory changes, and that the recently created Financial Stability Board should have the power to direct regulators to coordinate their regulations. *—Adam Bradbery*

ATMs trump CDOs

Former Federal Reserve Chief Paul Volcker isn't afraid to speak his mind. He tossed a few broadsides at a group of financial executives and policy makers.

The group had gathered to come up with suggested reforms that would help prevent a future financial calamity. Mr. Volcker's verdict: "Your response I can only say, is inadequate."

Mr. Volcker, who also chairs U.S. President Barack Obama's Economic Recovery Advisory Board, had a few other choice comments. Among them: "I wish somebody would give me some shred of evidence linking financial innovation with a benefit to the economy."

Mr. Volcker's favorite financial innovation of the past 25 years? The ATM. "It's useful."

In addition, he railed against financial system compensation plans and said it had grown too large.

His idea of reform? A return of something like Glass-Steagall. Commercial banks should be tightly regulated as well as protected. Trading, speculation and financial innovation should live outside those companies so that if they fail, they fail.

"I'm not alone in this and I think I'm probably going to win in the end."

—Dave Kansas and David Weidner

Soros blames lack of oversight for woes

By Natasha Brereton And Dave Kansas

George Soros, the hedge-fund manager famous for "breaking the pound," got in a few good quips as he described the chaos of the past year.

He blamed market "fundamentalists" for dismantling much regulation around the world, which contributed to the financial crisis. But he also noted that some of what caused the crisis caught him off guard.

"I didn't know about credit-default swaps, they developed when I wasn't looking," he said, describing derivatives that provide insurance against corporate defaults.

After studying the market, Mr. Soros concluded that they are toxic assets. His illustration? Selling someone insurance that covers someone else and then selling him a gun to shoot that person.

Mr. Soros, speaking Tuesday at The Wall Street Journal's Future of Finance Initiative conference in Horsham, England, also provided a colorful turn on a popular phrase from the earlier tech bubble. Alan Greenspan had it wrong when he referred to "irrational exuberance" when describing rising excitement in the stock markets. "Not irrational exuberance, but rational exuberance," Mr. Soros said. "If you see a bubble, you have to buy."

Mr. Soros also stressed a need for global regulation if markets are to really recover. "Can you have global regulation or not," he asked. "That's the big test. If not, then global markets will break down into national units."

