News In Depth: Airline sector's woes slam an Indian highflier

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Switzerland SF 5 - Syria SE 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

What's News

U.S. stocks fell broadly on downbeat employment data, and European shares sank, too. Oil prices tumbled following the poor job numbers in both Europe and the U.S., which put a damper on the outlook for demand. **Pages 18, 21**

■ **The ECB kept** its key rate at a record low 1% and signaled it is unlikely to cut rates further or launch new lending programs soon. **Page 3**

■ **The EU and 13 nations** plan to unite in a declaration aiming to halve greenhouse-gas emissions by 2050. **Page 2**

■ **The Air France jetliner** that crashed last month hit the water largely intact and broke up on impact, French investigators said. **Page 5**

■ **North Korea test-fired** four short-range missiles, amid global tension following earlier launches. **Page 8**

■ **The U.K. projected** it could have over 100,000 swine-flu infections daily by end-August but said it has enough vaccines to handle an outbreak.

■ **The U.K. recalled** multiple generic drugs because of standards violations by an Indian contract manufacturer. **Page 7**

■ **Iraq said it will move up** a second round of licensing bids for oil and natural-gas fields that was to be held at the end of this year. **Page 3**

■ **Vice President Biden** arrived in Iraq to visit U.S. soldiers, two days after American combat troops withdrew from Iraqi cities and towns.

■ **Johnson & Johnson will** invest $1.5 billion in Irish drug maker Elan and acquire the rights to use its Alzheimer's-disease research. **Page 2**

■ **Sanofi received** U.S. approval for Multaq, and the French drug maker expects annual sales of about $1.4 billion for the heart drug. **Page 6**

■ **General Motors will file** an IPO next year, and the U.S. Treasury plans to sell its stake no later than 2018. **Page 5**

■ **Latvia will receive** a second installment of a bailout fund in July from the European Commission. **Page 8**

■ **Italy's parliament approved** legislation aimed at fighting illegal immigration and boosting security on the streets.

■ **Bankers in Europe** are worried that the EU will push for major changes to the derivatives market. **Page 17**

EDITORIAL&OPINION

Fiscal mess
Tax hikes are the worst solution to Europe's deficit problem. **Page 12**

Breaking news at europe.WSJ.com

Merkel slams cycles

German leader says she will urge prudence at summit

By Marcus Walker And Matthew Karnitschnig

Angela Merkel, center, speaks with the leaders of the two factions of her coalition government

BERLIN—German Chancellor Angela Merkel will urge world leaders at a summit next week to break the cycle of bubbles and crises by tempering economic growth and taming financial markets when good times return.

In an interview with The Wall Street Journal, Ms. Merkel said it is time for the world to put sustainability ahead of the pursuit of fast, but risky, growth. "We must all grow sustainably, unlike in the past," she said.

"In recent years we've had the Asian crisis, the new-economy crisis, and now this great international financial and economic crisis—we can't slide into a crisis every five to seven years," she said.

At the summit of the Group of Eight leading nations in L'Aquila, Italy, next week, Ms. Merkel will urge leaders including U.S. President Barack Obama to rein in ballooning budget deficits as soon as the recovery allows, or risk another debt crisis.

She has also called on central banks to reverse their unorthodox measures to increase borrowing and lending once the paralysis in credit markets eases.

Normal, prudent policies should return once economic activity rebounds to its level before last year's downturn, Ms. Merkel says. "Then it will be important for us to take care that we don't set up the next crisis right away by taking too-high risks," Ms. Merkel said in her airy, modern chancellery office overlooking the Reichstag parliament building.

Ms. Merkel, who is campaigning for re-election as chancellor in three months' time, is also fighting to keep up the momentum for stronger financial-market regulation. That momentum is showing signs of waning as the crisis starts to ease and the financial-services industry in the U.S. and Europe fights back to defend its freedoms from government.

"There is perhaps a certain danger that banks which are doing quite well again might try to not exactly support the regulation efforts, but to put them in doubt again," she said. But she expressed confidence that political leaders in the U.S., U.K. and euro zone would hold firm against lobbying.

Relations with Iran, where protestors are still hoping to challenge Mahmoud Ahmadinejad's disputed re-election as president, will also be high on the agenda at the G-8 summit.

Ms. Merkel called on Iran to respect the opposition's human and civil rights, but she said the U.S. and Europe can't afford to break off all contact with Iran indefinitely because of Tehran's widely suspected pursuit of nuclear weapons.

G-8 leaders are expected to discuss how and when to continue their diplomatic engagement with Iran in a way that doesn't immediately reward President Mahmoud Ahmadinejad following his disputed re-election.

"The situation regarding uranium enrichment is explosive, and we mustn't lose sight of it," she said. "That's why our task is to proceed on two tracks: on the one hand, to make clear that we know what's happening to human rights in Iran, on the other hand to represent our clear stance on the nuclear program."

She said she is optimistic that international consensus will prevent a slide in the dollar, despite some concerns in financial markets about U.S. deficit spending and money-printing. A dollar slump would particularly hurt European exporters such as Germany, because the euro tends to adjust more freely against the dollar than many Asian currencies.

"Cooperation among the political actors in the G-20 process is leading to the spread of a common understanding of the links between us," she said. Political leaders in the U.S., Europe and Asia

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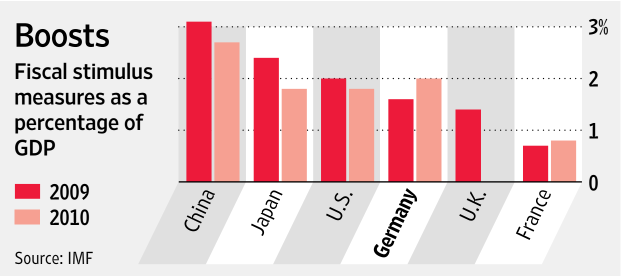

Kohn, linked to Madoff, faces probes

By David Crawford

U.S., U.K. and Austrian prosecutors are investigating a former Austrian fund manager they believe was paid more than $40 million in kickbacks to funnel billions of dollars of investments to Bernard Madoff.

Prosecutors from all three investigations believe Mr. Madoff paid kickbacks to Sonja Kohn while she was chairwoman of Austria's **Bank Medici** AG via separate companies she controlled, according to affidavits detailing the investigations and hundreds of documents collected by Austrian prosecutors that were reviewed by The Wall Street Journal. In exchange for the kickbacks, prosecutors allege, Ms. Kohn turned three Bank Medici funds into feeder funds that supplied Mr. Madoff with an estimated $3.5 billion from European investors.

U.S. and U.K. prosecutors filed the affidavits to request documents, bank records and witness statements from their Austrian counterparts to further their own investigations.

The three investigations, which are separate and at an early stage, offer the clearest picture yet of how Mr. Madoff may have persuaded fund managers abroad to find investors for Mr. Madoff. The investigations do not claim that Ms. Kohn knew the nature of Mr. Madoff's $65 billion Ponzi scheme.

Ms. Kohn has not been charged with any wrongdoing.

"I am actually the greatest Madoff victim. It is a tragedy for my family, my company and for me personally," Ms. Kohn said by phone on Wednesday. She declined to discuss details of the allegations against her.

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Big U.S. job losses cloud recovery pace

By Alex Frangos And Kelly Evans

U.S. job losses accelerated last month and the unemployment rate rose to 9.5%, casting doubt on the U.S. economy's ability to rebound soon.

Adding to the bad news: People worked less and their pay stagnated, cutting the likelihood that consumer spending will help speed any recovery in the second half of the year.

"I think we're past the period of free fall in the economy but it would be premature to say that we've reached the bottom or might within the next couple of months," said Jeffrey Frankel, a Harvard University economics professor. "I'm expecting the recovery to be a slow one."

The quickening pace of job losses fed into a growing concern in financial markets that economic recovery may be further off than previously thought. Investors fled stocks and commodities, choosing the relative safety of Treasury bonds and the U.S. dollar.

The data helped set a negative tone on the eve of earnings season, which begins in earnest next week with Alcoa Inc.'s report. Analysts were already starting to caution that share prices may still be too high relative to their earnings, even after the pullback of the past three weeks. The Dow Jones Industrial Average dropped 218.49 points, or 2.6%, to 8285.57, and oil slumped 3.7%. (Please see articles on pages 18 and 21.)

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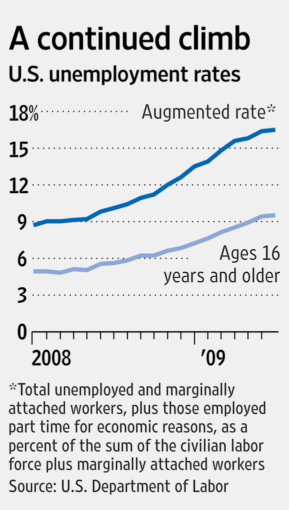

Inside

Big-time barbecue

A Portuguese town's spit-roasted claim to fame
Weekend Journal, page W6

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	8285.57	-2.57
Nasdaq	1796.52	-2.67
DJ Stoxx 600	204.12	-2.55
FTSE 100	4234.27	-2.45
DAX	4718.49	-3.81
CAC 40	3116.41	-3.13
Euro	$1.4025	-0.74
Nymex crude	$66.73	-3.72

LEADING THE NEWS

Global-warming goal set

EU and 13 countries to embrace 50% cut; base year is unclear

By Jonathan Weisman

WASHINGTON—Thirteen of the world's largest nations and the European Union plan to embrace "an aspirational goal" of reducing emissions of global-warming gases by 50% by 2050, according to a draft declaration by world leaders set for release next week in Italy.

The draft, seen by The Wall Street Journal, sets up a framework for detailed negotiations on the issue ahead of a final, United Nations climate conference in December. But it leaves key areas in the climate-change debate in dispute. The draft is subject to change ahead of a meeting of global leaders starting Wednesday.

The declaration recognizes a "broad scientific view" that global temperatures shouldn't rise more than two degrees Celsius above preindustrial levels, but doesn't lock in the "two-degree ceiling" that some nations and environmentalists want. Global temperatures currently are about 0.8 degree Celsius above those levels.

The base year against which emissions reductions would be measured continues to divide the U.S. and Europe. The EU would like reductions measured against 1990 emissions levels. The U.S. favors the baseline be based on more-recent data. And the draft declaration sets a provisional target of $400 million for assistance to developing countries to lower their emissions and adapt to rising temperatures and sea levels, which some countries say is too low.

"There is still lots of finger pointing," said Alden Meyer, policy director at the Union of Concerned Scientists, a scientific organization favoring strict emissions controls, who has been involved in the talks.

Climate change is one of the topics on the agenda for the two-day summit of the Group of Eight largest industrial countries, which will be held in earthquake-damaged L'Aquila, Italy. The G-8—the U.S., Canada, Italy, France, Germany, Japan, Russia and Britain—will meet on Wednesday, and then be joined by the five largest developing economies—Brazil, China, India, Mexico and South Africa—plus Egypt in a separate meeting. By Thursday, when U.S. President Barack Obama is slated to chair the Major Economies Forum, as many as 39 countries will be represented.

Italian Prime Minister Silvio Berlusconi's decision to move the summit to the earthquake zone of central Italy from Sardinia has thrown the meeting into some confusion. Taking place after the London summit of the Group of 20 largest nations in April and ahead of the G-20 meeting in Pittsburgh in September, questions loom over how relevant the G-8 remains.

"On the economy itself, this will be more about exchanging views at this midpoint between the two G-20 summits than an opportunity to produce a series of specific deliverables," Michael Froman, deputy White House national-security adviser for international economic affairs, said Wednesday.

World events, including the disputed presidential election in Iran and possibly more missile launches by North Korea, will likely intrude on the agenda, analysts said.

Climate change is likely to dominate the final session of the two-day conference. Participants would like to make significant progress ahead of a United Nations conference in December in Copenhagen, when a successor to the Kyoto Accord is supposed to be completed. The international treaty to combat global warming expires in 2012.

The draft declaration would set a high standard—a world-wide, 50% reduction in greenhouse-gas emissions by 2050, with developed countries reducing their emissions by at least 80%. The developing world would have a lower requirement.

But the current draft doesn't specify which emissions level those targets would be calculated against, instead recognizing that "baselines may vary."

The distinction is significant, said Heather Conley, director of the Europe program at the Center for Strategic and International Studies, a Washington-based think tank. The climate-change bill that squeaked through the U.S. House of Representatives last month calls for emissions to be reduced 17% below 2005 levels by 2020. That is just 4% below 1990 levels; Germany is calling for developed countries to reduce emissions by 20% below 1990 levels.

The draft declaration sets no targets for 2020 beyond "robust aggregate" reductions in emissions by the developed world. Actions in the developing world by 2020 would have to "represent a significant deviation from business as usual."

The Europeans want the declaration to set a target of "at least" 50% and to remove the term "aspirational," U.S. negotiators said. But developing countries such as India oppose such word changes, arguing that the West created—and should solve—the problem of global warming. Britain wants firm pledges from the West to finance global-warming mitigation in poor countries.

Mr. Froman, of the White House, said the aim of the summit is "to give political momentum and impetus" to climate talks ahead of the Copenhagen conference.

—Alistair MacDonald and Jeffrey Ball contributed to this article.

J&J to buy Elan stake, get rights to research

By Jonathan D. Rockoff And Jeanne Whalen

Johnson & Johnson on Thursday said it will buy an 18.4% stake in Irish biotech company **Elan** Corp., in a $1.5 billion bid to crack the elusive but potentially lucrative Alzheimer's market.

The agreement gives J&J access to bapineuzumab, a closely watched experimental Alzheimer's treatment that is in late-stage human studies but whose prospects remain uncertain.

There are few treatments for Alzheimer's, a degenerative brain disease that is still poorly understood. Those treatments on the market treat the disease's symptoms but don't stop its progression, and researchers have encountered difficulty trying to find remedies that work. Two late-stage trials of experimental treatments, Myriad Genetics Inc.'s Flurizan and Neurochem Inc.'s Alzhemed, have failed in the last two years.

Drug-development efforts have been hampered by a lack of knowledge about Alzheimer's causes. Most research has focused on preventing or reducing a sticky substance called amyloid in patients' brains, which is thought to be linked to the disease's progression. Another group of compounds in development target tau, a different protein thought to be culpable. It is unclear whether one approach is better than the other.

Despite the uncertainty, drug makers have been spending billions of dollars to develop new Alzheimer's compounds because the potential payoff is big. In the U.S. alone, the National Institute on Aging says that as many as 4.5 million patients suffer from the illness, which gradually robs people of their memories. World-wide, 24 million people have Alzheimer's and other forms of dementia, according to the World Health Organization.

"If a drug like bapineuzumab can actually halt progression of Alzheimer's, this could be an extremely large market" with more than $25 billion in annual sales world-wide, said Linda Bannister, an Edward Jones analyst.

Bapineuzumab, which is one of the most advanced treatments in development, had mixed results in earlier trials and is considered a high-risk investment. The so-called therapeutic vaccine aims to fight the progression of Alzheimer's by using antibodies to remove amyloid.

J&J, of New Brunswick, N.J., initially will commit as much as $500 million to continue the development of bapineuzumab. In exchange for an additional $1 billion, J&J will get to transfer the rights to Elan's Alzheimer's program into a new company, in which Elan will get a 49.9% stake, with J&J owning the balance. Elan will be entitled to a 49.9% share of any profits that treatments from the new company generate, along with some royalty payments.

—Shirley S. Wang contributed to this article.

CORRECTIONS

Real Networks' RealPlayer SP Beta has a Twitter video-sharing capability with an automatic URL-shortening tool built in. The Mossberg Solution column in Wednesday's Personal Journal incorrectly said the product lacked the URL feature.

Restaurant operator Bobby Fitzgerald of The White Chocolate Grill uses recruiters only for management positions and says he accepts applications from everybody. An article in Tuesday's Personal Journal incorrectly said Mr. Fitzgerald had instructed recruiters to bring in only people who are already employed for openings at his five restaurants.

INDEX TO BUSINESSES

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

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

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LEADING THE NEWS

ECB holds steady on rates

Euro-zone jobless rate soars to 10-year high amid hints of recovery

By Joellen Perry

The European Central Bank kept its key rate unchanged and signaled no plans for new lending programs to bolster the euro-zone economy, as unemployment in the 16-nation bloc rose to a 10-year high of 9.5%.

Holding rates at a record-low 1% Thursday, ECB policy makers indicated that they intend to monitor the effect of measures they have already taken, and are unlikely to deliver further cuts anytime soon.

The ECB decision came as the euro-zone jobless rate climbed to 9.5% in May from 9.3% in April. More than 15 million people across the euro zone are now out of work, according to statistics agency Eurostat. The agency noted that Spain had an 18.7% unemployment rate in May, nearly twice the rate for the euro zone.

Spain's labor ministry on Thursday reported that in June, jobless claims shrank for the second consecutive month, pointing to an easing in the rapid pace of deterioration of the country's job market and economy.

The labor ministry said jobless claims fell by 55,250, or 1.5%, to 3,564,889. However, June jobless claims were up 49% from the year-earlier period.

In a blow to the euro zone's fragile economy, Moody's Investors Service stripped Ireland of its top AAA credit rating, warning that the country's massive debt load—which will push the deficit to 10.8% of gross domestic product this year—will be expensive to finance and difficult to whittle.

The move, which took Ireland's rating down one notch, was expected after Standard & Poor's and Fitch Ratings both downgraded Ireland earlier this year. But it served as a reminder of the difficulties many euro-zone governments face in funding pricey bank-bailout and fiscal-stimulus packages as tax receipts dwindle. Some analysts say they expect Ireland to see further downgrades in coming months.

Early this year, Standard & Poor's downgraded the debt of nations including Spain and Greece, stirring fears that a euro-zone country could default on its debt. Those concerns have eased as euro-zone governments suggested the bloc's healthier countries would find a way to help struggling neighbors.

The gap between the yield on Irish bonds and German bonds—which are widely considered the bloc's safest—remains wider than it was before the crisis, but has narrowed recently. After the Moody's action Thursday, the gap remained below levels seen last week, according to Luca Cazzulani, a fixed-income strategist with UniCredit SpA in Milan.

But individual countries' staggering debt loads continue to weigh on the euro zone, in which 16 countries share a currency and central bank but fiscal burdens remain national. The premium that even healthier euro-zone countries must pay investors to buy their debt has risen, which could act as a drag on growth in coming years.

ECB President Jean-Claude Trichet, speaking to reporters after the Governing Council's unanimous decision, said euro-zone "economic activity over the remainder of this year is likely to remain weak."

But Mr. Trichet said the pace of decline should be slower than it was in the first quarter, when output contracted by an annualized rate of nearly 10%. The ECB expects growth to return by the middle of next year.

Mr Trichet also emphasized that the bloc's rate-setters expect a "further deterioration in labor markets," suggesting rising unemployment isn't likely to spur new central-bank measures. European Union officials say they expect joblessness to hit 11.5% by 2010.

"We [have] not envisaged any new, other measure or operation," Mr. Trichet said in Luxembourg, where the central bank's board met in one of two meetings a year it holds outside its Frankfurt headquarters. Mr. Trichet didn't rule out future cuts entirely but suggested they remain unlikely under current conditions, saying "we consider that what we do now is appropriate."

The ECB has cut its key rate from 4.25% in October and launched a bevy of lending programs to keep the financial system afloat. Central banks across Europe are assessing whether they need to do more to shore up struggling economies.

A Bank of England survey Thursday showed that U.K. banks increased their lending to the corporate sector in the second quarter, but by less than expected. The U.K. central bank has cut its key rate to 0.5% and launched a £125 billion ($205 billion) bond-buying program to boost credit growth. Economists say they believe the policy rate has hit bottom but say the credit squeeze could push the central bank to expand its asset-purchase program.

Iceland's central bank paused in its rate-cutting campaign Thursday, leaving its key rate at 12% in part to bolster its currency, which plummeted in the wake of the country's banking-sector collapse last year. Higher interest rates can attract investors to a currency.

Sweden's Riksbank cut its key rate by a quarter-percentage-point to 0.25%, bringing official rates to their lowest since records began in 1907 and surprising many in markets who had expected the rate to remain unchanged. Policy makers also offered Swedish banks 100 billion kronor ($13 billion) in one-year loans, in a bid to ease financial-system strains.

Mr. Trichet on Thursday hailed a similar move by the ECB last week—in which the ECB lent an unprecedented €442 billion ($619 billion) in one-year funds to euro-zone banks—as an "enormous success."