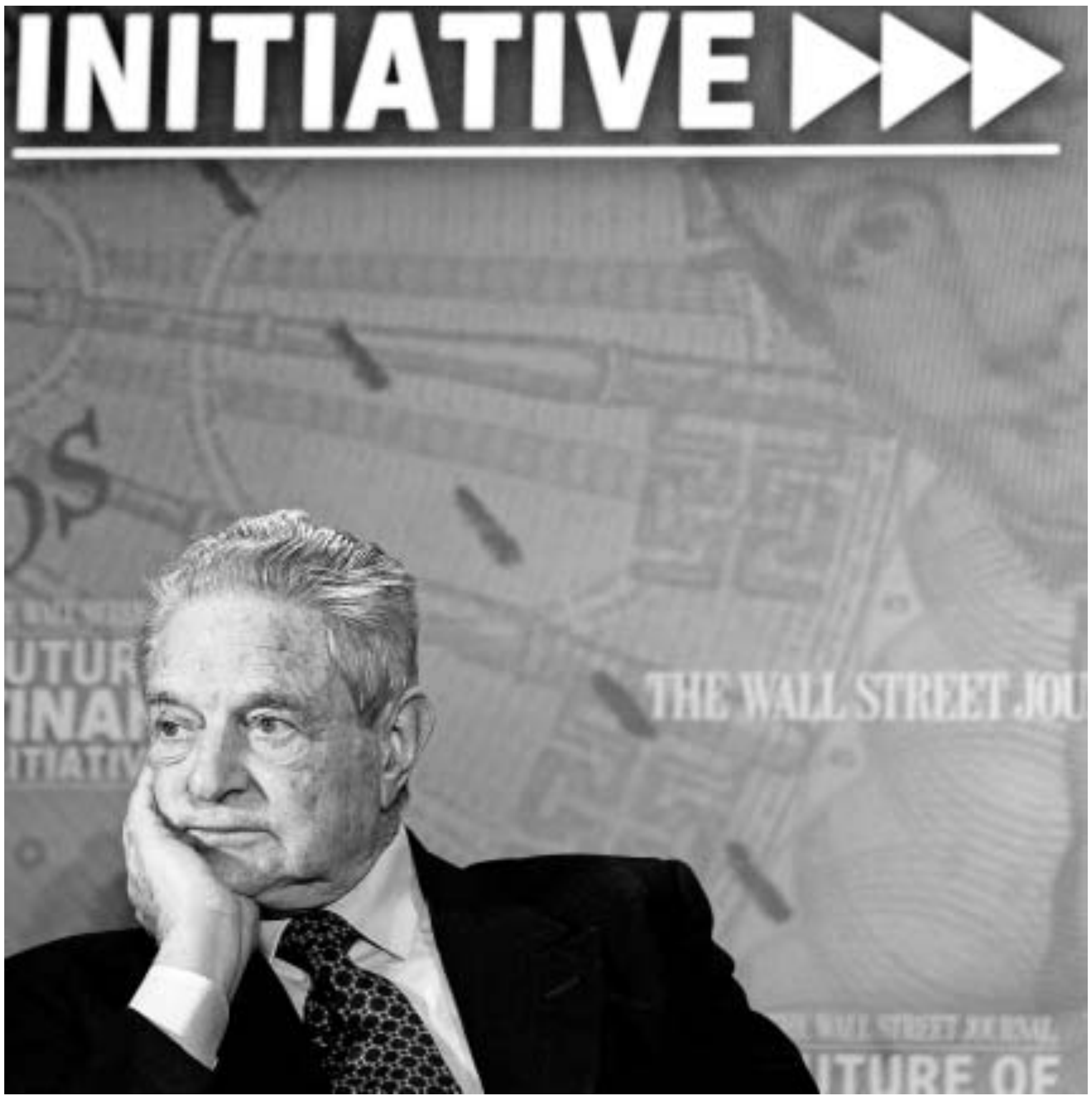
Mr. Soros said bubbles can't be avoided altogether, and it would be unhealthy to try to create a world in which they couldn't form. But regulators need to stop bubbles when they become self-reinforcing and vulnerable to collapse, using margin and capital requirements, he said.

Mr. Soros is now chairman of Soros Fund Management, LLC, but is better known for betting against the value of the pound, resulting in its huge devaluation and pushing the U.K. out of the European Exchange Rate Mechanism in 1992.

Mr. Soros said it wasn't credible to think that the concept of too-big-to-fail could be done away with altogether, and it would take time for living wills to be taken seriously.

"In the meantime, you have to accept that there is an implicit guarantee to the banking system, and then it is the duty of the regulators that the guarantee should not be involved," Mr. Soros said.

It would make sense to push proprietary trading out of investment banks' hands and into hedge funds "where they belong," he said. Hedge funds speculate with their own money, he pointed out, and generally don't threaten the system if they are shut down.



Reuters

George Soros, chairman of Soros Fund Management, called credit-default swaps 'toxic assets' at The Wall Street Journal's Future of Finance Initiative conference in Horsham, England.

Barclays's concern is now capital rules

By Sara Schaefer Muñoz

A few months ago, **Barclays** PLC complained that new U.K. rules on bank bonuses would put it and other British banks at a competitive disadvantage globally. Barclays President Robert E. Diamond Jr. indicated his concerns about a level compensation playing field have perhaps been eclipsed by a different issue: capital requirements for banks.

Holding more capital is more expensive for banks and could hamper Mr. Diamond's ambitions to become a major player on Wall Street and globally —his goal as he builds out Barclays Capital, the investment-banking arm of Barclays PLC that swallowed up Lehman Brothers' broker-dealer business last year.

There's a "massive opportunity for regulatory arbitrage" if such requirements are not universally applied, Mr. Diamond said. An uneven playing field for capital requirements would have the same effect on London as the U.S.'s Sarbanes-Oxley rules had on New York, he said. Sarbanes-Oxley, which aimed to strengthen corporate accounting controls, was believed to have driven business to London, where regulators had a lighter touch.

"It is extremely important today that, around the large economies and financial centers, we create a level playing field around capital, accounting, and compensation," he said.

Regulators "could put London at a competitive disadvantge to New York," he added later.

Reuters

Robert E. Diamond Jr., Barclays's president, at the conference Tuesday.

At a question-and-answer session Monday night, Mr. Diamond told U.K. Treasury Chief Alistair Darling the U.K. had "an opportunity" to ensure requirements on capital be applied fairly across jurisdictions.

Mr. Diamond's worries about capital rules come as he sees signs that the U.S. and U.K. are getting on the same page in terms of compensation rules, he said Monday.

Concern about compensation has hardly disappeared. Mr. Diamond did say a so-called "windfall tax," which the U.K. has indicated it could impose on bankers' bonuses, contravenes the spirit of the G-20 principles on pay.

Obama is his own tough act to follow

Nobel Peace Prize acceptance speech presents opportunities—and risks—for first U.S. president to win award in 90 years

By Elizabeth Williamson

President Barack Obama will accept the Nobel Peace Prize in Oslo on Thursday with a personally written speech that aims at historical resonance, but is constrained by his status as a new, wartime president.

The prize is awarded only rarely to a sitting head of state; it hasn't gone to a U.S. president in 90 years. Mr. Obama's nomination was based on his outreach to other nations and the Muslim world, his support for nuclear disarmament and his historic election as the U.S.'s first African-American president.

Mr. Obama is now more popular abroad than he is at home, his gift for oratory no longer as galvanizing for Americans wearied by a deep and lingering recession. But never in Nobel history have there been as much interest in a peace prize acceptance speech; thousands of requests for seats in the 1,000-seat Oslo City Hall were turned down.

Administration officials say the president's speech will address the irony of receiving a peace prize a week after escalating the war in Afghanistan, as well as the need for continued leadership on nuclear disarmament.

The speech will test Mr. Obama's ability to articulate a foreign-policy vision based on moral leadership while pursuing two wars and to convince the world that he will uphold U.S. leadership on human rights amid missed opportunities in China, Darfur and Iran. It will also test his humility, an element speechwriters across the political spectrum say is important for countering critics who say the prize is based more on his persona than his achievements.

As path-breakers for the cause of human rights, Nobel peace laureates often give transcendent acceptance speeches: Martin Luther King Jr. in 1964, Elie Wiesel in 1986, Nelson Mandela in 1993, all bore personal, passionate witness to the struggle.

"We must always take sides. Neutrality helps the oppressor, never the victim...when human lives are endangered, when human dignity is in jeopardy, national borders and sensitivities become irrelevant," Mr. Wiesel said in his acceptance.

Associated Press (6)

A woman, top, stands next to a poster of Nobel Peace laureate Barack Obama in Oslo on Tuesday. Previous winners include, from left, Martti Ahtisaari, Al Gore, Muhammad Yunus, Mohamed ElBaradei and Wangari Maathai.

In the two months between his selection and this week's acceptance, Mr. Obama has hewed to a pragmatic foreign policy agenda in which respect for human rights is but one element in a constellation dominated by other issues.

In recent months, Mr. Obama bowed to pressure by the Chinese to refuse an Oval Office visit by the Dalai Lama of Tibet, seen by the Chinese as the leader of a separatist movement. While in China, he broke with tradition by keeping human rights out of most discussions. Mindful of the fragile status of negotiations with Iran over its nuclear program this summer, the White House muted its criticism of Tehran's bloody crackdown on pro-democracy demonstrators.