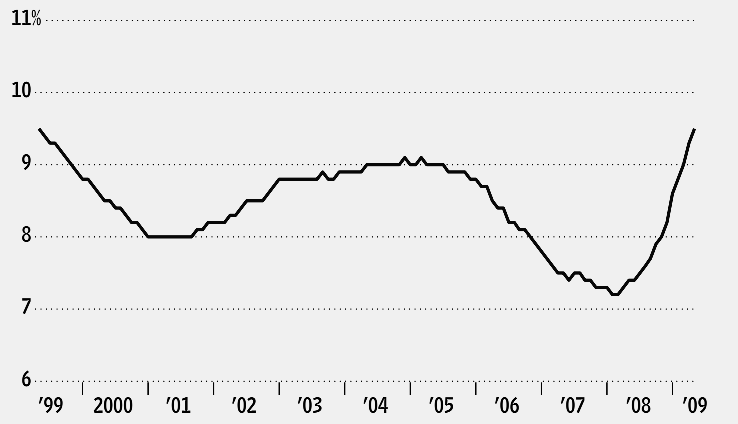
But in the wake of recent figures that show private-sector lending growth hit its slowest pace on record in May, Mr. Trichet urged commercial banks to pass along the ECB's cheap funds and low rate to euro-zone borrowers.

"Our call to commercial banks in general [is] to be up to their responsibility, namely to ship to the real economy the extraordinary efforts which we are doing," Mr. Trichet said.

—Daniel de la Puente and Jonathan House contributed to this article.

Job losses mount

Euro-zone unemployment hit a 10-year high of 9.5% in May and economists expect the rate to top 11% in 2010.



Note: Seasonally adjusted data

Source: Eurostat

Iraq moves up bidding for licenses to oil fields

By Gina Chon

BAGHDAD—The Iraqi oil ministry announced it will move up a second round of licensing bids for 11 oil and natural-gas fields that was to be held at the end of this year.

The move follows a first round earlier this week that resulted in just one approved contract. While many big Western companies expressed interest in bidding, they mostly walked away, citing terms they said weren't favorable enough.

Oil ministry spokesman Assem Jihad said Thursday that a new date for the second bid round hadn't been set, but that it could be held as early as within the next few months. It had originally been scheduled for December.

Unlike the first round this week, the oil fields on offer for the second round haven't yet been developed or are only partially developed. The new round could also include the five oil fields that were offered but not awarded this week. The oil ministry said the two natural-gas fields that were part of the first round won't be reoffered. Instead, they will be developed by a new national oil company the ministry intends to set up.

This week's round disappointed oil executives and many industry observers, who were surprised by the ministry's tough pricing. The oil ministry typically set a $2 per-barrel payout for any new production the oil companies were able to squeeze out of the fields beyond current levels.

A consortium let by **BP** PLC, which includes **China National Petroleum** Co., was the only group that didn't walk away. But it cut its payout demand by half, from $3.99 a barrel in its original bid to $2 a barrel, for the Rumaila field in southern Iraq, one of the world's largest reserves.

Although oil companies said they were dismayed by the auction results, the Iraqi government hailed the bid round as a success. The ministry managed to get the successful bidder to cut drastically cut its price, and to meet its goal of boosting production from the current 2.4 million barrels a day to 4 million barrels within a few years.

"We wanted this work to be done at the lowest cost to Iraq, and we got that with the Rumaila field," Mr. Jihad said.

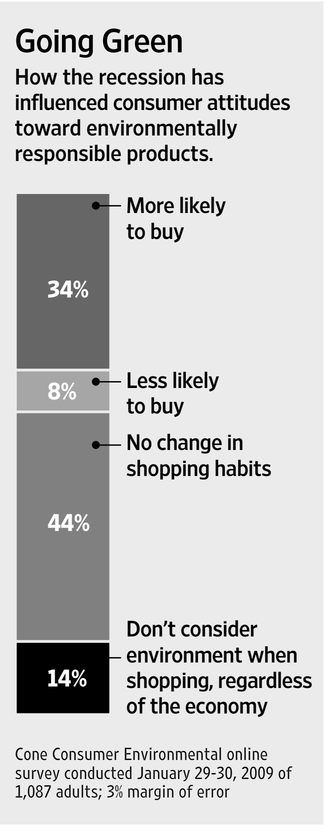
In Iraq, nationalistic sensitivities have complicated previous attempts at opening fields to foreign companies. While the bidding round only attracted one successful bidder, the tough terms could play well politically here. The ministry, in particular Oil Minister Hussain al-Shahristani, came out of the bidding round appearing unwilling to give much ground to foreign concerns.

CORPORATE NEWS

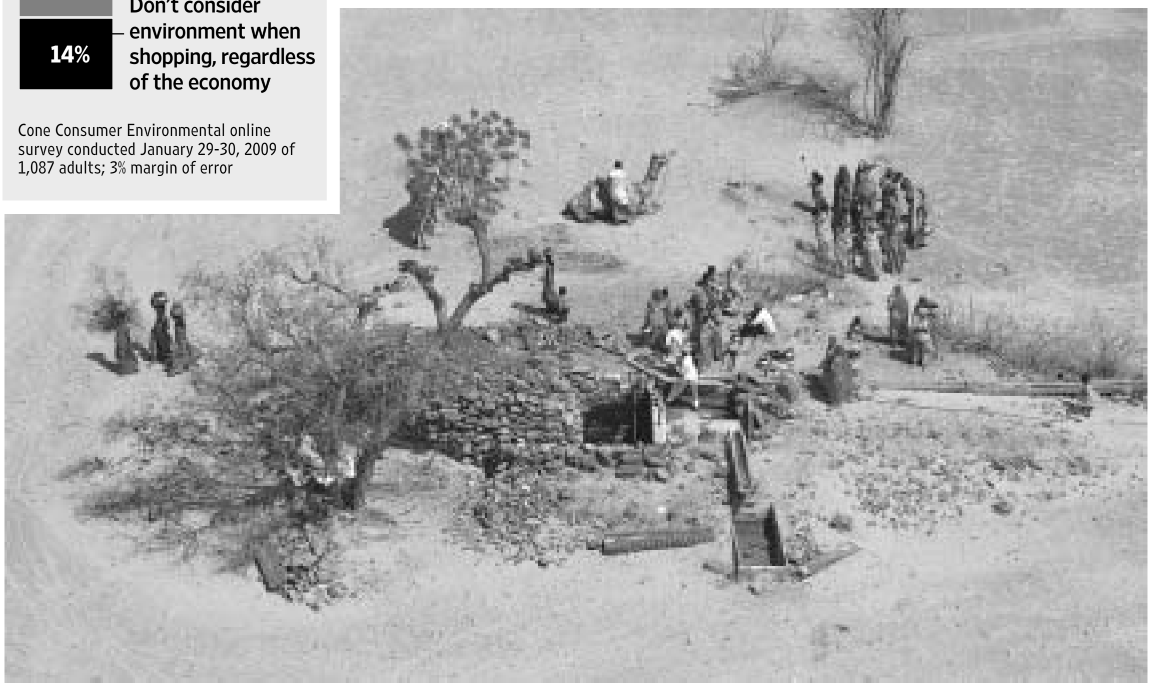
Luxury labels brandish green credentials

To court younger crowd, LVMH buys stake in organic-clothing maker, PPR sponsors film about environment

By Rachel Dodes
And Sam Schechner



Above, filmmaker Luc Besson, left, with PPR CEO François-Henri Pinault, center, and photographer Yann Arthus-Bertrand. Below, women around a well near Khudiala, Rajasthan, India, in 'Home,' a film sponsored by PPR.



The bad economy and a fundamental shift in the market for luxury goods are forcing an industry that reveres names like Chanel and Versace to embrace a different icon: Mother Nature.

Over the past year, many of the world's best-known luxury labels have started to introduce ecofriendly products, snap up brands that tout their social responsibility and weave environmental themes into their advertising and marketing. In May, French luxury conglomerate **LVMH Moët Hennessy Louis Vuitton** took a stake in Edun, an organic-clothing company founded by the singer Bono and his wife.

Other companies have begun to advertise steps they took years ago to promote resource conservation. This summer, the windows of **Tiffany** & Co.'s retail stores world-wide feature images of coral reefs, publicizing Tiffany's commitment since 2002 not to use coral in its designs.

"We want to change the way we conceive our business, socially and environmentally speaking," said François-Henri Pinault, chief executive of French retail giant **PPR** SA, which has sponsored a feature-length documentary film highlighting man's abuse of the environment.

The film, which was released in 131 countries last month, was produced by French director Luc Besson but PPR's hand in it is clear: In the film's opening credits the company's brand names—Gucci, Yves Saint Laurent, Bottega Veneta and others—swirl around and coalesce into the film's title, "Home."

The luxury industry's adoption of a green message reflects the challenges facing some of the world's most glamorous brands. Once able to win customers with the promise of fine design, craftsmanship and service, the luxury business is contending with an aging core clientele and the aftermath of a decade-long expansion that has rendered exclusive brands less so than they used to be.

Those factors have purveyors of high-end fashions scrambling to reinvent their brands, in part by catering to younger shoppers who more often consider their impact on the environment than do traditional luxury-goods buyers.

In a recent survey, the Luxury Institute, a New York research firm, found that younger and more-affluent consumers seek information about corporate social responsibility more actively than their older and less well-off counterparts. "Young consumers believe that caring about the environment is how you create a meaningful life," said Milton Pedraza, the firm's CEO.

Some luxury companies jumped on the green bandwagon earlier than others. In 2004, PPR rival LVMH's Louis Vuitton brand conducted a "carbon inventory," to gauge its impact on greenhouse-gas emissions. Afterward, it cut back on corporate travel and air shipment of goods.

In 2007, PPR created a social and environmental responsibility department that reports directly to Mr. Pinault. PPR now ties part of executives' bonuses to achieving targets in seven areas—from reducing carbon emissions to promoting diversity, Mr. Pinault said.

Later in 2007, a study by WWF, the wildlife conservation group, singled out the luxury-goods business as out of touch with eco-conscious trends. WWF ranked the top 10 luxury brands on their environmental and social track records; the highest "grade" was a C+, given to **L'Oreal** SA, **Hermès** and LVMH. (PPR got a "D.")

"Initially [the companies] were quite defensive," says Anthony Kleanthous, senior policy adviser for WWF and co-author of the study. But now they are pushing environmental and socially responsibility "as a positive driver of brand value," he said.

Laurent Claquin, PPR's senior vice president of corporate social responsibility, said the company's plans to develop a separate social-responsibility division were in the works well before the WWF report came out.

Around the same time, LVMH's Louis Vuitton leather-goods brand launched a "Core Values" ad campaign that has featured tennis player Andre Agassi, rocker Keith Richards and, most recently, astronaut Buzz Aldrin. The ads have emphasized the company's support for the Climate Project, and the celebrities appearing in them have donated at least part of their modeling fees to the nonprofit group, which was founded by Al Gore.

Whether the new tack will work remains to be seen. Increasingly, consumers and nonprofit groups are scrutinizing the validity of corporate environmental and social responsibility efforts.

For corporate alliances with nonprofit groups to succeed, companies need to disclose how much money they are donating or risk allegations of "greenwashing"—or paying lip service to environmental causes to promote their products, says Mike Lawrence, an executive vice president at Cone LLC, a Boston-based marketing agency. "Puffery, unfortunately, is legal in advertising," he adds.

The global recession is adding challenges that defy simple solutions. Global sales of luxury goods are expected to fall 10% this year to €154 billion ($218 billion), the first decline in 15 years, according to Bain & Co. The industry isn't expected to return to 2008 levels, €170 billion, until 2012, says Claudia D'Arpizio, a consultant at Bain's Milan office.In response brands are slowing store expansion, lowering prices and trimming ad spending to cut costs.

Still, the economy may also accelerate the greening of luxury, industry executives say. A February survey by Cone found that 50% of Americans ages 18 to 24 said they have "higher expectations of companies to make and sell environmentally responsible products and services during the economic downturn," compared with 35% of Americans overall.

Chinese oil firm weighs deal with Repsol

By David Winning
And Christopher Bjork

China National Petroleum Corp. is considering a bid for some of the Argentine assets of Spanish oil company **Repsol YPF** SA alongside other potential deals in South America, according to a person familiar with the matter, signaling continuing Chinese interest in the world's natural resources.

The person didn't say how much CNPC might bid for the assets, or what stake or assets the company might be seeking in Repsol's Argentine YPF unit. A CNPC spokesman said he had no information on the issue.

On Thursday, Repsol said it had received proposals but no firm offers from companies interested in a stake in YPF. It didn't disclose details. Repsol Chairman Antonio Brufau last week said the company currently isn't in any concrete negotiations to sell a stake in YPF. He reiterated that Repsol would still like to carry out an initial public offering of part of YPF or find new partners for the unit but needs to wait for a better moment.

Should a bid materialize, it would represent the latest example of interest from a Chinese oil company in South America's energy deposits. In May, officials at France's **Total** SA said they were in talks with CNPC about the possibility of working together on a heavy-oil project in Venezuela's Orinoco region, though nothing binding had been confirmed.

Russia's OAO **Lukoil** and **China Petrochemical** Corp., or Sinopec, late last year and early this year had shown interest in buying a stake in Repsol itself, but early talks likely stalled on price issues and a resistance by Spain's government to sell a large chunk to foreign state-owned firms or companies from countries with doubtful democratic credentials.

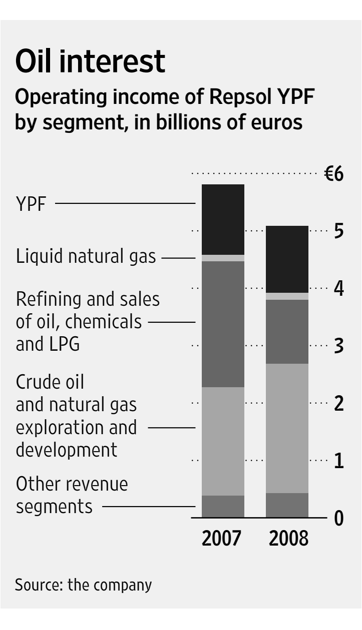
The interest from the Chinese company, the parent company of Hong Kong- and Shanghai-listed **PetroChina** Co., marks resource-hungry China's interest in securing supplies for energy and raw materials to feeds its fast-growing economy. Chinese policy makers have pushed executives at state-run companies to make resource deals a priority.

Argentina's **Grupo Petersen** bought a 14.9% stake in YPF from Repsol in February 2008 for $2.24 billion. The deal included a buy option for an additional 10% stake in YPF.

Repsol's production has declined for years, in part because of its maturing fields in Argentina. Its combined oil and natural gas output in the first quarter fell 4.9% from a year earlier to 918,000 barrels of oil equivalent a day.

Repsol is being advised on YPF by U.S. investment bank Goldman Sachs Group Inc.

—Wan Xu and Bernd Radowitz contributed to this article.



Air France jet crashed intact

Doomed plane hit water at steep angle, investigators say

By Daniel Michaels
And Max Colchester

PARIS—The Air France jetliner that crashed into the Atlantic Ocean last month, killing all 228 people onboard, hit the water on its belly at high speed, largely intact, and broke up on impact, French accident investigators said Thursday.

At a news conference, officials of France's Bureau d'Enquêtes et d'Analyses, or BEA, said they still don't know what caused Airbus Flight AF447 to plunge into the ocean less than four hours after it had taken off from Rio de Janeiro en route to Paris. BEA officials said they were also still grappling with another question: why the plane was reported missing a full seven hours after reporting its last radio contact.

By establishing that the plane did not break up in midair—a discovery made by examining wreckage pulled out of the water—the investigators are starting to piece together the flight's final moments. They are likely to eliminate certain scenarios, such as a midair explosion or that the plane came apart from excessive speed.

An early focus of the investigation into the June 1 crash has been the possible malfunctioning of the plane's speed sensors, or pitot tubes, which have a history of freezing and giving faulty speed readings on certain models of Airbus planes. Automated maintenance messages transmitted by the plane moments before it disappeared indicated that the jetliner's flight computers received faulty speed data.

Officials said Thursday that the pitot tubes, though a factor, weren't the primary cause of the crash. The full chain of events that prompted the accident is still unknown because salvage teams haven't yet recovered the plane's digital recorders, known as black boxes. "We are very far from establishing the cause of the accident," said Alain Bouillard, the BEA official leading the probe. He said there were no traces of fire or explosion in the wreckage.

The BEA report came as four small unions, representing some 20% of Air France pilots, issued statements calling on the airline to improve safety training. An Air France spokeswoman said the carrier's safety policies are at the same level as at other major international airlines.

Associated Press

Alain Bouillard, who is leading the Flight 447 plane-crash investigation, said Thursday that it remains unclear how or where passengers died.

Mr. Bouillard said search teams will continue efforts to locate the recorders' audible beacons using ultrasensitive undersea microphones until July 10, when batteries on the "pingers" will almost definitely have died. They will continue using an autonomous unmanned submarine to search the sea floor for wreckage using sonar until mid-August, after which the search will end, Mr. Bouillard said.

Partly as a result of problems locating the recorders, the Airbus unit of European Aeronautic Defence & Space Co. announced Thursday that it had begun studying new ways to ensure flight data can be recovered, including by transmission direct from airliners. Such a system, which would face technical hurdles and cost issues, has been deemed unnecessary until now because at least one black box has been recovered from every significant accident over recent decades.

It remains unclear how or where passengers died, Mr. Bouillard said, partly because French investigators still don't have access to autopsies being performed in Brazil. A BEA spokeswoman said that Brazilian police wouldn't give BEA medical experts access to autopsy reports, although the agency doesn't know why. She said it is unclear when the BEA will gain access, and that a doctor had returned to France after traveling to Brazil.

BEA officials said they were also looking into why the plane was only reported missing almost seven hours after its last radio contact. Another five hours passed before Brazilian authorities launched a search and rescue mission.

Mr. Bouillard said that when the plane passed from a Brazilian air-traffic control region to a Senegalese zone at 2:20 a.m. Greenwich Mean Time, controllers in Dakar, Senegal, should have contacted Brazil's Atlantic center to confirm the hand-off. But the Dakar center never received the plane's flight path, as it should have, and never confirmed it was tracking the jetliner. The Brazilian center didn't contact Dakar to check why controllers hadn't been in contact, Mr. Brouillard said—a lapse that the BEA plans to investigate further.

Papa Issa Mbengue, the acting head of the Senegalese National Civil Aviation Authority, said his office is awaiting publication of the BEA's full report before commenting. "We are at the BEA's disposal should they want to investigate the matter further," Mr. Mbengue said.

Air France flight 447 was reported missing by controllers in Madrid and Brest, France between 8:00 a.m. and 8:30 a.m. GMT, after the plane failed to report in to its stations after leaving the Dakar zone, Mr. Bouillard said. Brazilian search teams set out four hours later, he said. Search teams have recovered 51 bodies, including that of the captain.

Mr. Bouillard said that wreckage indicated the plane descended steeply and fast. The tail fin, for example, appears to have been ripped off from back to front, suggesting that as the plane stopped suddenly, the tail kept moving forward.

—Andy Pasztor contributed to this article.

Pact shows tough U.S. antitrust stance

By Susan Carey
And Elizabeth Williamson

The U.S. Justice Department's belated attack on a plan by two U.S. airlines to cooperate within a larger alliance of air carriers took many by surprise, but the Obama administration has indicated for months it planned a more aggressive approach to antitrust enforcement.

Nearly two months ago, the Transportation Department gave preliminary clearance to a proposed arrangement by United Airlines parent **UAL** Corp. and **Continental Airlines** Inc. to cooperate on routes world-wide with some fellow members of the Star Alliance. Final approval had been expected.

Then, last week the Justice Department filed an objection urging more-limited cooperation between the two carriers and their Star partners.

Justice's action came weeks after the original deadline for comments on the plan because the department's new antitrust chief, Christine Varney, and her team weren't yet in place when DOT officials were studying the proposal, said administration officials familiar with the matter.

Justice's objections are "a significant shot across the bow for business that the antitrust division intends to preserve competition to the maximum degree," said Kenneth Quinn, co-leader of the aviation practice at Pillsbury Winthrop Shaw Pittman LLP. Mr. Quinn is representing two travel-agency groups in the proceedings.

The Continental-United proposal is still expected to be approved in some form, said an administration official familiar with the matter. A DOT spokeswoman stressed her agency still has final approval over the airlines' request but had no further comment.

Attorney General Eric Holder foreshadowed the department's stance at a June 17 hearing before the House Transportation Committee. He said the Justice Department had "reached out" to the DOT, and "I think we will come to a joint resolution of how [the United-Continental] issue should be resolved."

German car sales to get lift from scrapping plan

By Christoph Rauwald

FRANKFURT—New-car registrations in Germany are expected to total more than 3.5 million vehicles this year, boosted by government-initiated scrapping incentives, German auto-makers association VDA said Thursday.

Registrations, which mirror sales, are expected to return to more typical levels after the expiration of the government incentive programs, under which consumers get cash toward new fuel-efficient vehicles if they trade in their old cars.

"This high level surely won't be reached next year," said VDA President Matthias Wissmann.

In 2008, before the scrapping incentives, German new-car registrations totaled about 3.1 million vehicles.

As the government programs expire, the share of the premium-auto segment is expected to rise again, Mr. Wissmann said, because the scrapping incentives mainly fostered demand for smaller vehicles.

The auto industry, which includes companies such as **Volkswagen** AG, **Daimler** AG, **BMW** AG and their related suppliers, is one the biggest employers in Germany, Europe's largest economy.

In June, German new-car registrations jumped 40% from a year earlier to 427,140 vehicles. In the first six months of the year, registrations were up 26% to 2.06 million.

However, German car exports contracted 23% last month from a year earlier to 289,230 cars. In the first half, exports were down 35% to 1.47 million cars.

GM sets plan for stock sale; U.S. to sell holdings by 2018

By John D. Stoll
And David McLaughlin

General Motors Corp. will file for an initial public offering of shares sometime next year, according to a timetable laid out in a U.S. bankruptcy court on Wednesday.

The auto maker, which entered Chapter 11 court protection on June 1, could emerge from bankruptcy majority owned by the U.S. government as early as this month.

The U.S. will hold an about 60% stake, with the remainder owned by the Canadian government and a union retiree trust fund. The U.S. expects to divest its holdings no later than 2018, in line with a plan laid out by the Canadian government, according to people familiar with the matter. Canada would hold an about 12% stake in the auto maker.

The government hasn't disclosed how it would reduce its controversial stake in GM. Ron Bloom, an Obama administration auto task force adviser, said on June 10 that the president "wants to exit as soon as is practicable." He he balked at offering a set schedule, saying it "will create more problems that it solves."

But the people familiar with the matter said the U.S. has agreed to coordinate its GM share sales with Canada, which has a formula to shed its shares.

Canada proposes to sell at least 5% of its GM shares annually, and achieve full divestiture in no more than eight years. It also sets midrange benchmarks for ownership, but the plan could be accelerated or abandoned based on market conditions.

GM's exit from bankruptcy protection hinges on a federal judge's willingness to approve the sale of GM to the U.S. Treasury by July 10. Harry Wilson, a Treasury official, testified in a New York court Wednesday that the government will stop providing financing to GM if there is no sale by that date.

—Chad Bray contributed to this article.

Chinese firm set to bid for Opel

By Christoph Rauwald

China's **Beijing Automotive Industry Holding** Co. plans to present a detailed bid for **General Motors** Corp.'s Opel unit in Europe within the next few days, a person familiar with the matter said Wednesday, a move that could complicate the U.S. auto maker's effort to sell Opel to Canadian supplier **Magna International** Inc.

In May, GM signed a memorandum of understanding to sell a majority stake in Opel and its U.K. sister brand, Vauxhall, to Magna, whose bid is backed by Russia's **Sberbank Rossia** and auto maker OAO **GAZ Group**. The agreement isn't exclusive or binding, although Opel's powerful labor unions have already voiced support for Magna.

Magna still appears to be the front-runner, but progress on a final agreement has slowed in the past week or so, possibly opening the door to other bidders.

Beijing Automotive held discussions with GM last week and is firming up details of an offer, the person close to the matter said. GM has also had some discussions with **RHJ International** SA, a private-equity firm that has expressed interest.

GM said it is "working through" issues with Magna, but confirmed it is also discussing proposals from Beijing Automotive and RHJ.

"Both companies offer generally simpler proposals that would still promote long-term success for Opel and the repayment of any government-backed financing, two key goals for all parties," GM said. "The wide interest in Opel will produce, in the end, the best outcome for Opel, GM and European governments providing support to the process."

Separately, the viability of an RHJ bid came into question Wednesday after the Belgium-based firm posted a €1 billion loss for its fiscal year. Opel "is much too big," said KBC analyst Tom Simonts.

RHJ Chief Executive Leonhard Fischer declined on a conference call Wednesday to comment on Opel, saying only that RHJ "would always look at special opportunities if they are very special."

—Sharon Terlep contributed to this article.

CORPORATE NEWS

Dow Chemical to close three more U.S. plants

Company drops sites making low-margin, commodity goods

By Ana Campoy

Dow Chemical Co. on Wednesday said it is shutting three Louisiana plants that make basic chemicals in an effort to cut costs and to focus on higher-margin products.

The shutdowns, which will eliminate 100 jobs, are part of a cost-savings plan that Dow adopted after its $16.3 billion purchase of rival Rohm & Haas Co. earlier this year. Dow said the plant closings will save $100 million a year and eliminate the company's need to buy ethylene, which these plants use to produce commodity chemicals that go into PVC pipes, vinyl siding and engine coolants.

The Midland, Mich., chemical giant also said it will record second-quarter charges of about $700 million related to the plant closings, as well as 2,500 previously disclosed job cuts and an expected loss from asset sales required by regulators for the Rohm & Haas deal.

Shares were off 4%, or 63 cents, to $15.35 in 3 p.m. trading Thursday on the New York Stock Exchange.

For the past few years, Dow has been trying to shift its focus from low-margin commodity chemicals to high-tech, specialized materials such as the ones made by Rohm & Haas. Last April, Dow took on a heavy debt load to buy the Philadelphia-based company, a deal it hailed as a major step forward in that strategy.

In recent months, Dow has sold assets and issued equity to pare down that debt. Dow said it plans to redeploy most of the workers whose jobs are being eliminated.

Associated Press

Dow Chemical will close three Louisiana plants producing low-margin, commodity products, following the closing of its Freeport, Texas, plant, above, in 2008.

Sanofi heart drug receives approval from U.S. agency

By Mimosa Spencer

PARIS—**Sanofi-Aventis** SA on Thursday said the U.S. Food and Drug Administration approved its Multaq heart treatment, a potential blockbuster drug.

The timing of the approval is auspicious for the French drug maker, which has just announced plans to restructure and cut costs while trying to play down studies—still inconclusive—showing a possible link between its artificial-insulin product Lantus and cancer.

Like many drug makers, Sanofi faces increasing competition from generic companies as patents expire on drugs it has spent millions to develop.

Sanofi has forecast annual sales of more than €1 billion ($1.41 billion) for Multaq, generically known as dronedarone. Some analysts see even higher potential sales of the drug.

Analysts said the FDA approval, while expected, is nonetheless good news for Sanofi-Aventis, one of the world's biggest drug makers by prescription sales.

"The drug is now approved, ending Sanofi's streak of pipeline futility," said UBS analyst Gbola Amusa. He estimates that the drug's annual sales will reach €1.4 billion in 2015.

The FDA initially rejected Multaq in 2006, requesting further studies. Last year, it also rejected the company's Acomplia obesity drug.

Norman Stockbridge, director of the FDA's cardiovascular division, said in statement that Multaq represents a "therapeutic innovation" for treating heart-rhythm disorder.

Sanofi-Aventis will begin marketing Multaq in the U.S. this summer. The drug will have limits placed on its use, such as excluding patients with severe heart failure.

A panel of medical experts in March recommended that the FDA approve Multaq, but some had said the drug, which treats a common heart rhythm disorder, should carry a warning against use by patients with severe heart failure. Indeed, the drug's label will carry a black-box warning, the FDA's strongest.

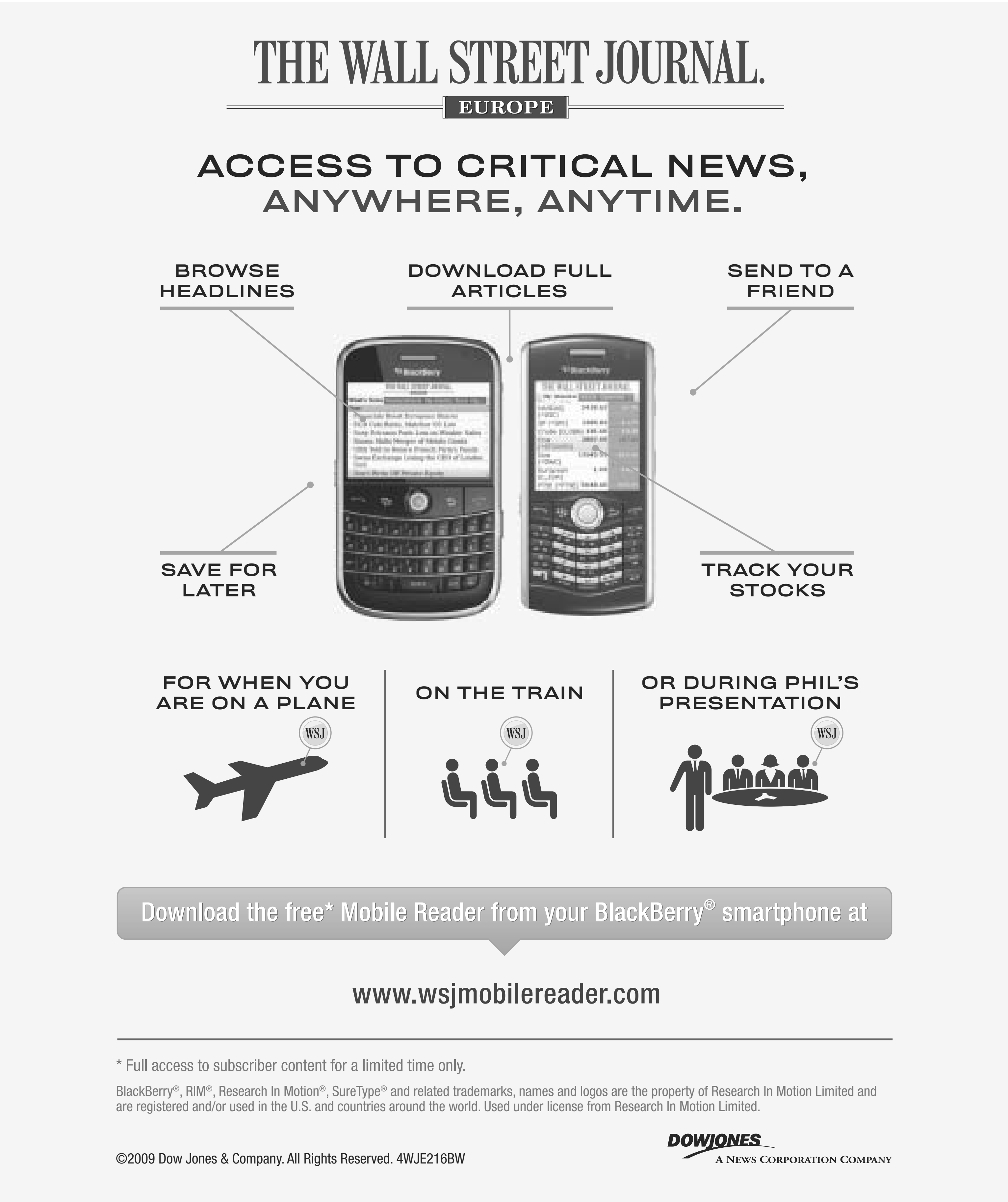
The company said Thursday that it has put in place a framework designed to help doctors identify appropriate patients to ensure safe use of the drug.

The limits mean the drug will have "a slow uptake out of the gate" and will likely start contributing in a meaningful manner to earnings around 2011, Mr. Amusa added.

Multaq treats patients with atrial fibrillation, a disease characterized by irregular heart rhythms that increases the risk of strokes. Sanofi said the disease is growing along with aging populations and affects 2.5 million people in the U.S. and 4.5 million in the European Union. The EU regulator, the European Medicines Agency, is currently reviewing the drug.

The FDA decision helps shift attention away from company's diabetes drug, Lantus. A number of analysts last week reduced their estimates for Lantus sales and downgraded the company's stock after new studies raised the possibility the diabetes drug increases the risk for cancer.

Although analysts said the studies were inconclusive, they said negative publicity could linger and adversely affect sales of the product.



CORPORATE NEWS

Will leaves Jackson estate to trust

Pop singer's assets go to family, charity in 2002 document

BY ETHAN SMITH

Michael Jackson's seven-year-old will bequeaths his estate to a family trust, which in turn is to distribute his sizable assets among his three children, his mother and charities, according to people with knowledge of the trust's terms.

The document, signed by Mr. Jackson and dated July 7, 2002, was filed in Los Angeles Superior Court Wednesday morning. But the terms of the Michael Jackson Family Trust haven't been made public. It isn't clear if or when they will be.

The trust makes a provision for the payment of estate taxes, which could be considerable given that the value of Mr. Jackson's assets may exceed his massive debts by as much as $200 million.

The trust makes no provision for Mr. Jackson's father, Joe, according to the people familiar with its terms.

The will appoints Mr. Jackson's mother, Katherine Jackson, guardian of his three children. In the event that Mrs. Jackson, 79, weren't alive, the will names pop star Diana Ross, a longtime friend of Mr. Jackson's, as guardian.

The will names as co-executors Mr. Jackson's longtime attorney, John Branca, and John McClain, a personal friend and veteran music executive who worked on Mr. Jackson's final studio album, "Invincible."

A third executor, accountant Barry Siegel, resigned from that position in 2003, according to a statement from a spokesman for the estate hired by Messrs. Branca and McClain.

Though the distribution of assets called for in the paperwork appears to be straightforward, the situation may be contentious nonetheless.

L. Londell McMillan, a sometime lawyer for Mr. Jackson who said he now represents the singer's parents, made a court filing Monday saying he didn't believe Michael Jackson had a valid will. Mr. McMillan issued a subsequent statement acknowledging the existence of the 2002 will, but didn't respond immediately to emails Wednesday asking if he intends to contest it.

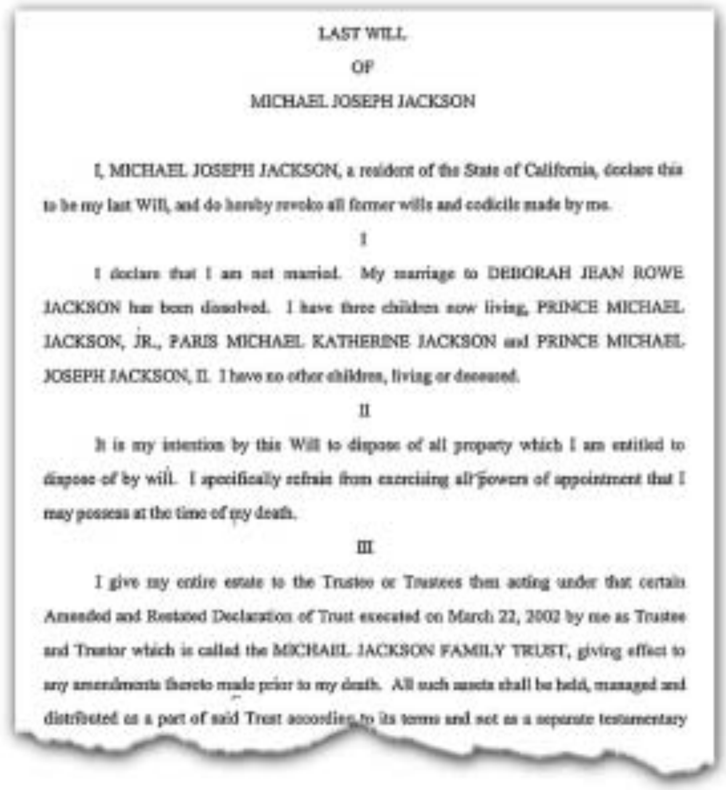
The will states that Mr. Jackson deliberately made no provision for his ex-wife, Debbie Rowe.

Meanwhile, funeral plans appeared to edge closer to clarity, with a statement from Mr. Jackson's family ruling out a public event at Neverland Valley Ranch, Mr. Jackson's 2,600-acre estate in Santa Barbara County, California. Such an event had been widely rumored earlier in the week.

A funeral is likely to take place in Los Angeles, possibly at the 20,000-seat Staples Center. "Plans are under way regarding a public memorial for Michael Jackson, and we will announce those plans shortly," the statement said. People close to the singer's family said Katherine Jackson would have final say over funeral arrangements.

Mr. Jackson died June 25 at age 50. He is survived by three children: Prince Michael Jackson Jr., 12; a daughter, Paris Michael Katherine Jackson, 11; and another son, seven-year-old Prince Michael Jackson II. Katherine Jackson was granted temporary guardianship Monday of Mr. Jackson's children.

A judge held off on requests to control the children's estates and gave her limited control over some of her son's personal belongings, pending a hearing Monday.


LAST WILL
OF
MICHAEL JOSEPH JACKSON

I, MICHAEL JOSEPH JACKSON, a resident of the State of California, declare this to be my last Will, and do hereby revoke all former wills and codicils made by me.

I

I declare that I am not married. My marriage to DEBORAH JEAN ROWE JACKSON has been dissolved. I have three children now living, PRINCE MICHAEL JACKSON, JR., PARIS MICHAEL KATHERINE JACKSON and PRINCE MICHAEL JOSEPH JACKSON, II. I have no other children, living or deceased.

II

It is my intention by this Will to dispose of all property which I am entitled to dispose of by will. I specifically refrain from exercising all powers of appointment that I may possess at the time of my death.

III

I give my entire estate to the Trustee or Trustees then acting under that certain Amended and Restated Declaration of Trust executed on March 22, 2002 by me as Trustee and Trustor which is called the MICHAEL JACKSON FAMILY TRUST, giving effect to any amendments thereto made prior to my death. All such assets shall be held, managed and distributed as a part of said Trust according to its terms and not as a separate testamentary

Associated Press

Part of the first page of Michael Jackson's will, which bequeaths his estate to a family trust that is to distribute his assets. The document is dated July 7, 2002.

U.K. recalls generic drugs after violations

BY PETER LOFTUS

Violations of European standards by an Indian contract manufacturer have prompted recalls of multiple generic drugs in the U.K., including a version of the antidepressant Prozac sold by **Novartis** AG.

Novartis's generics unit was one of about eight companies that recalled drugs this week because of "serious" deficiencies in so-called good manufacturing practices found during inspections of the contract manufacturer, MJ Biopharm, in India, according to the U.K. Medicines and Healthcare Products Regulatory Agency.

The agency said its inspectors found "standards of product manufacture and testing which do not meet the minimum requirements of the [European Union], and inaccuracies contained in documents such as batch manufacturing and testing records."

The U.K. agency said there is no evidence of safety issues involving the recalled drugs. It inspected the MJ Biopharm plant four times, beginning in 2003 and most recently in June.

MJ Biopharm officials couldn't immediately be reached for comment.

Sandoz, the large generics unit of Switzerland-based Novartis, recalled certain dose levels of fluoxetine, the antidepressant that was previously an Eli Lilly & Co. blockbuster under the brand name Prozac. Sandoz also recalled baclofen, which treats muscle spasms, and metformin, a diabetes drug. Versions of these drugs sold by other manufacturers were also subject to the recalls.

"These were not major products, and we had already discontinued marketing them," said Sandoz spokesman Chris Lewis.

Other recalled drugs included hypertension pills amlodipine and doxazosin and pain-reliever naproxen. The other companies that recalled drugs included Strandhaven Ltd., LPC Medical Ltd., Karib Kemi Pharm Ltd., Milpharm Ltd., Greystone Ltd., Jubilant Pharmaceuticals NV and Wockhardt UK Ltd.

Siemens takes more steps to settle bribery scandal

BY ARCHIBALD PREUSCHAT

Siemens AG reached agreement Thursday with the World Bank as part of efforts to settle a bribery scandal, with the latest deal involving sizable payments and a voluntary ban on bidding for World Bank projects.

Under the agreement, the German industrial conglomerate will support anticorruption campaigns with total payments of €75 million, or about US$100 million, over a 15-year period and will refrain from bidding on projects financed by the World Bank this year and next.

Siemens pleaded guilty in U.S. federal court to charges of knowingly circumventing and failing to maintain adequate internal controls, and failing to comply with records provisions of the U.S. Foreign Corrupt Practices Act. It has also reached agreements with the U.S. Securities and Exchange Commission, the Justice Department and the German state prosecutor, with fines totaling €1 billion.

It also paid a €200 million fine to German authorities in 2007.

Siemens has never admitted bribery. The investigation by the World Bank, which funds many public-works projects in developing countries and requires contractors to attest that they haven't paid any bribes, is continuing.

The Munich-based company has been embroiled since late 2006 in allegations that it paid bribes to government officials in 10 countries to win contracts on projects ranging from identity cards to medical equipment.

According to a person familiar with the matter, Siemens stands to miss out on contracts totaling less than €100 million a year under the ban. However, under the agreement reached with the World Bank, Siemens's Russian unit could face a four-year ban from project contracts.

Hong Kong paper names Chua as editor

HONG KONG—The South China Morning Post named Reginald Chua, a former senior editor of The Wall Street Journal and its Asian edition, as its editor-in-chief.

The Post, Hong Kong's dominant English-language newspaper, said current editor C.K. Lau was resigning to pursue personal interests.

Mr. Chua, a native of Singapore, was most recently a deputy managing editor of The Wall Street Journal in New York in charge of graphics. Prior to that he was editor of the Journal's Asian edition based in Hong Kong.

The Post has had considerable turmoil in its top editing ranks over the years. In March 2007, then editor-in-chief Mark Clifford resigned after less than a year on the job. A number of staff members had petitioned for Mr. Clifford's departure after he fired two editors for producing an in-house satirical mock-up of a front page with language that some would consider vulgar and offensive.

In 2002, the Post temporarily eliminated its top editorial position and put a businessman in charge of all operations, including news and advertising.