On the nuclear front, the Strategic Arms Reduction Treaty with Russia was allowed to lapse over the weekend, and with it the verification and inspection regimes that have controlled U.S. and Russian nuclear arsenals for nearly two decades. The talks, which are continuing, have foundered over Russian demands that the U.S. mothball its Trident submarines, which the U.S. says aren't currently configured to carry nuclear warheads.

Clinton speechwriter Tom Rosshirt says the president should use the Nobel speech to cement his credibility on nuclear disarmament.

"If he can get the big nuclear powers to move on disarmament, it could help him orchestrate more international pressure against regimes in Iran and North Korea," he said. "The Nobel Committee cited this vision when they awarded him the prize."

The prize is seen even by some close to the White House as divisive at a time when Mr. Obama needs bipartisan support for initiatives including health-care and climate-change legislation. Clinton speechwriter Chris Lehane refers to Mr. Obama's nomination as "You get the shiny bike before you know how to ride a bike."

But he says it presents a rare opportunity to articulate a grand foreign policy vision.

The Obama White House "has done a very good job at the level of managing" an agenda crammed with crises, Mr. Lehane said. "But there has to be some overarching theory or vision that people understand.

Oslo, he said, is a natural venue to lay out a big idea for the administration for his foreign-policy approach."

When he presents the prize to Mr. Obama, Nobel Committee Chairman Thorbjorn Jagland will address criticism—from some even within the Nobel organization—that Mr. Obama has little to point to, and much to defend, in his human-rights record.

"We feel from the committee's side that expectations for what must have been achieved by a Nobel laureate—they are too high," said Nobel Committee Secretary Geir Lundestad. "Martin Luther King, in 1964, he had this marvelous vision for the future but it had not been achieved...this is true for many of the laureates."

"This prize was no favor to him and the speech is a field of land mines," says George W. Bush speechwriter David Frum. "It raises two questions: Do you care more about international public opinion than you do about American public opinion? And second: Are you more eloquent when you talk about global peace than you are when you are calling young Americans into battle?"

U.S. limited in using bailout cash for jobs plan

By Jonathan Weisman

WASHINGTON—White House officials have concluded that their ability to use Wall Street bailout funds for a new job-creation initiative will be strictly limited by budget rules and the terms of the original bailout legislation, administration and congressional officials said Monday.

Bailout funds are likely to be restricted mainly to a new small-business lending effort.

President Barack Obama will likely mention the Troubled Asset Relief Program in a speech on job creation Tuesday at the Brookings Institution, White House officials say. The Treasury Department's assessment that the bailout will cost $200 billion less than it had expected this summer will give the Obama administration more latitude to spend money on job creation, the president is expected to say.

"TARP has turned out to be much cheaper than we had expected, although not cheap," Mr. Obama said Monday. "Some of that money can be devoted to deficit reduction. And the question is, are there selective approaches that are consistent with the original goals of TARP—for example, making sure that small businesses are still getting lending that would be appropriate in accelerating job growth?"

Much of the president's presentation will be general and will focus on Washington's obligation to help Main Street as well as Wall Street. The president is expected to outline ideas for job creation such as aiding cash-strapped state governments, using tax credits to spur home energy-efficiency improvements—the so-called cash-for-caulkers proposal—and offering employers a tax credit for new hiring.

The message to Main Street will be "your economic vitality is just as important as anybody that lives or works or breathes on Wall Street," White House press secretary Robert Gibbs said.

An issue for the president is that the original TARP legislation mentions job creation only twice, and both references refer to stabilizing the nation's financial system, said Steve Ellis, vice president of Taxpayers for Common Sense, a watchdog group. The Treasury secretary is given some latitude in using the funds, but the legislation states he "shall take into consideration" first "the interests of taxpayers by maximizing overall returns and minimizing the impact on the national debt," the law states.