GLOBAL BUSINESS BRIEFS

GlaxoSmithKline PLC

Business in Mideast to raise sales in emerging markets

U.K. drug maker **GlaxoSmithKline** PLC said Thursday it bought a **Bristol-Myers Squibb** Co. generics business in the Middle East for $23.2 million, as part of its strategy to boost sales in emerging markets. Glaxo said Bristol's branded-generics business in Lebanon, Jordan, Syria, Libya and Yemen sells 13 drugs and generated revenue of $11.8 million last year. The deal is the company's third with Bristol. Glaxo bought the U.S. drug maker's Pakistan unit for $36.5 million in December and its Egyptian business for $210 million in October. Faced with patent expirations and generic competition in their home markets, several Western drug makers are turning to emerging markets to help drive future sales.

Fortis Bank Netherlands

Fortis Bank Netherlands has paid back a €34 billion ($48.08 billion) credit facility to the Dutch state earlier than planned, the bank and its owner, the Dutch Ministry of Finance, said Thursday. The bank received the short-term credit facility after the Dutch government took over Fortis Bank Netherlands in October. Fortis Bank was able to pay back the credit facility after acquiring new saving amounts from customers and issuing bond programs in recent months, said a Fortis Bank spokesman. Under the terms of the agreement with the Dutch state, Fortis Bank was committed to pay back the credit facility by the end of this year. The government's remaining equity and long-term loan capital in Fortis Bank is €32.8 billion.

Philip Morris International Inc.

Philip Morris International Inc. agreed to buy **Swedish Match** AB's South African operations for 1.75 billion South African rand ($226.1 million). Swedish Match South Africa Ltd. had sales of 687 million rand last year. Its brands include Boxer, Best Blend and Taxi. Philip Morris estimated that the division's pipe-tobacco and snuff products represent about 31% of tobacco consumption in South Africa. Jean-Claude Kunz, president of Philip Morris's Eastern Europe, Middle East and Africa region, said the deal "represents an excellent strategic fit for our business in South Africa," which he called an important market. In February, Philip Morris announced a 50-50 joint venture with Swedish Match to sell smokeless products.

—Compiled from staff and wire service reports.

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ECONOMY & POLITICS

Bulgarian Socialists threatened

Sofia Mayor Borisov of center-right party leads polls ahead of parliamentary elections

By Joe Parkinson

SOFIA—Eastern Europe's brutal economic downturn looks set to fell another government, this time in Bulgaria where a populist mayor with a black belt in karate is leading the polls over the ruling Socialists ahead of parliamentary elections Sunday.

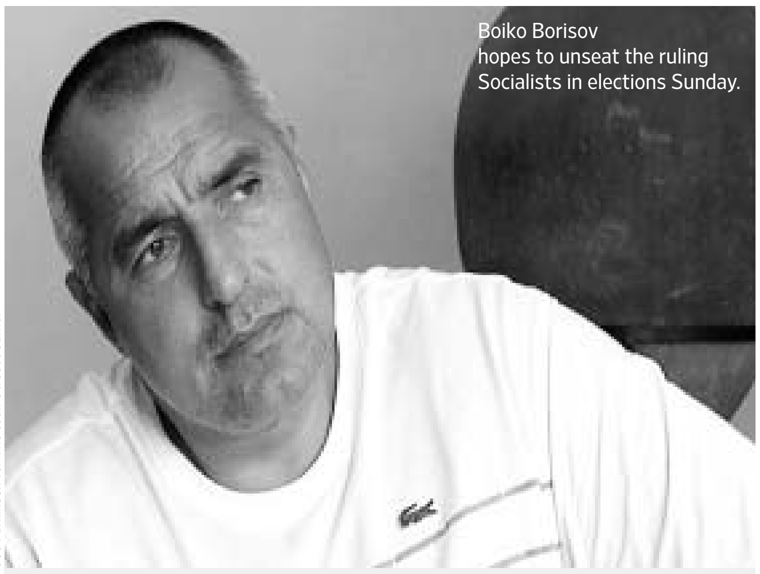
Using the slogan "Bulgaria, yes we can!," Sofia Mayor Boiko Borisov, head of the center-right GERB party, is pledging to revive the economy and clamp down on chronic corruption that has led the European Union to freeze €1.1 billion ($1.56 billion) in development funding for its poorest member state.

Mr. Borisov's populist views on law and order, and his vague economic platform, make foreign investors nervous. But he also says he will turn to the IMF for help, something the current government has resisted and most economists would applaud. At 24%, Bulgaria's current account deficit—a rough proxy for reliance on external funding—is wider than in any of the struggling Baltic States and four times as much as that in neighboring Turkey.

"The current government should have started talks with the IMF six months ago," said Mr. Borisov, after addressing a rally this week in Pazardjik, a down-at-heel town in southern Bulgaria.

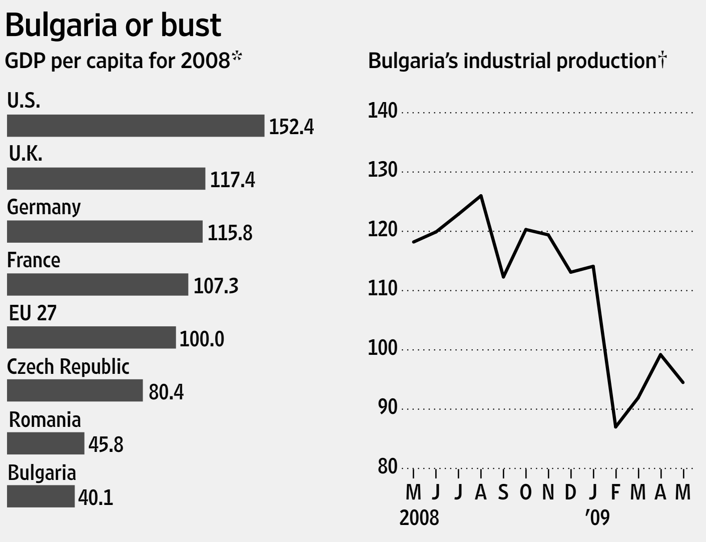
Government data released Thursday showed the budget surplus—required to support a currency board that pegs Bulgaria's currency, the lev, to the euro—has declined by 83% in the first five months of the year as tax receipts fell while public spending rose 24%.

"Once my government starts work and the budget is updated we'll see a large deficit, which will then make it necessary to start talks with the IMF," said Mr. Borisov.



Boiko Borisov hopes to unseat the ruling Socialists in elections Sunday.

Joe Parkinson for The Wall Street Journal



*In purchasing power standards; †100 = 2005 average
Sources: Eurostat (GDP per capita); National Statistics Institute of Bulgaria (industrial production)

A former interior ministry official and national karate-team coach, the 50-year-old Mr. Borisov also once ran a private security firm, in a country racked by mafia assassinations. He has made his reputation as mayor of Sofia with a crackdown on crime.

A recent Sova Harris poll showed Mr. Borisov's GERB, or Citizens for European Development of Bulgaria, party running nine percentage points ahead of the governing Socialist Party of Prime Minister Sergei Stanishev. GERB also beat the government in European parliament elections last month.

From the Baltic Sea to the Black Sea, the once fast-growing, ex-communist economies lately have been hammered by collapsing demand and vanishing foreign investment flows. Already, the downturn has claimed governments in Latvia and Hungary, both of which have accepted IMF loans. Two of Bulgaria's neighbors, Romania and Serbia, also have turned to the IMF.

Bulgaria has avoided the double-digit economic contractions seen in the Baltic states, but gross domestic product in the first quarter contracted by 3.5% compared with a year earlier, the first drop in 12 years. Unemployment is rising and forecast to surge later this year.

Like other Bulgarian officials, Mr. Borisov insists that the lev's currency peg is sacrosanct. But if the lev can't depreciate, any economic adjustment will come down full bore on local wages and jobs, analysts say.

Mr. Borisov's relative inexperience in government has some analysts worried. Such fears are compounded by the likelihood that whoever wins Sunday's vote will have to form a coalition government, an outcome that could paralyze decision making and increase civil unrest, which already has been seen in cities across Bulgaria.

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Pyongyang fires four missiles, all short range

By Evan Ramstad

SEOUL—North Korea test-fired four short-range missiles from locations on its east coast Thursday evening, South Korean defense officials said, the latest in a series of acts that have stepped up international tension with Pyongyang.

Observers in other countries have been expecting such tests since North Korea last month ordered domestic vessels out of several zones in the Sea of Japan where it said it would conduct military drills through July 10.

North Korea possesses about 600 short-range missiles and 300 medium-range missiles and tests them several times a year. But such tests gained more attention this year because North Korea in April tested a long-range missile for the third time and in May tested a nuclear explosive device for the second time.

Two of the ground-to-ship missiles were fired from near the North Korean city of Wonsan, a spokesman for South Korea's Joint Chiefs of Staff said. Another missile later was fired from an east-coast location that wasn't disclosed. A ministry official said the North later fired a fourth missile, though she provided no details, the Associated Press reported.

Military and intelligence officials in Seoul and Washington have been watching for signs that North Korea might soon test another long-range missile. For now, they don't believe such a test is imminent.

Pyongyang increased its weapons testing in recent months after hard-line figures associated with its military gained power in the country's authoritarian regime following the illness of dictator Kim Jong Il in August and September. The regime also reduced diplomatic activity with other countries, expelled international aid workers and clamped down on public markets and other economic activity perceived as threats to their authority.

Some analysts say they believe Mr. Kim is laying the groundwork for one of his sons to succeed him as ruler if his health turns poor again, but there has been no indication of that in North Korea's internal media.

The hard-line shift in Pyongyang's ruling elite has resulted in fewer contacts between North Korea and other countries. For instance, North Korea reduced communications with South Korea to formal meetings about a joint industrial park the countries run in the North's border city of Kaesong. The third such meeting in two months occurred Thursday, but South Korean authorities said little progress was made in discussions about the financial terms of operating contracts at the park.

Meanwhile, the North's test of a nuclear weapon led the United Nations Security Council to impose new penalties and financial sanctions last month. The official in charge of the U.S. effort to enforce the new penalties, Philip Goldberg, met with counterparts in China on Thursday.

Following the meeting, Mr. Goldberg told reporters in Beijing that the discussions were "very positive" and part of a continuing process. He declined to answer questions about China's plans for enforcing the sanctions, saying he would leave that to Chinese officials.

—Ian Johnson in Beijing and SungHa Park in Seoul contributed to this article.

U.S. begins Afghan offensive against Taliban

By Yochi J. Dreazen

WASHINGTON—The U.S. military launched a major operation in southern Afghanistan, an early test of the Obama administration's new strategy for beating back the resurgent Taliban and stabilizing the country in advance of this summer's presidential elections.

Operation Khanjar, or "strike of the sword," began early Thursday morning when close to 4,000 Marines, backed by about 700 Afghan security personnel, moved by air and ground into villages in the Helmand River Valley, a major opium-producing region and Taliban stronghold.

U.S. commanders said the forces would build an array of small patrol bases designed to forge closer ties with local people and better protect them from militants, borrowing an approach used in Iraq that is central to the administration's new counterinsurgency strategy for Afghanistan.

The troops hope to root out pockets of Taliban fighters and find and destroy weapon caches, a U.S. officer in Kabul said. The troops will also seek to interdict opium shipments and persuade local farmers to plant alternative crops, such as wheat, he said.

The push is the first significant operation since President Barack Obama reshaped the foundering U.S.-led war effort in Afghanistan by ousting the top American commander there and replacing him with Gen. Stanley McChrystal, an officer with significant expertise in counterinsurgency and irregular warfare.

The administration has also signed off on the deployments of 21,000 American reinforcements, which will push U.S. troop levels in Afghanistan to 68,000—their highest point since 2001—by year end. Operation Khanjar is being carried out by Marines sent to Afghanistan as part of that surge.

What makes Operation Khanjar different from those that came before is "the massive size of the force introduced, the speed at which it will insert, and the fact that where we go we will stay, and where we stay, we will hold," said Brig. Gen. Larry Nicholson, the top Marine commander in southern Afghanistan.

The operation has no guarantee of success. U.S. commanders have telegraphed for months that they planned to flush the Helmand River Valley with American troops, so Taliban fighters had ample time to move to other parts of the country.

In Iraq, similar operations generally failed to have much of an impact on the war effort, because fighters typically melted away into surrounding areas rather than taking on the large, well-armed American force. Successive U.S. operations in volatile Diyala Province, for instance, failed to find or kill many Sunni fighters there.

"We know we're chasing ghosts, and that we may not find them," the American officer in Kabul said.

While the operation is being billed as an attempt to oust Taliban fighters from the south, its real objective is to push into villages that haven't yet had any U.S. presence and establish new bases there.

Since his confirmation by the Senate last month, Gen. McChrystal has spoken publicly about the need to better protect the Afghan populace from Taliban attacks.

Latvia to receive more bailout money

By Adam Cohen

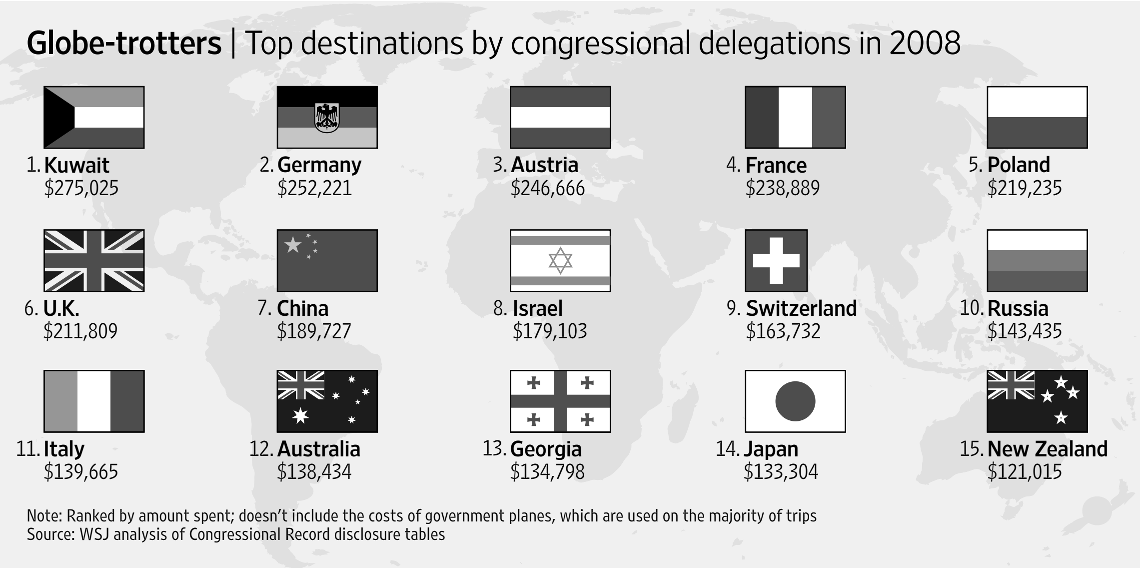
BRUSSELS—The European Commission said Thursday that it will give Latvia the second installment of a bailout fund, helping the country avoid a currency devaluation.

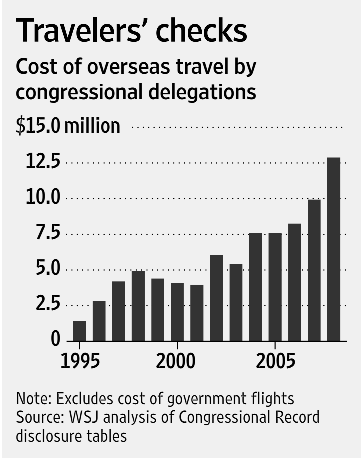
The funds, part of a €7.5 billion ($10.5 billion) rescue package created with the IMF in December, come with conditions. Latvia must bring its budget deficit below 3% of gross domestic product by 2012. Latvia's finance minister last month said the budget gap could be as much as 11.6% of GDP this year—well above the European Union's 3% limit. "Latvia is going through a very painful adjustment, but the EU is providing considerable support," European Commissioner for Economic and Monetary Affairs Joaquin Almunia said. The commission said it will release €1.2 billion in July, after a memorandum of understanding is signed and after it raises the money in financial markets.

U.S. lawmakers' travel tab rises tenfold

Taxpayers foot bill for war-zone visits, trips to exotic spots

BY BRODY MULLINS AND T.W. FARNAM





WASHINGTON—Spending by U.S. lawmakers on taxpayer-financed trips overseas has risen sharply in recent years, a Wall Street Journal analysis of travel records shows, involving everything from war-zone visits to trips to exotic spots such as the Galápagos Islands.

The spending on overseas travel is up almost tenfold since 1995, and has nearly tripled since 2001, according to the Journal analysis of 60,000 travel records. Hundreds of lawmakers traveled overseas in 2008 at a cost of about $13 million. That's a 50% jump since Democrats took control of Congress two years ago.

The cost of so-called congressional delegations, known among lawmakers as "codels," has risen nearly 70% since 2005, when an influence-peddling scandal led to a ban on travel funded by lobbyists, according to the data.

Lawmakers say that the trips are a good use of government funds because they allow members of Congress and their staff members to learn more about the world, inspect U.S. assets abroad and forge better working relationships with each other. The travel, for example, includes official visits to American troops in Iraq and Afghanistan.

The Journal analysis, based on information published in the Congressional Record, also shows that taxpayer-funded travel is a big and growing perk for lawmakers and their families. Some members of Congress have complained in recent months about chief executives of bailed-out banks, insurance companies and car makers who sponsored corporate trips to resorts or used corporate jets for their own travel.

Although complete travel records aren't yet available for 2009, it appears that such costs continue to rise. The Journal analysis shows that the government has picked up the tab for travel to destinations such as Jamaica, the Virgin Islands and Australia's Great Barrier Reef.

Lawmakers frequently bring along spouses on congressional trips. If they take commercial flights, they have to buy tickets for spouses. If they fly on government planes—as they usually do—their spouses can fly free.

Gov. Bob Riley via Flickr

Alabama Gov. Bob Riley, left, speaks with Sen. Richard Shelby in June on a river cruise in Paris, where U.S. politicians met with defense-industry executives.

Paris Air Show

In mid-June, Sen. Daniel Inouye (D., Hawaii) led a group of a half-dozen senators and their spouses on a four-day trip to France for the biennial Paris Air Show. An itinerary for the event shows that lawmakers flew on the Air Force's version of the Boeing 737, which costs $5,700 an hour to operate. They stayed at the Intercontinental Paris Le Grand Hotel, which advertises rooms from $460 a night.

The lawmakers were invited to a dinner party at the U.S. Embassy and had cocktails at a private party at the Eiffel Tower. Mr. Inouye attended a dinner sponsored by the Aerospace Industries Association, a U.S. trade group.

Another senator on the trip, Alabama Republican Sen. Richard Shelby, took a cruise on the River Seine with defense-industry executives and elected officials from Alabama, Mississippi and Florida.

Mr. Inouye and Mr. Shelby declined to comment.

Often, lawmakers combine trips to war zones with visits to more tranquil spots. In February, House Speaker Nancy Pelosi led a delegation of Democratic lawmakers to visit U.S. troops in Afghanistan for a day. Before landing in Kabul, the eight lawmakers and their entourage of spouses and aides spent eight days in Italy, spending $57,697 on hotels and meals.

A spokesman for Ms. Pelosi says that she was working in Italy, meeting with U.S. troops at Aviano Air Base, laying a wreath at the Florence American Cemetery, giving a speech to Italian lawmakers and visiting the Pope, among other things.

Homeland Security

Rep. Bennie Thompson (D., Miss.), the chairman of the House Homeland Security Committee, led a group to Brazil, Argentina, Peru and Panama. "This trip further solidified the message that homeland security does not begin or end at our borders," says Mr. Thompson's spokeswoman.

Many congressional trips have been to Iraq or Afghanistan. In 2008, lawmakers and aides took 113 trips to Iraq, according to the Journal analysis, down slightly from the prior year. Not much money is spent in the war zones. Lawmakers aren't allowed to stay overnight in Iraq and receive only minimal spending allowances for their one-day visits.

In mid-February, for example, six House lawmakers traveled to Kuwait, Iraq, Bahrain and Afghanistan. Each lawmaker reported spending $1,500 on hotels and meals in Kuwait, $400 in Bahrain, and $25 in Afghanistan. They reported no expenses in Iraq.

Scores of lawmakers are spending this week abroad on taxpayer-funded trips. Congressional offices say they won't release details of the trips for security reasons. Disclosure rules require lawmakers to print some information about their taxpayer-funded travel in the Congressional Record within 30 days of returning home.

Congressional Fleet

The congressional trips are possible thanks in part to an unlimited fund created by a three-decade old law. Nearly two dozen government officials work full-time organizing the trips.

Much of the costs are not made public, including the cost of flying on government jets. The Air Force maintains a fleet of 16 passenger planes for use by lawmakers.

Documents obtained by the Journal show that the cost of flying a small group of lawmakers to the Middle East is about $150,000. Larger trips on the Air Force's version of the Boeing 757 cost about $12,000 an hour. Two federal agencies pay for most of the travel—the Defense Department and the State Department.