Second, the secretary is to use the funds for "providing stability and preventing disruption to financial markets in order to limit the impact on the American economy and protect American jobs, savings, and retirement security."

Top Democrats say repaid or unspent TARP money is likely to be used for a major new small-business lending program run directly out of Treasury. But two other initiatives that Congress is weighing for a job-creation bill—spending on infrastructure and aid to strapped state governments—likely cannot tap such funds.

"It was complicated and confusing last week" when House Speaker Nancy Pelosi vowed to fund a jobs bill from repaid TARP money, said House Education and Labor Committee Chairman George Miller (D., Calif.), who has been assigned to draft the legislation. "But there's been some additional clarity added now."

In addition, because the repayment of most TARP funds is already accounted for in Congress's long-term budget plans, tapping repayments likely will violate budget rules, senior Democrats say. Congress would have to vote to allow any violation of the rules, and it isn't clear if sufficient support for that exists.

Lawmakers may be able to tap more than $100 billion in unspent TARP money, but that too is complicated. Because TARP was created primarily for lending, lawmakers could use only a fraction of the available funds for projects that will not give the money back, such as aid to states and spending on infrastructure. Republicans contend that even that would be illegal and would violate written commitments the president made.

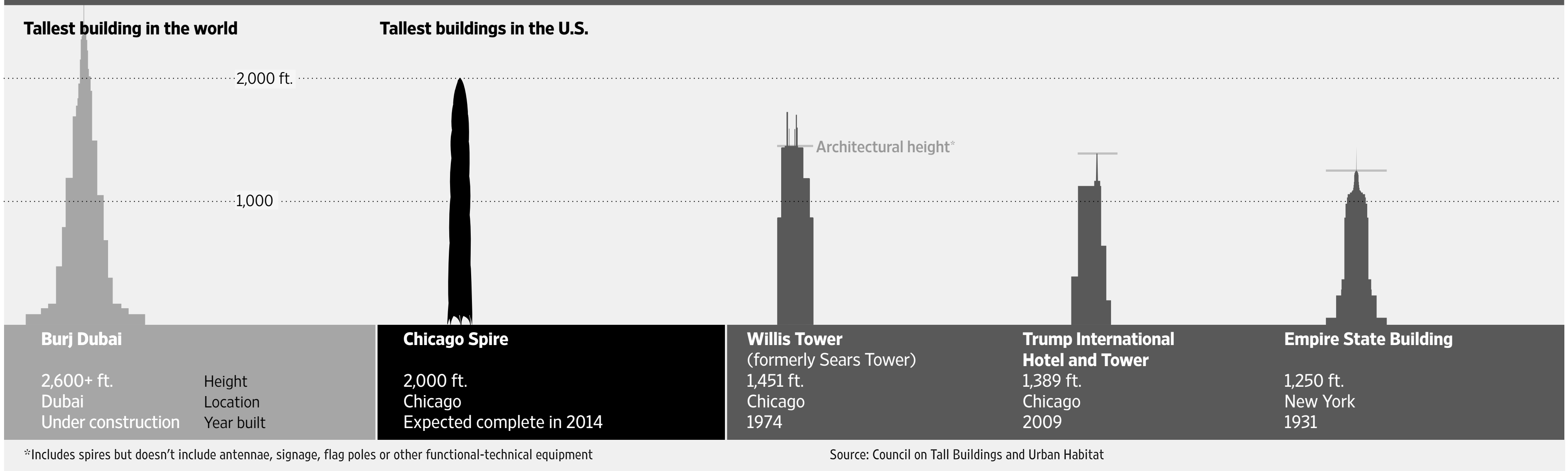
Mr. Obama's chief economic adviser, Lawrence Summers, promised Congress's bipartisan leadership during the Obama transition that TARP "actions will reflect the Act's original purpose of preventing systemic consequences in the financial and housing markets."