Exotic Locales

In October, Rep. Bud Cramer (R., Ala.) spent two weeks in Europe on government business. Reports show that Mr. Cramer spent $5,700 on hotels, meals and incidentals. Mr. Cramer wasn't running for re-election and left office just two months later.

"Knowing that I was leaving with my 18 years of seniority, I wanted to conclude some issues that I was working on," Mr. Cramer said. He now works for a lobbying firm in Washington.

Some of the most expensive travel is to exotic locales.

Last summer, Rep. Brian Baird (D., Wash.) took a four-day trip to the Galápagos Islands with his wife, four other lawmakers and their family members. The lawmakers spent $22,000 on meals and hotels, records show. Mr. Baird, a member of the House Science Committee, said the trip was to learn about global warming.

On the first day, lawmakers toured a breeding center for giant tortoise and land iguanas before dining with scientists, according to an itinerary for the trip.

The next morning, lawmakers headed to the Galápagos National Park while their family members had the option of hiking, swimming or shopping. That afternoon, the group boarded a boat to visit a sea-lion colony and search for white-tip sharks.

Mr. Baird didn't respond to a request for comment.

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IAEA chooses new chief

Japanese delegate in line to take helm of nuclear watchdog

BY DAVID CRAWFORD

The governing board of the International Atomic Energy Agency voted to choose Japan's Yukiya Amano to head the sensitive United Nations watchdog, in another step toward the end of a months-long selection process.

Mr. Amano's selection by a one-vote margin in a secret ballot is a significant success for the group of U.S.-led Western governments that back his candidacy for director general. The IAEA is pivotal to their efforts to counter nuclear programs in Iran and North Korea.

The process isn't over yet. On Friday, the IAEA's 35-member board is expected to confirm the nomination. Then, in September, the Vienna-based IAEA's most important governing body, the 146-nation IAEA General Conference, must give its final approval. That is usually a rubber-stamp process, but this time, the selection has been particularly contentious.

Mr. Amano spoke cautiously at a press conference after Thursday's vote, prefacing his comments with "If I have the privilege" of being confirmed as director general. He said that, as a Japanese national, he would work hard to reduce the threat from nuclear weapons.

The IAEA board rejected Mr. Amano's candidacy five times during voting in March and again in five votes Thursday. He was finally elected when one country shifted to abstention from a "no" vote to abstention, giving Mr. Amano the two-thirds majority he needed. It wasn't known Thursday which country changed its vote.

Mr. Amano's opponent has been Abdul Minty of South Africa. Mr. Minty has been popular with board members from developing nations, which tend to be more sympathetic to demands from non-nuclear-weapons states—including Iran—that they should be able to enjoy their legal right to make nuclear fuel.

The U.S. and the European Union have been pressuring Iran to abandon its enrichment program, which can make either civilian-grade or weapons-grade fuel. Mr. Minty declined to comment on the Thursday vote.

Few international agencies are as politically fraught as the IAEA, which must balance the West's security concerns with the developing world's desire to acquire nuclear technology.

Mohamed ElBaradei, the departing IAEA director, won a Nobel Peace Prize for his work, but frequently clashed with Washington. He has criticized U.S.-led efforts to pressure Iran into suspending its uranium-enrichment program, saying the policy no longer makes sense because Iran has already acquired the technology it needs.

Mr. Amano, a 62-year-old lawyer, said in an interview in March that he saw the IAEA as a technical agency rather than a political one. The organization, Mr. Amano said, should monitor nuclear programs to prevent the proliferation of nuclear weapons and promote peaceful uses for nuclear energy. "The IAEA should not be a venue for negotiating disarmament," he added.

Agence France-Presse

Yukiya Amano, Japan's envoy to the International Atomic Energy Agency, is in line to succeed Mohamed ElBaradei as head of the nuclear watchdog.

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CAPITAL JOURNAL ▪ GERALD F. SEIB

Romney gains momentum as top issues play to his strength

MOST REPUBLICANS have just finished what might be called the spring of their discontent. Not much went right in the first half of the year; not much to cheer about.

But not Mitt Romney. For this unsuccessful 2008 Republican presidential contender, it is hard to imagine how events could be moving more decisively in his favor in 2009. One can almost hear him wondering: Why didn't things break this way last year?

Let us count the ways that the world has conspired to help Mr. Romney. At a time when the Republican party is straining to find new leaders, other prominent party members who aspire to that role—Govs. Sarah Palin, Bobby Jindal and Mark Sanford, and Sen. John Ensign—have stumbled or, in the case of Gov. Sanford, flamed out in spectacular fashion. Mitt Romney now looks by comparison like the serious adult in the room.

Beyond that, the national agenda is squarely focused on the economy—which plays to Mr. Romney's strength as a successful businessman—rather than on national security, which benefited Sen. John McCain in last year's primaries, or on the social issues where Mr. Romney's tendency to shift about has caused him so much trouble.

And beyond the economy, what are the other big items on the agenda? Well, one is the auto industry, which happens to play nicely to the Romney background as a Michigander and son of an auto-company executive.

The other is health care, which tees up Mr. Romney to talk about the health overhaul he led in Massachusetts while that state's governor.

ALL THIS LEADS, inevitably enough, to talk of Mr. Romney already emerging as a leading contender for the party's *next* presidential nomination. Of course, talking about the 2012 presidential race at the midpoint of 2009 is silliness on stilts. Mr. Romney says he doesn't know whether he will run, which is the only sensible thing to say.

"He's very genuine when he says he hasn't made a decision about 2012," says Kevin Madden, a close aide during the presidential campaign and part of a small team of informal advisers. "I know him well enough to know that when he makes a decision he goes 100 miles an hour. Right now it's in a lower gear."

Besides, talk of a presidential candidacy misses the more relevant point. Republicans are looking for a voice to speak for the party in exile, and Mr. Romney is starting fill the role quite nicely.

That would explain why he was on NBC's "Meet the Press" on Sunday, the Fox News Channel on Wednesday, ABC's "This Week with George Stephanopoulos" two weeks ago, and why he was in Newsweek with an essay on health care not long ago and...well, you get the idea.

In fact, one of the questions Mr. Romney's advisers are wrestling with is how to avoid overexposure. But more exposure seems certain as the health-care debate heats up in Congress, and Mr. Romney is called upon to compare his health overhaul in Massachusetts to the one Democrats are proposing. He is able to say that his plan incorporated some aspects of overhaul that Democrats embrace—a mandate that every citizen acquire some form of coverage, for example—while avoiding the element that Republicans really despise, a government-sponsored insurance plan to compete with the offers of the private sector.

MORE BROADLY, Mr. Romney has, unlike some of his Republican brethren, developed a well-modulated critique of President Barack Obama, one that is tough without sounding harsh. On the economy, for example, he acknowledged on "Meet the Press" that the economy is likely to rebound next year, and criticized the Obama stimulus plan not as a disaster or a mistake, but as a package that simply hasn't helped much because it invested too little in the private sector.

If the stimulus package "had been created properly and focused on creating jobs, we would have come out of the recession faster," he said.

More Romneyisms are coming, for he is finishing up this month a book that is to be published early next year. It will be, says aide Eric Fehrnstrom, an "ideas book describing challenges in America." Not best-seller material, perhaps, but more grist for the serious-adult argument.

Yet the most important thing Mr. Romney is doing may lie elsewhere, in the air miles and shoe leather he is investing to help fellow Republicans. That is the kind of loyalty-inducing investment that can come back to benefit a presidential candidate later on.

He has made appearances for the Republican candidates in the two governor's races being held this year, in Virginia and New Jersey. One Republican senator up for re-election next year, Robert Bennett of Utah, already is running a television ad playing up a Romney endorsement. Last year, Mr. Romney's political action committee endorsed 84 Republican candidates for federal office and passed out more than $400,000 in contributions, while Mr. Romney appeared at 34 campaign events for Republican congressional candidates.

Mr. Romney still has problems, of course, not least the lingering feeling that he has shifted his positions to pander to his party's social conservatives. But all told, most prominent Republicans would happily trade their problems for Mr. Romney's right now.

ECONOMY & POLITICS

A compromise on the yuan

IMF softens its line on China's currency as priorities shift

By Andrew Batson

BEIJING—China will take an important step next week toward reconciliation with the International Monetary Fund, agreeing to disagree about its currency policy in order to return to good standing in an organization it hopes to influence.

For the past three years, China has blocked IMF reviews of its economy—which are supposed to be annual for every member country—because it objected to public criticism of its tightly controlled exchange rate. But a team of IMF officials visited China about a month ago and completed a draft review that is now being circulated for comments. The IMF's executive board is scheduled on the fund's Web site to discuss the China report on July 8.

The IMF's draft report says China's exchange rate "continues to be substantially undervalued," according to a person who has seen the document. China has kept its currency, the yuan or renminbi, basically fixed against the U.S. dollar since July last year, though it has risen, along with the dollar, against other currencies.

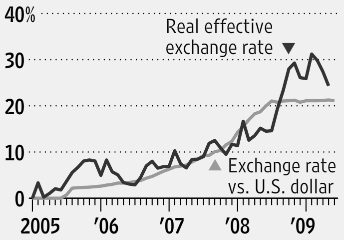
That description nonetheless marks a climbdown from an earlier push to label China's exchange rate as "fundamentally misaligned," a designation that would suggest the country is in violation of the IMF charter. The draft report states that Chinese authorities "disagreed with the staff's assessment" of the exchange rate, and notes their argument that the global turmoil calls for "a policy of stability." The IMF office in Beijing declined to comment.

The compromise to get the review completed reflects how the financial crisis has reordered priorities on both sides. The U.S., the IMF's largest shareholder, is less intensely focused on China's currency policy, as it wants the nation's cooperation in a range of efforts to boost the world economy and rework the global financial system. The U.S. Treasury has also called China's yuan undervalued but held back from formally designating the country as a manipulator of its currency.

For its part, China is becoming more engaged with the IMF and other international organizations as it tries to boost its global influence. China's ability to keep growing this year, while other major economies contract, has further raised its profile. The draft report raises the IMF's forecast of China's economic growth in 2009 to 7.5%, the person who has seen it said, from the 6.5% the fund projected in April.

Currency debate

China's yuan has appreciated in broad terms while being held steady against the dollar



Sources: Bank of International Settlements; WSJ Market Data

China's central bank has made proposals to overhaul the international financial system that envision a much greater role for the IMF. It has been pushing for increased world-wide use of Special Drawing Rights—a type of synthetic currency basket —to wean the world off its reliance on the U.S. dollar. And the IMF moved toward that this week by agreeing to issue bonds denominated in SDRs. China has also suggested that the IMF could manage a portion of its members' foreign-exchange reserves.

China expects to get a bigger voice at the IMF in coming years: It has the world's third-largest national economy; its voting share is now roughly the same as Belgium and the Netherlands combined.

The Obama administration also supports a stronger role for China in the IMF, which it sees as the natural consequence of the country's increased global weight.

Yet this meeting of the minds is unlikely to prevent disagreements between the U.S. and China at the IMF. Chinese officials say they hope that an IMF where developing nations have more influence will be a more independent voice. They say the IMF should more openly criticize economic policies in the U.S. and other rich countries, in order to help prevent financial crises. It would have been difficult for China to push that agenda as long it resisted the fund's reviews itself.

—Shen Hong and Steven Yang contributed to this article.

Indian court makes gay sex legal

An Indian court Thursday struck down a British-era law that criminalized homosexuality, marking a milestone for the country's burgeoning gay-rights movement.

*By **Niraj Sheth** in New Delhi and **Eric Bellman** in Mumbai*

A law banning consensual sex between two gay adults is at odds with equal-opportunity provisions in the Indian Constitution, the Delhi High Court said in its ruling. The decision effectively applies to the whole of the country by setting a precedent that other state courts would find difficult to contradict, lawyers say.

The judgment comes amid growing public activism and visibility on the part of India's gay and lesbian community, who greeted the ruling as a cause of celebration. But it is still just the beginning for this long-stigmatized part of Indian society, which faces an uphill battle in changing attitudes in India's traditionally conservative society.

"It's a momentous judgment," said Anjali Gopalan, founder and executive director of the Naz Foundation, an HIV-awareness nonprofit organization that filed the suit contesting the statute in 2001. "It's a first major step."

The ruling can be appealed to India's Supreme Court, but India's Ministry of Health and Family Welfare, one of the respondents in the suit, supported the move to decriminalize gay sex, saying the law hampered efforts to stem the spread of HIV.

Last week, India's new government said it is considering legislation to change the laws governing homosexuality. The Hindu nationalist opposition party, the Bharatiya Janata Party, has asked for the government to delay any such moves.

Thursday's ruling will remain in place until new gay-rights laws are established, the court said. "It cannot be forgotten that discrimination is [the] antithesis of equality and that it is the recognition of equality which will foster the dignity of every individual," the ruling said. The court left intact provisions outlawing nonconsensual sex and sex involving a minor.

The movement to support the rights of gays and lesbians in India has been gaining momentum in recent years. Rising incomes, a modernizing society, and exposure to gay and lesbian issues through the Internet, television and movies have helped sensitize more Indians to the cause. And as young men and women take up jobs in call centers and retail stores and become more independent of their families, they are finding more freedom in their lifestyles.

The first gay-pride parades in most cities have taken place only in the last couple of years. On Sunday, more than 1,000 people marched in a gay-pride parade in Delhi.

As news of the ruling trickled out Thursday morning, groups of people gathered outside the court gates hugged and wept. Shouts of "We won!" rang out over the courtyard, and some pumped fists in the air.

A larger battle looms in front of the burgeoning movement: changing social attitudes about homosexuality in a country that still has deeply conservative mores. "This isn't the end," says Ms. Gopalan.

Hindu and Muslim religious groups have spoken against decriminalizing gay sex. "Legalization of homosexuality is an attack on Indian religious and moral values," read a statement signed by over a dozen Indian Muslim leaders this week in anticipation of the ruling.

A grouping of Indian Catholic bishops said the church doesn't oppose the decision but doesn't support extending rights to marriage rights for gay or lesbian Indians.

For now, the gay community in India is celebrating a turning point from a past of secrecy and fear. Gay men who had to deal with harassment, prejudice and extortion felt they couldn't seek help and had to hide their health problems because gay sex was illegal, said Nitin Karani, editor-at-large of the Bombay Dost, a gay magazine in Mumbai.

The court decision could spark growth among gay organizations, which found it difficult to officially organize before. One of India's oldest gay groups, Gay Bombay, was started around a decade ago with a group of 10 men who would meet regularly at Mumbai's first McDonald's. Today it has more than 6,000 members. It helps counsel members and their families and arranges regular parties.

"This is definitely going to make a huge difference," said Alok Gupta, a Mumbai lawyer who worked on the case. "It will give people tremendous confidence and allow people to go out and do what they are doing more openly."

Iran Regime Supporters Mount Online Offensive

By Christopher Rhoads And Geoffrey A. Fowler

Thousands of Iranians used the Internet after Iran's election last month to criticize the government and spread news of its violent clashes with protesters. Now, the government and its supporters are confronting the opposition online, through social-networking sites and blogs.

Over the past week, a growing number of Iranian users of Twitter—the online service that allows users to send short messages—have been "tweeting" in favor of the regime, according to Internet security experts and others studying the development.

Some messages throw cold water on planned protests. "Staying at home tomorrow to avoid angering my elected govt," one correspondent with the username Eyeran wrote.

Others make threats. Referring to the regime's volunteer militia, a user with the name Vagheeiat (Persian for "realities") said in an online message to an apparent opposition supporter: "The Basij protects the honor of the people and is the killer of you, liars and puppets of the U.S."

Ariel Silverstone, an Internet security expert in Atlanta, says the number of pro-government messages in the past few days has increased to about 100 every six hours from just one every 12 hours or so earlier in the post-election period.

It's impossible to determine for sure whether the comments come from members of Iran's government or simply supporters. Attempts to reach such users of Twitter weren't successful.

But Internet experts see clues in certain patterns of use. In Vagheeiat's case, the user's Twitter biography says the person who sent the message is a member of the unit fighting organized crime in the Revolutionary Guard, which oversees the Basij. The profile links to the Web site of that unit. The user under that name used the service on only one day, last Thursday.

Many of the users sending pro-government missives opened accounts only a few days ago, and have few, if any, followers—nor are they following anyone else, Mr. Silverstone said. Also pointing to an orchestrated effort, some pro-regime messages are simultaneously blasted from different online accounts at regular intervals. Among them: "Mousavi the Instigator is in custody," referring to opposition leader Mir Hossein Mousavi.

The government "has made a concrete effort to fight the opposition online," Mr. Silverstone says. "Over the past few days this has really increased."

While some of the tactics are new—particularly the use of Twitter—the regime and its supporters aren't new to the Internet. President Mahmoud Ahmadinejad has had his own blogs, in English and Persian, since the summer of 2006, and posted four messages before the recent election. Earlier this year, the Revolutionary Guard put out a call online for 10,000 bloggers to spread its views.

In one instance, the regime has sought to tap into the power of the Internet to help identify and round up individuals for arrest. The technique, which is commonly called crowd-sourcing and relies on the shared knowledge of numbers of people, is typically used for things like working out the bugs in new software or rating restaurants.

In this case, a Web site called Gerdab, which means "vortex" in Persian, shows close to two dozen candid photos of individuals with their faces circled in red.

The site, which says it is owned by the organized-crime fighting unit of the Revolutionary Guard, states that these people were behind the post-election chaos, and seeks information about them. There are spaces for visitors to the site to enter names, addresses, phone numbers and other information about the people who are marked.

The site says that so far two of the people pictured had been identified and arrested.

The online protest movement appears to be losing steam. After the election, fan pages for Mr. Mousavi

'Staying at home tomorrow to avoid angering my elected govt,' one user wrote.

on the social-networking site Facebook were signing up more than ten thousand new users a day. The number of supporters listed by the most popular Facebook fan page for Mr. Mousavi, which swelled from about 2,500 before the election to more than 100,000, hasn't grown much since last week.

Sassan, a Californian in his 30s who declined to give his last name, says his cousin in Iran stopped using Facebook after his friends were shown pictures of their Facebook pages and copies of their emails while jailed after a protest.

Other observers say the action online is mirroring what is happening on the street. "There is a little less activity because there is a little less to take a picture of," says Jonathan Zittrain, a professor at Harvard University Law School.

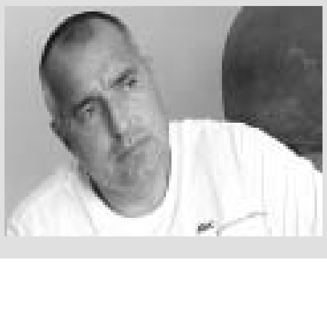
Richard Stiennon, the founder of Internet security firm IT-Harvest, notes the number of messages on Twitter relating to the Iranian unrest has plummeted in recent days—giving way to last week's news of the death of pop star Michael Jackson.

—Jessica Vascellaro contributed to this article.

Economy & Politics

Baltic battle

Eastern Europe's woes could topple Bulgaria's government > **Page 8**



REVIEW & OUTLOOK

Europe's Fiscal Woes

To the casual observer, it might look like fiscal discipline is making a comeback in Europe. Governments in Ireland, the Czech Republic and the Baltic states are talking about budget cuts. Germany is contemplating a constitutional limit on its deficit. But appearances are deceiving. Large deficits are on the way and may be with us for a long time.

Deficits are mounting. Pro-growth policies are the best fix.

A report released last week by the European Commission puts the situation in stark relief. The average budget deficit in the European Union last year was 2.3% of GDP, up from a deficit of 0.8% of GDP in 2007. Brussels estimates the average deficit will reach 7.3% of GDP by 2010. This translates into higher debt levels. The average level of gross debt to GDP hit 61.5% last year, and will hit almost 80% by 2010.

Many politicians are blaming the financial crisis and economic downturn for this budget blow-out. There's some truth to that. Tax revenues have fallen along with the economy, while so-called automatic stabilizers such as unemployment insurance and welfare benefits are ramping up in the face of a growing number of people eligible for government checks. Then there are the costs of bank bailouts and "stimulus" spending.

But policy makers who fall back on that line to explain all their fiscal woes are deceiving themselves and their voters. Many EU governments were in the red or nearly so before the economy started deteriorating in 2007. Greece ran a deficit of 2.8% of GDP in 2006 and 3.6% in 2007; for France it was 2.3% and 2.7%. This translated into high and growing debt—103.5% of GDP in Italy in 2007, 84% in Belgium and 95% in Greece, for instance.

That status quo ante suggests that part of today's shortfall is structural—that is, not just a consequence of banking bailouts and higher cyclical unemployment payouts. Put another way, until recently buoyant tax revenues merely masked Europe's failure to reform budget-draining healthcare, old-age and welfare benefits.

Compounding that problem, part of what looks like a cyclical increase in spending during the crisis may become structural after the economy improves. For instance, some older workers have been laid off and are drawing benefits during this slowdown—a cyclical effect. But they may retire and start drawing their pensions instead of returning to the workforce when the economy improves—a structural change.

Now the question is what to do about all this red ink. The worst response is to attack the fiscal hawks, as Nicolas Sarkozy did in Versailles when he said "an austerity policy . . . has always failed in the past." He promised instead to ramp up public "investment"—and debt, which is already set to hit 86% of GDP by 2010—to stimulate the economy. "Investment by borrowing is . . . a good kind of deficit," he said.

But neither is it healthy to fetishize budget balance, as Berlin is doing with its proposed balanced budget amendment. Even without such an amendment on the books, Finance Minister Peer Steinbrueck of the Social Democratic Party opined last month that tax cuts would be impossible in the autumn if they require taking on more debt. Countries like Ireland also have been raising some taxes to bring budgets closer to balance. This kind of fiscal thinking—sacrificing economic growth for the sake of orderly books—is a false prudence.

Instead, Europe needs to focus on growing its way out of its fiscal mess. The first step would be to revisit tax policy. Mr. Sarkozy is right that some deficits are "good," but the truly good kind is the short-term deficit between implementation of stimulative tax-rate cuts and the surging revenues that arise from new economic growth. The worst thing European leaders could do now, especially in a slack economy, is to try to tax their way to fiscal health.

Better to focus on some of the structural drivers of unsustainable spending. Pension reform will be critical as governments try to support a growing number of retirees with current tax revenues extracted from a smaller pool of workers. Governments can also look at other pro-growth policies, such as labor-market liberalization—as suggested by Spain's central bank governor, Miguel Angel Fernandez-Ordonez, when he discussed the Spanish fiscal situation recently.

The greatest danger is not that European governments will run large deficits per se during a recession. Instead, it's that they'll become like Japan: running large deficits in the name of financial-system rescue and Keynesian stimulus, racking up debt significantly larger than the size of the economy, and with scant growth to show for it. Europe is not at that point yet, but it will be soon enough if policy makers don't recognize what's truly causing their shortfalls and adopt pro-growth solutions.

Pakistan Fights, Congress Sleeps

More now than ever, Pakistan is acting as if it is committed to fighting the Taliban. The military in recent days has expanded a high-stakes offensive along the Afghan border, while the government enjoys wide public support, even as casualties and refugees mount.

So naturally, the U.S. Congress is finding a way not to help. An aid package has hit repeated hurdles on Capitol Hill, while U.S. allies shortchange Pakistan on humanitarian assistance for the people displaced by the fighting. This is myopic and dangerous. If Pakistan fails to defeat the Islamist insurgency, the consequences will resonate far and wide, in the worst case with al Qaeda getting Pakistan's nuclear stockpile.

Earlier this year, the Obama Administration prodded, pleaded and shamed Pakistan to fight. Passive acceptance of Taliban gains turned into the current counteroffensive. The military has since taken back the Swat Valley and shifted its sights to such tribal regions as Waziristan.

Democrats slow-roll aid to an ally.

Those gains are fragile, however, and need urgent shoring up. General David Petraeus got $400 million in the supplemental budget this spring to improve Pakistani military capabilities. The U.S. is speeding up the delivery of helicopters and other hardware for counterinsurgency. In the past, the Pakistanis were all too happy to upgrade their F-16s and put them on the border with India while ignoring the Taliban threat.

More disappointing has been the slow Congressional progress of the five-year, $7.5 billion aid package requested by President Obama. The bill got bogged down in the House over Pakistan's past sins of nuclear proliferation and abetting of terrorism. We share the anger over atomic salesman A.Q. Khan and the use of Pakistani safe havens to launch attacks against Afghanistan and Mumbai. But the explicit certification requirements written into the House bill would have tied the Administration's hands and angered Pakistanis.

Those requirements were toned down in the bill that passed last month. It now has to be reconciled with the Senate's package, which passed last week. The package is supposed to signal America's commitment to a long-term partnership, but the delay gives Pakistan good cause to question Washington's sincerity.

The U.S. has done more than its share to alleviate the humanitarian crisis, pledging $300 million of the $543 million the U.N. says is needed to care and resettle millions of refugees. European and Arab nations aren't providing much help, though the Saudis and other Gulf states are happy to funnel funds for Islamist madrassas. U.S. officials estimate the Taliban gets most of its funding from private Arab donations.

The Pakistan military still has to make good on its promises to hold and rebuild Swat. The tribal regions will be harder to clear, much less hold. The Pakistanis have just put a large price on Taliban commander Baitullah Mehsud, blamed for the assassination of former Prime Minister Benazir Bhutto in late 2007. Forces are moving into the tribal regions, suffering significant casualties.

Pakistan's military and government have rarely squandered an opportunity to fail. Now that they've finally summoned the will to tackle their Islamist menace, the least the U.S. and its allies can do is lend a hand.

Why It's Easy to Steal From Medicare

The White House made a big show last week about "turning the heat up" on Medicare fraud, as Jane Friday—er, HHS Secretary Kathleen Sebelius put it. The dragnet resulted in 53 indictments in Detroit for a $50 million scheme to submit bills for HIV drugs and physical therapy that were never provided, as well as busting up a Miami ring that used fake storefronts to steal some $100 million. As welcome as this is, the larger issue is what such plots say about President Obama's plans for a new government-run insurance program.

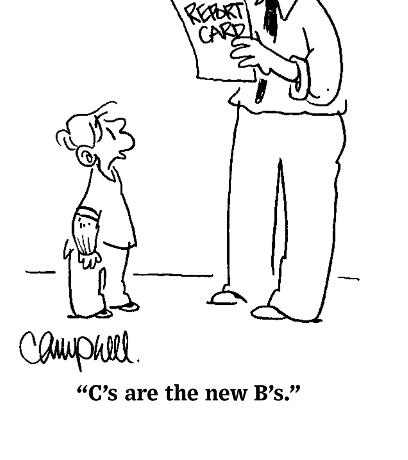
One of the purported benefits of nationalized health care is that it will be more efficient than private insurers since it would lack the profit motive and have lower administrative expenses, like Medicare. But one reason entitlement programs are so easy to defraud is precisely *because* they don't have those overhead costs—they automatically pay whatever bills roll in with valid claims numbers.

By contrast, private insurers try to manage care, and that takes money. Not only does administrative spending go toward screening for waste and fraud, they also go toward building networks of (honest) doctors and other providers. Medicare simply counts fraud losses as more spending. Generally private insurers also attempt to pay for other things that consumers find valuable, such as high quality, while Medicare and Medicaid are forbidden by law from excluding substandard providers, unless they're criminals.

Dead doctors, fake patients, high-school dropouts, fly-by-night businesses and the rest will continue to swindle America's sclerotic entitlement system, no matter how far the government turns up the after-the-fact heat. The arrests in Detroit and Miami are another argument against importing to the rest of the health economy the model that enabled these scams.

Pepper . . . and Salt

THE WALL STREET JOURNAL



"C's are the new B's."

Russia Is Back on the Warpath

By Cathy Young

With President Barack Obama's trip to Moscow on Monday, you might expect Russia to avoid stirring up any trouble. Yet the Russian media are now abuzz with speculation about a new war in Georgia, and some Western analysts are voicing similar concerns. The idea seems insane. Nonetheless, the risk is real.

One danger sign is persistent talk of so-called Georgian aggression against the breakaway regions of Abkhazia and South Ossetia, which Russia recognized as independent states after the war last August. "Georgia is rattling its weapons . . . and has not given up on attempts to solve its territorial problems by any means," Gen. Nikolai Makarov, who commanded Russian troops in Georgia in 2008, told the Novosti news agency on June 17. Similar warnings have been aired repeatedly by the state-controlled media.

The West must reaffirm its support for Georgia.

Independent Russian commentators, such as columnist Andrei Piontkovsky, note that this has the feel of a propaganda campaign to prepare the public for a second war. Most recently, Moscow has trotted out a Georgian defector, Lt. Alik D. Bzhania, who claims that Georgian President Mikheil Saakashvili "intends to restart the war."

Yet Russia is the one currently engaged in large-scale military exercises in Abkhazia, South Ossetia, and adjacent regions. Russia has also kicked out international observers from the area. On June 15, Moscow vetoed a U.N. Security Council resolution renewing the mandate of U.N. monitors in Abkhazia because it mentioned an earlier resolution affirming Georgia's territorial integrity. Negotiations to extend the mission of monitors for the Organization for Security and Cooperation in Europe have broken down thanks to Russian obstruction. Now, 225 European Union monitors are the only international presence on the disputed borders.

The expulsion of neutral observers seems odd if Russia is worried about Georgian aggression. But it makes sense if Russia is planning an attack.

What would the Kremlin gain? A crushing victory in Georgia would depose the hated Mr. Saakashvili, give Russia control of vital transit routes for additional energy resources that could weaken its hold on the European oil and gas markets, humiliate the U.S., and distract Russians from their economic woes. Mr. Piontkovsky also believes the war drive comes from Russian Prime Minister Vladimir Putin, who is anxious to reassert himself as supreme leader.

Still, the costs would be tremendous. Last year the Kremlin repaired some of the damage to its relations with Europe and the U.S. by portraying the invasion of Georgia as a response to a unique crisis, not part of an imperial strategy. Another war would cripple Russia's quest for respectability in the civilized world, including its vanity project of the 2014 Winter Olympics in Sochi.

Getty Images

Russian soldiers train near Tatarka, north of Georgia, Feb. 2009.

And after the patriotic fervor wears off, domestic discontent would likely follow. Moreover, Russia would almost certainly find itself mired in a long guerizlla war. This would further destabilize a region where Russia's own provinces, Ingushetia and Dagestan, are plagued by violent turmoil.

Given all this, a war seems unlikely. What's more probable is that Russia will seek to destabilize Georgia without military action. This saber-rattling may be meant to boost Georgian opposition to Mr. Saakashvili.

Still, Moscow's actions are not always rational. If the pro-war faction believes that the Western response to an assault on Georgia would be weak and half-hearted, it could be emboldened. In a June 25 column on the EJ.ru Web site, Russian journalist Yulia Latynina writes that the probability of the war "depends solely on the Kremlin's capacity to convince itself that it can convince the world that the war is its enemies' fault."

That is why it's essential for the United States and the EU to respond now—by increasing their non-military presence in Georgia, expressing a strong commitment to Georgian sovereignty, and reminding Russia of the consequences of aggression. Such a statement from President Obama in Moscow would go a long way toward preventing the possibility of another tragedy.

Ms. Young is a columnist for RealClearPolitics.com and the author of "Growing Up in Moscow" (Ticknor & Fields, 1989).

Has Obama Turned on Israel?

By Alan M. Dershowitz

Many American supporters of Israel who voted for Barack Obama now suspect they may have been victims of a bait and switch. Jewish Americans voted overwhelmingly for Mr. Obama over John McCain in part because the Obama campaign went to great lengths to assure these voters that a President Obama would be supportive of Israel. This despite his friendships with rabidly anti-Israel characters like Rev. Jeremiah Wright and historian Rashid Khalidi.

At the suggestion of Mr. Obama's Jewish supporters—including me—the candidate visited the beleaguered town of Sderot, which had borne the brunt of thousands of rocket attacks by Hamas. Standing in front of the rocket shells, Mr. Obama declared: "If somebody was sending rockets into my house where my two daughters sleep at night, I'm going to do everything in my power to stop that. And I would expect Israelis to do the same thing." This heartfelt statement sealed the deal for many supporters of Israel.

Now, some of them apparently have voters' remorse. According to Malcolm Hoenlein, executive vice chairman of the Conference of Presidents of Major American Jewish Organizations, "President Obama's strongest supporters among Jewish leaders are deeply troubled by his recent Middle East initiatives, and some are questioning what he really believes." I hear the same thing from rank-and-file supporters of Israel who voted for Mr. Obama.

Are these fears justified? Rhetorically, the Obama team has definitely taken a harsher approach toward Israel compared to its tone during the campaign. But has there been a change in substance about Israel's security? In answering this question, it is essential to distinguish between several aspects of American policy.

First there are the settlements. The Bush administration was against expansion of West Bank settlements, but it was willing to accept a "natural growth" exception that implicitly permitted Israel to expand existing settlements in order to accommodate family growth. The Obama administration has so far shut the door on this exception.

Settlements, rockets and Iran.

I believe there is a logical compromise on settlement growth that has been proposed by Yousef Munayyer, a leader of the American-Arab Anti-Discrimination League. "Obama should make it clear to the Israelis that settlers should feel free to grow their families as long as their settlements grow vertically, and not horizontally," he wrote last month in the Boston Globe. In other words, build "up" rather than "out." This seems fair to both sides, since it would preserve the status quo for future negotiations that could lead to a demilitarized Palestinian state and Arab recognition of Israel as a Jewish one—results sought by both the Obama administration and Israel.

A majority of American-Jewish supporters of Israel, as well as Israelis, do not favor settlement expansion. Thus the Obama position on settlement expansion, whether one agrees with it or not, is not at all inconsistent with support for Israel. It may be a different position from that of Prime Minister Benjamin Netanyahu, but it is not a difference that should matter to most Jewish voters who support both Mr. Obama and Israel.

The differences that would matter are those—if they exist—that directly impact Israel's security. And in terms of Israel's security, nothing presents a greater threat than Iran.

The Obama administration consistently says that Iran should not be allowed to develop nuclear weapons. But prior to the current unrest in the Islamic Republic, White House Chief of Staff Rahm Emanuel frightened many supporters of Israel in May by appearing to link American efforts to stop Iran from developing nuclear weapons to Israeli actions with regard to the settlements.

This is a disturbing linkage that should be disavowed by the Obama administration. Opposition to a nuclear Iran—which would endanger the entire world—should not be dependent in any way on the issue of settlement expansion.

The current turmoil in Iran may strengthen the Obama administration as it seeks to use diplomacy, sanctions and other nonmilitary means to prevent the development of nuclear weapons. But if these tactics fail, the military option, undesirable and dangerous as it is, must not be taken off the table. If the Obama administration were to shift toward learning to live with a nuclear Iran and attempt to deny Israel the painful option of attacking its nuclear targets as a last resort, that would be troubling indeed. Thankfully, the Obama administration's point man on this issue, Dennis Ross, shows no signs of weakening American opposition to a nuclear-armed Iran.

A related threat to Israeli security comes from Iran's proxies, Hezbollah and Hamas. For years, these terrorist groups have disrupted life in Israel by firing rockets at civilians. The range of their weapons now extends to Israel's heartland, including Tel Aviv. The Israeli Defense Forces must retain the ability to prevent and deter rocket fire, even if it comes from behind human shields as it did in southern Lebanon and Gaza. There is no evidence of any weakening of American support for Israel's right to defend its children from the kind of rocket attacks candidate Obama commented on during his visit to Sderot.

There may be coming changes in the Obama administration's policies that do weaken the security of the Jewish state. Successful presidential candidates often soften their support for Israel once they are elected. So with Iran's burgeoning nuclear threat, it's important to be vigilant for any signs of weakening support for Israel's security—and to criticize forcefully any such change. But getting tough on settlement expansion should not be confused with undercutting Israel's security.

Mr. Dershowitz is a law professor at Harvard. His latest book is "The Case for Moral Clarity" (Camera, 2009).

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On Taste

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■ **The Alexander Sarcophagus** offers a unique glimpse of ancient Greek civilization, writes Judith H. Dobrzynski. And it's in vivid color, unlike so many statues surviving from that era.

■ **Museums face a** dilemma when it's time to prune their collections, says Daniel Grant: To auction, or not to auction? Public sales are transparent. But they might fail at other goals, like keeping together works conceived as sets.

Notable & Quotable

From Ryszard Kapuscinski's "Shah of Shahs" (1982):

All books about all revolutions begin with a chapter that describes the decay of tottering authority or the misery and sufferings of the people. They should begin with a psychological chapter, one that shows how a harassed, terrified man suddenly breaks his terror, stops being afraid. This unusual process, sometimes accomplished in an instant like a shock or a lustration, demands illuminating. Man gets rid of fear and feels free. Without that there would be no revolution.

NEWS IN DEPTH

After quick takeoff, sector's woes slam highflying Indian airline

Jet Airways struggles with logistics, low fares and no-frills competitors

By Daniel Michaels

Getty Images

Jet Airways India Chairman Naresh Goyal celebrates the carrier's European hub at Zaventem Airport in Brussels in May 2007.

RUNNING AN AIRLINE is a reliable way to lose money. The turbulent ride of India's **Jet Airways** shows why.

Naresh Goyal shook up Indian aviation when he founded Jet in 1992. With punctual flights, new planes and friendly service, Jet was the first carrier to truly modernize air travel in India.

Jet controlled nearly half the domestic market by early this decade, with most of the rest going to state-owned Indian Airlines. In Jet's 2004 fiscal year, as many of the world's carriers were still recovering from the Sept. 11 terrorist attacks on the U.S., it outpaced the industry with net profits of $33 million. Jet's initial public offering, in 2005, valued Mr. Goyal's 80% stake at $2 billion.

Now, Jet is scrambling to stay aloft.

Low fares from no-frills competitors ravaged revenue. Staff costs soared as rivals poached pilots and mechanics. Airport congestion in India made for a logistical nightmare—forcing Jet to open an international hub 6,400 kilometers from home, in Brussels. Amid a glut of capacity, Jet's market share slid from a high of almost 49% in 2003 to roughly 25% this year.

The airline started posting sharp losses in late 2007. Jet eked out a net profit in its latest quarter by selling assets, slashing costs and booking tax credits, but the outlook remains tough.

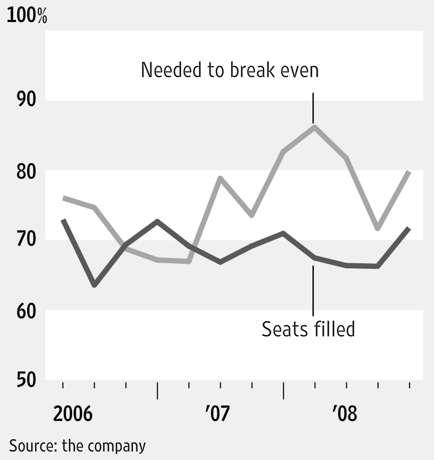
"It's been hard," said Mr. Goyal, the 59-year-old founder, in an interview at his $15 million London townhouse. "We were making so much money, and now we're losing money."

The carrier's woes began as India's economy boomed in 2005, thus highlighting a broader problem for the global airline sector: Even in good times, the industry struggles to generate sustainable profits.

U.S. carriers have lost billions of dollars in recent decades despite soaring passenger numbers. Jet Airways has similarly struggled to capitalize on growth as it got squeezed between uncontrollable costs and increasingly unfettered competition.

Empty seats

Like many rivals, Jet Airways has struggled to bring costs in line with passenger demand.



Source: the company

Jet's slide can be traced to a sea change in the global aviation business. Deregulation, the rise of Internet ticket sales and other factors have made it easier than ever for upstarts to challenge bigger, established carriers.

In India, where state-run carriers and government policies stymied air travel for decades, the sudden transition proved tumultuous. Last year was particularly rough. The airline business floundered as fuel prices surged, the credit crunch hit and world-wide travel plunged.

Jet is reacting by cutting staff, closing offices around Asia and reducing flight frequencies. Searching for profitable routes, Jet recently took planes from India's crowded domestic market and expanded service to Dubai. It soon plans to start flying to Saudi Arabia.

Mr. Goyal cut his teeth in the airline business by working—and sleeping—at his uncle's New Delhi travel agency while he was an 18-year-old

NEWS IN DEPTH

Getty Images

A Jet Airways flight attendant inside the business-class cabin of a Boeing 777-300ER aircraft on display at Chatrapati Shivaji International Airport in Mumbai, in May 2007.

student. Seven years later, in 1974, he started his own agency, bankrolled by personal savings and a gold bracelet of his mother's that he pawned. As the Indian sales agent for overseas carriers including Air France and Hong Kong's Cathay Pacific Airways Ltd., he learned the ins and outs of upscale air travel.

Jet was one of several carriers launched after India began deregulating domestic aviation in 1991, and initial competition was fierce. Jet survived as rivals failed, thanks in part to Mr. Goyal's longstanding links to foreign carriers with which Jet cooperated to fly international passengers.

Although Indian law had granted state-owned Air India a monopoly on foreign flights since 1953, Mr. Goyal prepared for the day that Jet would be allowed to extend its network overseas. He entertained politicians, aviation officials and travel professionals in his London townhouse overlooking tony Regents Park. "I was convinced one day India would have to open up," he says.

Anticipating the change, Mr. Goyal focused on creating a passenger experience to rival the world's best carriers. He poured tens of millions of dollars into cabin entertainment systems, ergonomic seats and staff training.

He also turned the trend of outsourcing to India on its head by hiring American pilots, recruiting managers from leading Asian and European carriers, and unabashedly aping the innovations of up-market trailblazing airlines such as Singapore Airlines Ltd.

"Naresh Goyal's policy of hiring expats broke the mold in India—he was a pioneer," says Craig Jenks, president of Airline/Aircraft Projects, a global aviation consulting firm in New York.