Mr. Summers' Jan. 15 letter states: "The incoming Obama Administration has no intention of using any funds to implement an industrial policy," a pledge Republicans say would preclude using funds for such projects as renewable energy, high-speed rail and health information technology.

U.S. NEWS


Associated Press

An artist's rendering of the Chicago skyline with the Chicago Spire, a 150-story residential building, at center.



Workers push to finish Chicago spire

Seeking jobs, unions consider providing a $170 million loan to restart construction of North America's tallest building

By Joe Barrett

CHICAGO—The stalled construction of North America's tallest building, a 150-story luxury residential tower planned for downtown, may get a boost from unionized construction workers desperate for jobs.

Any effort to save the Chicago Spire faces major hurdles, especially coming after a real-estate glut that flooded Chicago with new condos. Plans call for the 2,000-foot-high Spire to have nearly 1,200 units—more than are expected to be completed for the entire downtown area in 2010. Prices start at $750,000, with the bulk of the condos costing $2 million to $15 million.

Workers broke ground with great fanfare in 2007, but the project stalled last year amid the financial crisis when funding dried up. That left many doubtful that the Santiago Calatrava-designed tower would ever emerge from the circular foundation that sits about a block from Lake Michigan.

Now a group of union pension funds is conducting due diligence on a plan to lend $170 million to Irish developer Shelbourne Development Group, said Tom Villanova, president of the Chicago and Cook County Building and Construction Trades Council, which represents 24 unions with some 100,000 members.

Mr. Villanova said the individual pension-fund directors, along with an AFL-CIO pension fund and a union life-insurance fund, are working on a loan package secured by the development site that could be announced in coming days.

Unions have been active investors in the Chicago construction market for years, with one AFL-CIO fund investing about $1 billion in the area. However, the Spire comes at a particularly risky time and on a scale all its own.

"It's about jobs for my members," Mr. Villanova said, adding that the project could mean 7.5 million man-hours of work over the next four to five years—equivalent to roughly 900 full-time jobs for the hard-hit unions, some of which face unemployment as high as 30%.

Getting the financing to complete the project could be tough, given the years-long inventory of unsold residential properties in some parts of the market here.

Chicago home prices fell 10.6% in the third quarter from a year earlier. That compares with an 8.9% drop nationally, according to S&P/Case-Shiller Home Price Indices.

Kim Metcalfe, spokeswoman for Garrett Kelleher, executive chairman of Shelbourne, said union financing would allow the developer to pay off its original land loan from Anglo Irish Bank and other creditors, and to resume work in January bringing water and electricity to the site.

She said the group is confident it can secure financing to complete the building, which she said would cost "significantly" less than $2 billion. "We are obviously in an extremely good position with more than 30% of the units sold and $194 million of [Mr. Kelleher's] personal money in the building," she said.

Shelbourne launched a sales push for the Spire in September 2007, when the high-end market was still doing well. Sales were brisk in the first four months, with a mix of U.S. and international buyers, Ms. Metcalfe said.

The showstopper was a two-floor penthouse of more than 10,000 square feet, with 360-degree views and an asking price of $40 million. It was snapped up by reclusive Beanie Baby magnate Ty Warner, she said.

After the project ground to a halt, Anglo Irish Bank, the original lender, nearly collapsed and was nationalized. Mr. Calatrava, the Spanish architect, said he was owed $11 million in fees. Bank of America Corp., one of the creditors, filed suit in U.S. District Court seeking $4.9 million, and Shelbourne countersued. The suits are pending.

The Spire got an unlikely break in early October with the demise of Chicago's hopes to host the 2016 Olympics. Mr. Villanova, who was on Chicago's Olympic bid committee, said the unions had committed to help fund the Olympic Village to house athletes. "When that went south on us, we started focusing on the Spire project," he said.