In 2004, India allowed private airlines to fly overseas. Mr. Goyal jumped at the opportunity. He ordered 10 Boeing 777s, and fitted the first-class cabins with spacious private compartments modeled after those created by Dubai's upscale Emirates Airline. Jet's initial public offering in 2005 was 16-times oversubscribed amid national enthusiasm for the airline and its whole industry.

But Jet's success also spawned competition. Vijay Mallya, chairman of Indian brewing and distilling giant **United Breweries (Holding)** Ltd., launched upscale **Kingfisher Airlines**. It was meant to double as a flying promotion for his top beer brand, Kingfisher.

A tiny upstart launched in 2003, **Air Deccan**, proved even more damaging to Jet. Copying the no-frills approach pioneered by Southwest Airlines Co., it served secondary cities that Jet didn't touch. Deccan opened a floodgate by showing the low-cost model could work in India. In 2005, a group of entrepreneurs started a similar low-cost carrier, **SpiceJet** Ltd. That same year, a major Indian travel-services company started its own budget carrier, **IndiGo**.

Mr. Goyal fought back by acquiring no-frills competitor Air Sahara, which he rebranded as JetLite.

Indian carriers grabbed the spotlight at the 2005 Paris Air Show, the aviation sector's big industry event. There, they announced orders for planes valued at more than $15 billion. IndiGo ordered 100 Airbus airliners even before it secured government permission to start flying. Although Kingfisher had only been flying for two months, Mr. Mallya splashed out by ordering five Airbus A380 superjumbos, the world's largest passenger planes.

India's growing middle class was helping tug the global aviation industry from its post-9/11 slump. "Everyone is talking about China," observed Airbus Chief Operating Officer John Leahy at the Paris Air Show that year. "But the biggest growth story we see is India."

Foreign investors, financiers and leasing companies, all hungry for new markets, raced to bankroll India's breakneck airline expansion. Indians who had long squeezed onto wheezing, sweaty trains began jetting about the country.

Jet soon faced another hurdle: India's outdated aviation infrastructure clogged up. Air-traffic delays added 10% to flight times and cost $80 million in wasted fuel during 2006, Jet executives said, and things were getting worse. "The average 70-minute domestic flight spends another 35 minutes circling," Mr. Goyal complained last spring.

The lack of modern aircraft-maintenance facilities in India forced Jet to send planes overseas for routine upkeep, adding millions of dollars to its bills. The cost of retaining veteran mechanics, flight attendants and pilots soared as new rivals poached qualified staff.

Even Jet's budget subsidiary, JetLite, and other no-frills carriers struggled. "There are no low-cost airlines in India, only low-fare, no-profit carriers," Mr. Goyal said at a Jet media gathering in 2007.

Yet Indian carriers kept chasing market share by slashing fares and adding planes, even as losses ballooned.

By last June, Mr. Goyal saw that competition had made business untenable. "We're all in trouble," he lamented at an industry conference, saying each domestic carrier should slash capacity by 30%. Kingfisher's Mr. Mallya scoffed that Mr. Goyal "doesn't know how to do math."

But Kingfisher was losing so much money that it soon canceled airplane orders and new routes vital to its overseas expansion. In a sign of the industry's distress, the bitter rivals last October announced an alliance to share airport facilities, coordinate schedules and reduce capacity. The deal still faces regulatory approval.

Mr. Goyal had enjoyed a major edge over rivals in one key battleground: overseas flights. Indian deregulation in 2004 opened up international routes only to private carriers that had flown domestically for at least five years. Jet's experience allowed Mr. Goyal to move first, launching flights to Singapore, London and Kuala Lumpur in 2005.

Jet quickly grabbed traffic from state-owned Air India, which had struggled to compete globally due to its poor service. Wealthy Indians who had preferred foreign carriers such as British Airways PLC were glad to have a local alternative.

Ajit Balakrishnan, founder of India's largest Internet portal, says Jet staff "deliver a superb product" on the domestic flights he takes weekly from Mumbai, and so he jumped at the chance to fly Jet overseas. The 60-year-old veteran advertising executive often books on Jet, which began offering service to New York-area airports in August of 2007. He recommends Jet to foreign friends for its "modern luxury."

But Mr. Goyal's intercontinental ambitions faced huge obstacles at India's overtaxed airports. Flights from India to the U.S. or Europe require big planes to carry sufficient fuel, and big planes need lots of passengers to run profitably.

In mature markets, airlines generally fill long-haul flights with traffic from many smaller planes arriving at a hub for connections. To coordinate this, airlines need lots of boarding gates, airplane parking spots and runways slots. India's major airports lacked all of them.

Anxious to expand, Mr. Goyal hit on an unlikely option during a state visit to India by the King of Belgium in 2005: using the Brussels airport as a hub for North American-bound flights. The facility had sat largely empty since the collapse of national carrier Sabena four years earlier. Talks with Belgian officials at Mumbai's luxurious Taj hotel quickly yielded an action plan.

"It was a proper business meeting with an agenda," recalls Mr. Goyal, who was more accustomed to India's glacial bureaucracy.

Winning regulatory approval for the unusual arrangement from Belgium and the U.S. took months, but by late 2007, Jet's wide-body airliners were arriving in Brussels each morning from Delhi, Mumbai and Chennai, mixing passengers and departing again for New York's JFK International Airport, Newark Liberty Airport and Toronto. Another three planes did the same trip in reverse.

The four-hour Brussels stopover lengthens passengers' trip time compared with a nonstop flight. It also forces Jet to move hundreds of passengers and their bags quickly through a foreign airport at great expense. But thanks to close cooperation with the privately owned airport, which was hungry for business, Jet was able to offer nine different connections between Indian and North American airports, compared with only three connections possible with nonstop flights.

But as fuel prices rose in 2008 and America's financial problems rippled to India's outsourcing operations, Jet flights through Brussels grew emptier. Costs rose. Only weeks after adding a seventh Brussels flight last Oct. 31, from Bangalore, Jet reversed course on Nov. 25 and canceled the route, citing economic turmoil. Jet now serves 60 destinations, including 19 outside India.

"The crisis has forced us to look much more closely at costs," Mr. Goyal said at his London mansion.

Mr. Goyal says he remains committed to Brussels and predicts the North American operation will break even this summer. But many rivals doubt the long-term viability of a hub so far from home. "It doesn't work," says Pierre-Henri Gourgeon, chief executive of **Air France-KLM** SA, which operates huge hubs in Paris and Amsterdam. Successful hubs rely on big traffic volumes, which Jet cannot guarantee, he says.

Mr. Goyal says falling Indian wages now give him a leg up, because labor accounts for only around 15% of Jet's costs, compared with more than 20% for most Western carriers. Still, he says Jet will refocus on cutting costs and expanding in less-competitive markets of Bangladesh, Nepal and Sri Lanka.

"I want to learn how to buy my insurance for the next four years," Mr. Goyal said of his efforts to protect Jet. "I'm the biggest shareholder, so I suffer the most."

Agence France-Presse/Getty Images

Earlier this decade, foreign investors, financiers and leasing companies, all hungry for new markets, raced to bankroll India's breakneck airline expansion. Indians who had long squeezed onto wheezing, sweaty trains began jetting about the country. But even as losses ballooned, Indian carriers kept chasing market share by slashing fares and adding planes.

EUROPEAN MARKETS LINEUP

Moving the markets

At right, Europe's benchmark stock indexes and stocks Thursday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

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European indexes...

FTSE 100

U.K. 4234.27

▼ **2.45% or 106.44**

Shares in Amsterdam, and across Europe, fell in response to news that the U.S. lost far more jobs than expected in June.

Stock	Volume in millions	Close In pence	Change Net	Change %
VodafoneGp	**166.23**	115.50	–4.00	–3.35
RoyalBnkofScot	**134.50**	37.90	–1.51	–3.82
Barclays	**99.09**	289.00	–1.25	–0.43
Lloyds Banking	**98.76**	65.90	–2.35	–3.44
HSBC Hldng	**85.30**	500.30	–9.20	–1.81

DAX

Germany 4718.49

▼ **3.81% or 186.95**

Weakness in oil prices combined with disappointing U.S. jobs data to drive the index lower, The FTSE has fallen for four of six trading days.

Stock	Volume in millions	Close In euro	Change Net	Change %
DeutscheTel	**25.11**	8.39	–0.19	–2.21
Commerzbank	**15.29**	4.92	–0.34	–6.47
E.ON	**7.26**	24.42	–1.07	–4.20
Daimler	**6.33**	24.98	–1.47	–5.54
DeutscheBk	**5.65**	41.97	–1.08	–2.50

CAC-40

France 3116.41

▼ **3.13% or 100.59**

Growing expectations that the economic recovery will be drawn out weighed on the market. Weak U.S. car sales hurt auto stocks.

Stock	Volume in millions	Close In euro	Change Net	Change %
Alcatel Lucent	**26.60**	1.670	–0.102	–5.76
Arcelormittal	**12.27**	22.790	–1.140	–4.76
AXA	**10.01**	13.005	–0.745	–5.42
CreditAgricole	**9.59**	8.980	–0.128	–1.41
Vivendi	**9.22**	16.730	–0.330	–1.93

AEX

Netherlands 252.69

▼ **2.92% or 7.60**

An ECB decision to keep interest rates steady hurt prices. Downbeat comments from analysts hurt automotive stocks.

Stock	Volume in millions	Close In euro	Change Net	Change %
Aegon	**13.15**	4.30	-0.26	–5.68
INGGroep	**13.07**	6.87	-0.45	–6.10
Arcelormittal	**12.27**	22.79	-1.14	–4.76
R.Dutch Shell A	**11.73**	17.53	-0.63	–3.44
Unilever	**5.57**	17.24	-0.39	–2.21

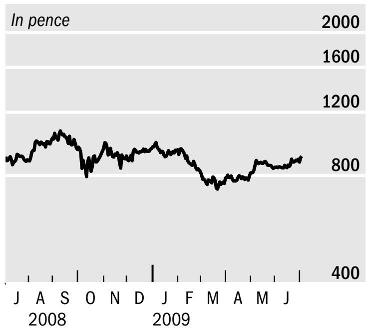
European stocks in the news

Diageo

United Kingdom 905.00 pence

▲ **0.9% or 8.00 pence**

Traders continued to view its decision to close two Scottish plants as a good move.



Price-to-earnings ratio	**13**
Earnings per share, past four quarters	**67.10**
Dividend yield	**3.87%**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Food & Beverage	**-1.0%**	0.6%	-7.3%
Diageo	**0.9%**	2.5%	0.3%

SBM Offshore

Netherlands €12.70

▲ **1.0% or €0.13**

The firm finalized a $350 million project-loan agreement and delivered a platform for Chevron.

Price-to-earnings ratio	**None**
Earnings per share, past four quarters	**n.a.**
Dividend yield	**None**

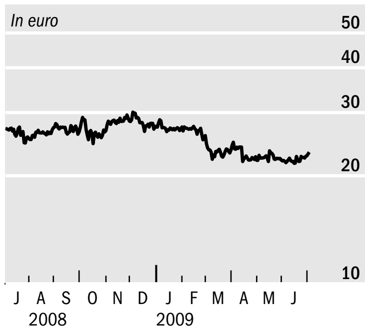
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Oil & Gas	**-2.5%**	0.8%	-29.3%
SBM Offshore	**1.0%**	6.3%	-41.9%

Belgacom S.A.

Belgium €23.27

▲ **1.1% or €0.25**

The telecom operator said the Belgian Competition Council approved the sale of Scarlet's network.



Price-to-earnings ratio	**None**
Earnings per share, past four quarters	**n.a.**
Dividend yield	**None**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Telecommunications	**-2.3%**	...	-23.1%
Belgacom S.A.	**1.1%**	3.4%	-14.1%

Indra Sistemas

Spain €15.82

▲ **1.1% or €0.17**

Gas Natural is selling 10% of Indra to Corporacion Financiera Alba SA at a price of 15 euros a share.

Price-to-earnings ratio	**14**
Earnings per share, past four quarters	**1.17**
Dividend yield	**3.86%**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Technology	**-2.4%**	0.3%	-21.7%
Indra Sistemas	**1.1%**	5.1%	-3.7%

Celesio

Germany €17.15

▲ **1.1% or €0.19**

The drug wholesaler confirmed it will move forward with its plan to take over Panpharma.

Price-to-earnings ratio	**None**
Earnings per share, past four quarters	**-0.11**
Dividend yield	**2.80%**

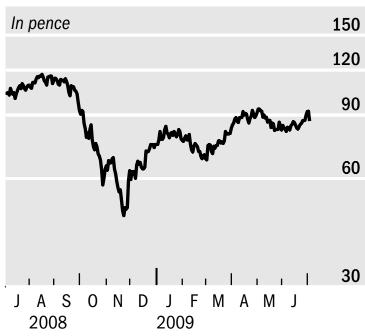
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Retail	**-2.0%**	0.3%	-0.8%
Celesio	**1.1%**	10.9%	-24.0%

Aegis Grp

United Kingdom 86.50 pence

▼ **6.2% or 5.75 pence**

Cazenove downgraded the stock, saying cyclical headwinds will provide a difficult near-term backdrop.



Price-to-earnings ratio	**12**
Earnings per share, past four quarters	**7.30**
Dividend yield	**2.89%**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Media	**-2.4%**	-2.2%	-20.8%
Aegis Grp	**-6.2%**	-0.3%	-17.0%

Commerzbank

Germany €4.92

▼ **6.5% or €0.34**

Financial shares fell after U.S. jobs data cast further doubt on the strength of economic recovery.

Price-to-earnings ratio	**None**
Earnings per share, past four quarters	**-1.45**
Dividend yield	**None**

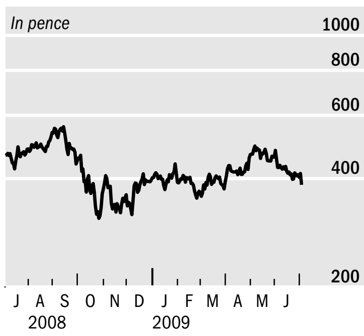
PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Banks	**-2.9%**	0.1%	-38.2%
Commerzbank	**-6.5%**	10.4%	-74.9%

WPP Grp

United Kingdom 384.50 pence

▼ **7.0% or 29.00 pence**

Citigroup downgraded the stock to sell, saying first-half results would be disappointing.



Price-to-earnings ratio	**10**
Earnings per share, past four quarters	**38.40**
Dividend yield	**4.02%**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Media	**-2.4%**	-2.2%	-20.8%
WPP Grp	**-7.0%**	-6.5%	-17.1%

Volkswagen

Germany €228.85

▼ **7.8% or €19.36**

Weak U.S. car sales weighed on shares.

Price-to-earnings ratio	**21**
Earnings per share, past four quarters	**10.89**
Dividend yield	**0.84%**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Automobiles & Parts	**-5.3%**	-2.3%	-15.6%
Volkswagen	**-7.8%**	-5.6%	27.8%

Clariant

Switzerland CHF6.36

▼ **8.6% or CHF0.60**

The company raised $294.1 million through convertible bonds but didn't say why it raised the funds.

Price-to-earnings ratio	**None**
Earnings per share, past four quarters	**-0.78**
Dividend yield	**None**

PERCENTAGE CHANGE	Daily	1 wk.	52 wks
Chemicals	**-3.1%**	-0.8%	-31.0%
Clariant	**-8.6%**	-7.4%	-33.0%

MONEY&INVESTING

Mary Schapiro's SEC pushes companies to spell out how their pay practices affect risk-taking. **Page 19**

Heard on the Street: So much for those green shoots. **Page 28**

Big names seek to buy real-estate debt. **Page 23**

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Street's pain is their gain

Smaller firms lure frustrated brokers as giants struggle

BY RANDALL SMITH

WALL STREET'S REPUTATION couldn't be much worse, and that's very good for business at brokerages eager to snag defectors from bigger firms.

One of the most aggressive outsiders in tapping dissatisfaction among brokers and investors since the credit crisis began is **LPL Investment Holdings** Inc. The Boston company is nowhere close to a household name, but has grown into the fifth-largest U.S. brokerage firm, with 12,294 financial advisers, including more than 5,288 that have come aboard since 2006.

Typical of the recent hires by LPL Financial is Jeff Fierce of Indianapolis, a 12-year Merrill Lynch & Co. veteran who left just after Merrill was acquired by **Bank of America** Corp. in January. The "last straw," Mr. Fierce says, was news that former Merrill Chairman and Chief Executive John Thain had sought a multimillion-dollar bonus for his role in saving Merrill as the company suffered staggering losses. Mr. Thain's unsuccessful move went against Merrill's tradition of putting "clients first," Mr. Fierce says.

John Duffy jumped to LPL from Wachovia Corp. last October partly because he felt pressure to sell mortgages, loans and other bank products to his investment clients. Mr. Duffy, who had been a broker at A.G.

Top of the heap

Largest U.S. brokerage firms, ranked by number of investment advisers

Morgan Stanley Smith Barney	18,500
Wells Fargo Advisors	15,879
Merrill Lynch Wealth Management	15,822
Edward D. Jones	12,499
LPL Financial	**12,294**
UBS AG	8,670
Raymond James	5,183

Sources: Barclays Capital; the companies

Edwards Inc. for five years when it was acquired by Wachovia in 2007, was even more motivated by the ability to hang out his own shingle: **Duffy Anderson Investment Management** Inc.

Wells Fargo & Co., which acquired Wachovia in December, says brokers aren't pressured to pitch bank products.

For brokers, one big lure of LPL Financial and other firms such as **Charles Schwab** Corp. and **Raymond James Financial** Inc. touting themselves as an alternative to Wall Street giants is money: Brokers at LPL get to keep 80% to 95% of commissions on their trades, compared with 40% or less at bigger brokerage firms. LPL brokers have to pay their own rent, employees and other costs, but can still come out ahead, the company says. Many of the brokers operate under their own mom-and-pop firm names, though some LPL brokers also pitch investments through banks.

There is also no doubt financial blowups up and down Wall Street have weakened the appeal of traditional brokerage powerhouses. "The bloom is off the rose for the Morgan Stanleys and the Merrill Lynches of the world," says Larry Papike, a brokerage recruiter in Jamul, Calif.

The big guys say their brokerage armies still benefit hugely from the firms' spending on brand-name marketing, office space, training, management, compliance and other back-office services.

Lyle LaMothe, Merrill's head of U.S. wealth-management, says brokers who leave give up "a global brand identity." Although Merrill has suffered losses of more than $50 billion on toxic mortgages, the firm gained greater "balance-sheet size, scale and strength" when it was acquired by Bank of America.

In a sign of the enduring loyalty among Merrill clients, Mr. LaMothe says, the firm holds on to a larger percentage of clients whose brokers leave Merrill to go independent than the firm keeps when brokers bolt to big-name competitors. "My guess is [going out on your own as a broker is] a lonelier, therefore more difficult, experience during challenging market environments," he says.

Mark Casady, LPL's chief executive, says the company has been recruiting more of its top-producing new brokers from big firms since last fall. "There's no doubt we're reaping the benefit of the destruc-

Please turn to next page

Contracting

The size of the credit-default swaps market has been shrinking as dealers cut back on trading and remove overlapping contracts from the system. Analysts argue this makes market reforms less necessary.

Volume of outstanding credit-default swap contracts

As of June 30, 2008	As of Dec. 31, 2008	As of June 26, 2009
$54.6 trillion	$38.6 trillion	$26.5 trillion

Source: Morgan Stanley

Bankers brace themselves for EU's derivatives plan

BY NEIL SHAH

The European Commission is expected Friday to propose a revamp for Europe's derivatives industry that bankers fear could take a harder line than recent U.S. efforts to reduce the risks that exotic financial instruments pose to the banking system.

The commission report likely will address similar topics as proposals announced by the Obama administration, which outlined changes for over-the-counter derivatives, financial contracts tied to things like energy prices and corporate credit.

Some bankers are worried the commission, the European Union's executive arm, may try to win political points by suggesting more restrictive changes. Others say the industry has already gone to some lengths to reduce market risks.

While the report doesn't carry the force of legislation, it could help shape future practices for big derivatives dealers like **J.P. Morgan Chase** & Co. and **Deutsche Bank** AG.

"This would seem to be a less urgent issue than some of the others financial regulators are facing," said Andrew Sheets, a credit analyst at Morgan Stanley in London.

Over-the-counter derivatives have come under intense scrutiny in the wake of the financial crisis. Companies and investors generally use them to hedge against sharp moves in oil prices or interest rates. Investors use credit derivatives, so-called credit-default swaps, to protect their bond investments against losses, or to speculate on market moves. Credit-default swaps have been blamed for exacerbating the crisis by making it hard to tell which firms were exposed to losses as other companies' finances faltered.

In May, the Obama administration proposed changes that would give U.S. regulators the authority to push more trading of derivatives onto regulated exchanges, which would make prices more visible. Many standard derivatives would have to go through a central clearinghouse that would guarantee that

Please turn to next page

Fissures arise at New York Fed over picking a president

BY KATE KELLY

The board of the Federal Reserve Bank of New York is packed with powerful executives. But the selection process leading to January's promotion of William Dudley to president underscored the lack of clout among the Fed's regional directors as the central bank navigated the crisis.