American link shows terror group's far reach

By Matthew Rosenberg

WASHINGTON—An American allegedly involved in Lashkar-e-Taiba's 2008 terrorist assault on Mumbai is providing authorities with some of the strongest evidence to date of the group's broad global reach.

The case against David Headley, 49 years old, is also giving U.S. officials a rare concrete example of how former Pakistani military officers are directly aiding terror plots. Intelligence officials have long believed that retired Pakistani soldiers provide a crucial link between militants and the South Asian nation's security establishment, which once openly nurtured jihadi groups, including the one blamed for attacking Mumbai.

The group Lashkar-e-Taiba, or Army of the Pure, occupies a unique niche in the world of Pakistani militant groups: Its primary focus is India, yet its reach is global, say experts and officials.

Lashkar "has transnational networks and these networks do appear in a number of different plots against Western interests," said Stephen Tankel, an expert on the group at King's College London.

He cited two previous cases in which Lashkar is believed to have aided attempted attacks on Western targets: Richard Reid, who tried to set off explosives in his shoes on a flight from Paris in 2001, and Willie Brigitte, a Frenchman originally from Guadeloupe, convicted by a French court of being tied to a terrorist plot.

Experts say strong evidence points to Lashkar aiding both men.

Now Mr. Headley is detailing his direct links to Lashkar, including five surveillance trips he made to India. All were followed by visits to Pakistan to hand the intelligence to Lashkar, according to charges filed against him Monday in U.S. District Court in Chicago.

The recruitment of Mr. Headley shows Lashkar's ability to reach homegrown would-be terrorists in the U.S., said Evan Kohlmann, an expert on Lashkar who has testified in criminal cases involving the group. Mr. Headley's operation role is "an acceleration of a pattern we've seen in the past, but it's a dramatic acceleration," Mr. Kohlmann said.

—Siobhan Gorman contributed to this article.

WORLD NEWS

Reuters

A U.S. soldier walks past a burned bus at the site of a bomb attack in northern Baghdad, Dec. 8, 2009.

Some of the deadliest militant attacks in Iraq since the invasion in March 2003, in descending order of casualties

August 2007 Four truck bombs detonate in the small village of Qahataniya, killing more than 500 Yazidis, a Kurdish-speaking sect.	**November 2006** Mortar rounds and car bombs kill 215 people in Baghdad's Shiite neighborhood of Sadr City.	**April 2007** At least 183 are killed in mainly Shiite locations of Baghdad.	**March 2004** Suicide bombers, mortars and planted explosives strike Shiite Muslim shrines in Karbala and in Baghdad, killing at least 181 people.	**September 2005** More than a dozen coordinated bombings in Baghdad kill 178.
July 2007 A suicide truck bomb kills 160 in a Turkomen village south of Kirkuk.	**October 2009** Two car bombs near Baghdad' government offices kill 155.	**February 2007** Truck bomber kills 137 in Baghdad.	**December 2009** Three car bombs near Baghdad government sites kill at least 118 people.	**August 2009** Suicide bombers hit the finance and foreign ministries, killing more than 100.

Baghdad is hit

Five blasts kill at least 127, injure hundreds

By Chip Cummins And Ben Lando

A series of five bombings rocked Baghdad on Tuesday, with officials reporting at least 127 dead and nearly 500 injured at sites across the capital.

Residents said they heard a large explosion shake the city shortly after 10:15 a.m. local time, followed by several more blasts. The intensity of the blasts and their quick succession, some spaced just minutes apart, suggested a coordinated bombing campaign.

The casualty toll could still climb.The bombings follow a string of similar, high-profile attacks in Baghdad in recent months, and come just days after Iraqi parliamentarians agreed on a long-stalled election law, setting the stage for national elections early next year. They also come ahead of this weekend's planned oil auction in Baghdad, in which the government is expected to award rights to develop some of Iraq's large, untapped fields to foreign oil companies.

After agreeing on election legislation over the weekend, officials announced Tuesday they would hold polls on March 7. The date was reset, for reasons that aren't clear, hours after the council had decided to hold the vote on March 6.

U.S. and Iraqi officials have pointed to the planned elections and the oil-bidding round as symbols of a new sense of stability in Iraq. But Tuesday's attacks—following so closely on the heels of two other bombings that targeted pillars of the federal government—have again shaken confidence in Iraq's security services, just as U.S. forces plan a large-scale military drawdown next year.

American military helicopters hovered over some of the bomb sites, as clouds of black smoke billowed over Baghdad's skyline.

Arkan Sahib Fadhil, 38 years old, was standing with a friend outside his auto-repair store on al-Jumhariya Street when an SUV-style truck exploded at the finance ministry offices.

"It started driving very fast toward the finance ministry, but it crashed the security barrier and exploded," said Mr. Fadhil, who temporarily lost his hearing from the explosion. "We cannot believe that we are alive."

City hospitals quickly filled up with casualties. "We have seven dead and 105 injured," said Ali Abdul Karim, the deputy director of Baghdad's Al-Kindi hospital.

In a joint news release, the U.S. Embassy in Baghdad and the top American military commander, Gen. Ray Odierno, condemned the attacks. "We call upon all Iraqis to join together to combat all forms of violence and attempts at intimidation and reject these despicable provocations," the statement said.

Two previous attacks—one in August and one in October—triggered major security overhauls by the government and Iraq's military. In the aftermath of both attacks, U.S. forces offered assistance to Iraqi officials, after being asked by Baghdad for limited help in responding.

In August, coordinated bombings targeted the ministries of foreign affairs and finance, killing more than 100, and marking the bloodiest single day in Iraq all year. In late October, two blasts, including one detonated outside the city's municipal headquarters, killed more than 150. That was the deadliest attack in more than two years.

Both attacks triggered accusations by the government that insurgents were trying to stoke sectarian tensions ahead of next year's polls. The government of Prime Minister Nouri al-Maliki has blamed Saddam Hussein sympathizers, remnants of the late dictator's Baath Party, Syria, and extremist groups linked to al Qaeda for complicity in those two attacks.

But officials so far haven't brought anyone to justice, instead firing or investigating dozens of security-service officials blamed for letting their guard down around the targeted buildings. Several ministries and government agencies said they have stepped up security amid the recent attacks. Before Tuesday's blasts, the Iraqi oil ministry said it would tighten security ahead of this weekend's oil-licensing round.

Government spokesman Ali al-Dabbagh said Tuesday's attacks appeared to be linked to Baath Party loyalists and al Qaeda, but gave no evidence to support those charges.

"It is a message for the election," he said.

Mr. Dabbagh said Tuesday's blasts wouldn't affect the timing of the vote or the weekend oil auction.

Officials told the Associated Press midday Tuesday that one blast detonated at, or near, the ministry of labor, while another blast exploded near the site of temporary offices for finance ministry employees. Those staffers had been working at the site after the ministry of finance itself was heavily damaged in the August attack.

—Munaf Mustafa in Baghdad contributed to this article.

U.K. saw weapons threat

Associated Press

The U.K. believed Iraq had dismantled chemical and biological weapons before the 2003 invasion but thought it was possible they could be reassembled, the former head of the country's Joint Intelligence Committee said Tuesday.

John Scarlett, who headed up the committee from 2001 to 2004, told a five-person panel looking for lessons from Britain's role in the Iraq war that the U.K. had long believed Iraq had been dismantling weapons in order to conceal them.

On March 7, 2003, Mr. Scarlett said an intelligence report revealed that "Iraq had no missiles which could reach Israel and none which could carry germ or biological weapons. The leadership had ordered the dismantlement of the missiles known as al-Hussein ... to avoid discovery, and they thought they could be quickly reassembled."

A second report said intelligence had been received that chemical weapons "had been disassembled and dispersed and would be difficult to reassemble."

Britain joined in the invasion of Iraq a few days later.