Mr. Dudley, a 56-year-old former Goldman Sachs Group economist who ran the New York Fed's markets division, got the top job after a two-month search, succeeding new Treasury Secretary Timothy Geithner.

Behind the scenes, the hiring process triggered concerns with some New York Fed directors, including General Electric Co. Chief Executive Jeff Immelt and PepsiCo Inc. CEO Indra Nooyi, according to people familiar with the situation. One reason: Mr. Geithner took an active role in recommending his successor, lobbying hard for Mr. Dudley and against other candidates, attendees said.

It isn't unusual for outgoing Fed presidents to provide such input. But Mr. Dudley's case is different, some observers said, because Mr. Geithner was a political nominee at the time. Injecting a White House appointee's views into the process, they suggested, may have meddled.

"The right thing for the Treasury secretary to do is to allow the central bank to be independent and not have a say in who gets chosen," said Allan Meltzer, a Fed historian.

Tom Baxter, the New York Fed's general counsel, said it made sense for Mr. Geithner to be involved because his successor "would be working closely with the new Treasury secretary." Given that, "it was seen as appropriate and consistent with good-governance principles" for the board to invite Mr. Geithner's input.

A Treasury spokesman said it is "only natural that the outgoing head of an institution would be asked to share his views on the set of candidates who may serve as his replacement."

Concerns about the selection process come at a sensitive time for the Fed, as its role in the financial crisis

Bloomberg News

William Dudley's promotion raised concerns about Fed autonomy.

has been questioned by some lawmakers. The recent resignation of New York Fed board Chairman Stephen Friedman came after a conflict over his holdings in Goldman Sachs, a bank regulated by the Fed, was sparked partly by criticism in Washington. Some are calling for more oversight of both the reserve banks and the central bank.

Within the system, some New York Fed directors also have bristled at times at the board's rules—which place parameters on some board members' stock holdings, affiliations with banks, and partisan activities—and even its overarching mission, which is to act largely as an advisory board rather than a more activist, corporate board.

Yet some directors have told associates that their role at the New York Fed is important and that their input, especially during this time of stress, is meaningful.

The Federal Reserve has played a major role, influenced strongly by the New York Fed, in launching more than $2 trillion in new lending and asset-purchase programs to help revive the economy. President Barack Obama, who recently proposed to broaden the Fed's oversight of the financial system, also asked the central bank to offer recommendations "to better align its structure and governance with its authorities and responsibilities."

The boards of the nation's 12 reserve banks were integral to the original compromise that created the Fed in 1913, which was meant to address fears that too much power would be consolidated in Washington through the Federal Reserve

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Downbeat data on jobs send stocks into a dive

Doubts on recovery sap Alcoa, U.S. Steel; ruling wallops TiVo

By Peter A. McKay
And Geoffrey Rogow

ABREAST OF THE MARKET

A surprisingly weak jobs report roiled financial markets on Thursday as traders' already-sagging hopes for a second-half global economic rebound ebbed a little more.

The week's most eagerly anticipated report regarding the U.S. economy was a stark letdown. The Labor Department said nonfarm payrolls shed 467,000 jobs in June, a considerably greater decline than the 350,000 economists in a Dow Jones Newswires survey had expected. The unemployment rate, meanwhile, rose 0.1 percentage point to 9.5%, its highest level in more than 25 years.

In the wake of the report, the Dow Jones Industrial Average sank, shedding 171.93 points, or 2%, to 8332.13 in late trading, with all 30 of its components posting declines.

Standard & Poor's 500-stock index was down 21.03 points, or 2.3%, to 902.30, hurt by declines in every sector. The Nasdaq Composite Index fell 44.95 points, or 2.4%, to 1800.77.

It was particularly troubling to investors to see the unemployment rate creep closer to the psychologically important 10% level, said Chris Johnson, chief executive of Johnson Research Group, a trading and analysis firm in Cincinnati.

"Once we get to that level, it's just a Pandora's box," said Mr. Johnson, who pointed out that the recent government stress tests of financial firms assumed a high of 10.2% unemployment for the recession: "Once you get over 10 on that number, it's going to hurt people's sentiment about the market in general, and you'll have them taking a second look at the banks again in particular."

Industrial and raw-materials names that are particularly sensitive to the chances of an economic recovery were hard-hit. In late-afternoon trading, **United Technologies** fell 3.7%, **Alcoa** fell 4.5%, and **U.S. Steel** fell 1.2%.

Transportation stocks, which also are sensitive to changes in the outlook, were weaker. The Dow Jones Transportation Average fell more than 3%.

Johnson & Johnson, down 1.7%, said it is buying an 18.4% stake in Irish biotech company **Elan**, up 26%, for $1 billion.

TiVo shares sank after a judge ruled **Dish Network** customers could continue to temporarily use their digital video recorders, ultimately delaying a resolution between the two companies. TiVo was down 15%, and Dish was down 2.8%.

Oil futures extended their slide. Light, sweet crude for August delivery settled down $2.43, or 3.5%, to $66.73 a barrel on the New York Mercantile Exchange.

Street's pain is their gain

Continued from previous page

tion of trust by Wall Street," he says.

LPL was formed in 1989 by Todd Robinson, then a 32-year-old alumnus of Smith Barney, through the merger of Linsco Financial Group Inc. and Private Ledger Financial Services Inc. In 2005, Mr. Robinson sold a 61% stake to two private-equity firms in a deal valued at $2.5 billion, including $1.3 billion in debt.

Goldman Sachs Group Inc., which advised the buyers and played a lead role in the financing, kept an estimated $220 million of a $540 million bond issue in one of its bond funds, according to a person familiar with LPL's finances. Goldman is free to play such a role because it doesn't cater to the mass individual-investor market.

Since the buyout, LPL has roughly doubled the size of its brokerage force via recruiting and a series of small and midsize acquisitions with price tags totaling about $250 million in 2007. The acquisition pace has slowed, and LPL trimmed its work force early this year by about 10%, or 250 jobs, to help the company weather the stock-market downturn.

The downturn has already taken a toll on LPL's revenues, which fell 19% to $643 million in the first quarter. But the cost cutting helped boost first-quarter net income, which rose 27% to $14.8 million.

Bennett Marks, who had worked in the brokerage unit of **UBS** AG and a predecessor since 1999, left last November to launch **Marks Group Wealth Management**, a Minnetonka, Minn., investment firm that clears trades through LPL. While he wanted to claim a bigger slice of commissions so he could build his business and do more for clients, Mr. Marks says his decision was "validated" by Lehman Brothers Holdings Inc.'s bankruptcy filing and bond-related losses of more than $40 billion at UBS.

Tom Baker for the Wall Street Journal

Bennett Marks left a unit of UBS to launch Marks Group Wealth Management. He is among a number of bankers who have lit out on their own.

Curt Moe, one of Mr. Marks's clients, says he doesn't miss UBS because he put more value on the cohesive, loyal team that went with Mr. Marks to the new firm. Mr. Moe also recalls how another big-name brokerage firm where he had an account offered a line of house-brand products that he worried might not be in clients' best interest. Working with a firm like Mr. Marks's "removes that issue," Mr. Moe says.

Shares go lower; economic news raises concerns

By Sarah Turner

LONDON—European shares fell sharply Thursday as traders sold auto makers and miners following downbeat unemployment data from both the U.S. and Europe.

A decision by the European Central Bank to keep interest rates unchanged at 1% added to the downward pressure.

EUROPEAN STOCKS

The pan-European Dow Jones Stoxx 600 index declined 2.6% to 204.12 points. Key national markets fell even more steeply. The German DAX index dropped 3.8% to 4718.49, the French CAC-40 index declined 3.1% to 3116.41 and the U.K.'s FTSE 100 index fell 2.5% to 4,234.27.

U.S. payrolls shrank by far more than expected in June and euro-zone unemployment hit a 10-year high in May.

"The data is a warning shot across the bows of those that believe a recovery is going to be a linear process with the economy recovering and markets recovering in tandem," said Peter Dixon, strategist at Commerzbank.

Commodity prices fell, driving resources stocks lower. Platinum producer **Lonmin** lost 5% and **Anglo American** dropped 5.8%. Oil companies also came under pressure; **Royal Dutch Shell** declined by 3.3%.

Auto stocks declined as Credit Suisse cut its rating on the industry to "market weight" from "overweight," pointing out that prices have recovered 62% from the year's low, and arguing that companies face increasing risks to cash flows.

In Frankfurt, shares of **Daimler** fell 5.5%; its U.S. sales fell 26.5% in June. Shares of **BMW** gave up 3.4%, as its U.S. sales declined 20.3% in June.

In Amsterdam, shares of the printing company **Oce** skidded 8.9% after it reported a worse-than-forecast second-quarter loss.

In Madrid, **Repsol**'s shares rose 0.1% despite widespread losses elsewhere in the market following news that the Spanish oil giant received offers for its Argentine unit YPF. The firm released a regulatory filing in which it said that none of the offers are binding.

Earlier, several news outlets reported that **China National Petroleum** is considering a bid for part of YPF.

On the Irish Stock Exchange, shares of drugmaker **Elan** climbed 25% after **Johnson & Johnson** said that it will take over **Wyeth**'s Alzheimer's-disease venture with Elan and invest $1 billion in Elan to obtain an 18.4% stake.

Swiss central bank warns of currency intervention

By Martin Gelnar

CURRENCY MARKETS

LUCERNE, Switzerland—The Swiss National Bank is ready to intervene in the foreign-exchange market should the need arise, SNB directorate member Thomas Jordan said Thursday.

"We continue to consider interventions to prevent an excessive rise in the Swiss franc," Mr. Jordan said on the sidelines of a central bank event.

He didn't indicate the level of the Swiss franc against the euro that would trigger intervention, nor did he give details regarding the amount of money that would be involved.

The franc has been under pressure lately as global investors look to the currency as a haven. The SNB has tried to head off the franc's strength because a strong currency would make Swiss exports more expensive and increase the risk of deflation by making imports cheaper.

The SNB left interest rates at a record low of 0.25% in June and has tried to cushion the impact of the economic downturn by intervening in foreign-exchange and Swiss corporate-bond markets. In the past few months, the SNB has intervened in foreign-exchange markets without officially confirming any transaction.

Swiss National Bank

Thomas Jordan says the Swiss National Bank would prevent "an excessive rise" in the Swiss franc.

Last week, the SNB bought about €3 billion ($4.24 billion) of foreign currencies to curb the Swiss franc's rise, according to traders.

The central bank doesn't officially have a foreign-exchange target. It has intervened when the euro weakened to between 1.50 francs and 1.52 francs in the past few months, currency traders have said. In late afternoon trade in Europe, the euro was trading at 1.5196 francs.

Dollar, yen are the winners from poor U.S. jobs report

A WSJ News Roundup

The dollar posted relatively large gains against the euro and most other major currencies Thursday, after the release of a worse-than-expected June U.S. payrolls report encouraged currency players to shy away from risk ahead of Friday's U.S. Independence Day holiday.

U.S. stocks and commodities dropped, as did longer-term Treasury yields.

The exception to the day's strong-dollar trend was the yen, which also rallied sharply. The yen benefitted more than the dollar on the move out of risk because it is more sensitive than the dollar to stocks and Treasury yields.

Still, Thursday's big gains by the dollar and yen did nothing to break the recent pattern of mostly sideways trading in major currency pairs, as markets continue to suffer from a lack of overall direction and increasing occasional pockets of summertime illiquidity.

Late afternoon, the dollar was at 95.90 yen, down from 96.64 yen late Wednesday, while the euro was at 134.25 yen from 136.66 yen. The euro was trading at $1.3999, down from $1.4142, while the U.K. pound was at $1.6394, from $1.6469.

Worries over EU derivatives plan

Continued from previous page

trades are completed even if a trading party defaults. Unique, customized trades would face stiffer reporting requirements.

European regulators already have won some concessions. In February, several banks pledged to clear credit derivatives through a Europe-based clearinghouse by the end of July. Last month, the European market joined the U.S. in adopting trading conventions for credit derivatives making it easier to standardize and clear them.

But industry players privately say they are worried about what could be in the commission's report.

For one thing, they remain critical of European regulators' insistence on a Europe-based central clearinghouse. That would give European authorities a better view of European trading and allow them to monitor risks, but would also undermine efforts toward safety, since the whole idea is to centralize information about derivatives in the first place, bankers say.

"It doesn't matter where the clearinghouse is based, as long as it's in one place," a derivatives trader said. "If your purpose is to reduce systemic risk, it makes sense to have one clearinghouse."

The more trades go through the same clearinghouse, the more "netting," or canceling out of redundant or overlapping contracts, can be done, further reducing market risks.

As in the U.S., there are concerns that authorities are pushing for more derivatives contracts to be traded on exchanges or electronic trading platforms, which would crimp the profits of investment banks that currently charge fees for facilitating trades.

Catherine Bunyan, a spokeswoman for the European Commission, said the report would "say what should be done on derivatives."

Big pay packages return to Wall Street

As earnings recover, so does compensation; 'like it's 2007 again'

BY AARON LUCCHETTI

Business is back on Wall Street. If the good times continue to roll, lofty pay packages may be set for a comeback as well.

Based on analysts' earnings forecasts for 2009, **Goldman Sachs Group** Inc. is on track to pay out as much as $20 billion this year, or about $700,000 per employee. That would be nearly double the firm's $363,000 average last year, and slightly higher than the $661,000 for the average Goldman employee in fiscal 2007, according to analyst estimates reviewed by The Wall Street Journal.

Morgan Stanley, the only other huge U.S. securities firm left as an independent company, will likely pay out $11 billion to $14 billion in compensation and benefits this year, analysts predict. On a per-employee basis, payouts are expected to exceed last year's average of $262,000. Howard Chen, an analyst at Credit Suisse, projects that the company's average pay will come close to the $340,000 paid out by Morgan Stanley in fiscal 2007.

Some of the most lucrative pay packages are being offered in businesses that are improving, such as junk-bond trading. Jobs and pay remain iffy in areas like asset-backed securities, where markets remain frozen.

Russ Gerson, who runs an executive-recruiting firm that fills jobs on Wall Street, says it is too soon to tell if the strong results from securities firms in the first and second quarters will translate into huge paychecks at the end of the year. "All this euphoria about bonuses is based on the expectation that the business is returning to normal and that we will be in a robust environment again. If the fourth quarter is significantly down, I would expect bonuses not to recover too much from 2008 levels," he says.

Whether the higher payouts occur will depend on whether Wall Street earnings continue to recover from last year's bruising losses on troubled assets and bad trading bets. If the market's resilience since early March fades or a new crisis erupts, then securities firms would likely set aside far less to pay their employees than they did in this year's first two quarters. Firms can set aside money for compensation and then decide not to pay it later.

Still, the comeback in compensation so far this year shows how hard it is for Wall Street to break its old habits. Repaying last year's capital infusions from the U.S. government freed Goldman, Morgan Stanley and other big financial firms from curbs on compensation. Meanwhile, non-U.S. banks that didn't get Troubled Asset Relief Program funds are becoming aggressive.

Deutsche Bank AG has discussed a two-year compensation guarantee with prospective fixed-income traders and salespeople in conversations about potential job offers, according to people with knowledge of the discussions. Deutsche Bank declined to comment.

"I'm seeing deals like it's 2007 again," says Steven Eckhaus, an executive-employment lawyer at Katten Muchin Rosenman LLP in New York. He has worked on several deals recently that featured eight-figure guaranteed pay packages stretched over one to three years.

The recent increases in compensation reflect efforts by Wall Street executives to keep pay high enough to remain competitive but low enough to avoid the wrath of lawmakers. In at least one case, bank executives or their representatives have discussed pay with the Obama administration's pay czar, Kenneth Feinberg, ahead of time, seeking to head off any public reprimand, according to a person familiar with the meetings. A Treasury spokesman says Mr. Feinberg "has just begun his process for reviewing compensation at the seven firms receiving exceptional assistance; he has yet to approve any plans."

While Wall Street firms remain loath to cap pay levels, some are changing the mix of salary and bonus, partly in response to the financial crisis and added scrutiny from Washington. Some are boosting salaries and adding more stock, as well as "clawback" provisions aimed at tying employee pay packages more closely to the long-term fortunes of their firms. As a rule, securities firms pay out about 50% of revenue in compensation.

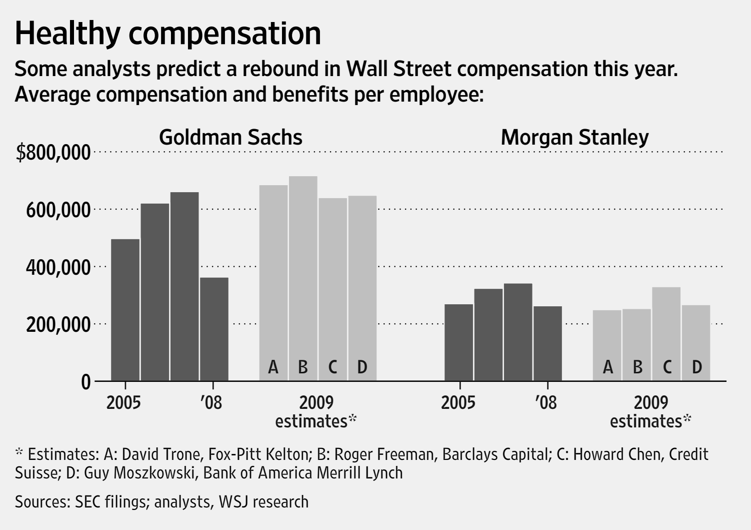
Goldman, which has suffered less than its rivals since the credit crisis began in 2007, remains committed to using bonuses, increasingly from stock, to reward its top performers. Still, the firm is trying to carefully manage compensation, perks and other expenses that could be criticized. "We've only accrued one quarter for compensation and benefits" for 2009, a Goldman spokesman says, noting that the 18% rise from a year earlier was "primarily due to higher revenues." He says "compensation practices at Goldman Sachs remain fundamentally tied to the firm's performance."

In the first quarter, Morgan Stanley set aside $2.08 billion for compensation. That is down from the previous year's first quarter but represents an unusually high 68% of its revenue.

Mr. Chen, the Credit Suisse analyst, expects Morgan Stanley to set aside roughly 54% of 2009 revenue for compensation and benefits, showing "the need to competitively pay employees," he wrote recently.

Morgan Stanley declined to comment on Mr. Chen's report.

—Liz Rappaport and Robin Sidel contributed to this article.



SEC wants firms to disclose impact of pay on risk-taking

BY SARAH N. LYNCH

WASHINGTON—The U.S. Securities and Exchange Commission proposed new rules on Wednesday designed to more closely regulate executive pay.

Separately, the commission approved, in a 3-2 vote, a rule proposed by New York Stock Exchange parent **NYSE Euronext** to ban brokers from voting in uncontested corporate board elections on behalf of customers who didn't return voting instructions.

The proposed compensation rules would require public companies to disclose information about how compensation policies can lead to increased risk-taking and explain how those risks are managed. Companies would need to provide this information, however, only if the risks could have a material effect on the business, such as steep losses.

The new rules also would force some recipients of federal bailout money to give shareholders a nonbinding vote on executive pay, the so-called say-on-pay proposal.

U.S. regulators say they believe compensation structures helped fuel the financial crisis by encouraging excessive risk-taking. The Obama administration is seeking new laws to align compensation with long-term corporate performance.

The proposal also targets potential conflicts of interest posed by compensation consultants by requiring companies to disclose fees paid to consultants or their affiliates if they provide other additional services to the companies.

The commission's push received the praise of groups that have been pushing for changes in this area. "Compensation consultants are supposed to provide the board advice on a CEO's pay," said AFL-CIO President John Sweeney. "Too often, the consulting firm pockets far more in fees for providing employee-benefit services to the company's management."

The vote to finalize the NYSE's ban on broker voting caused waves among the SEC's two Republican commissioners, who feared it could give institutional investors too much influence.

First proposed in 2006, the rule is an effort to give retail investors more of a voice in corporate elections based on the notion that brokers typically vote with management. To the chagrin of some advocates, it languished at the SEC.

The rule's approval is the latest item in a series of corporate governance and proxy issues that SEC Chairman Mary Schapiro has put at the top of her to-do list.

Last month, the SEC agreed to consider rules to give shareholders a greater say in nominating directors to corporate boards.

In addition to the proposed rules on compensation Wednesday, the SEC also said it will consider changes on other proxy-related issues, including requiring companies to provide more details on the background and qualifications of directors, executive officers and nominees, and making them report election results at a faster pace.

—Dan Fitzpatrick in Atlanta contributed to this article.

S&P bond-rating chief shifts

Vickie Tillman takes job with parent firm; regulation ahead

By Serena Ng

Standard & Poor's is searching for a new executive to lead its bond-rating business, following an internal announcement that ratings chief Vickie Tillman will move to a new role at **McGraw-Hill** Cos., which owns S&P.

The change comes as U.S. lawmakers consider ways to sharpen rules governing the credit-ratings industry, which has been assailed for its role in the last credit boom and the recent financial crisis.

According to an internal memo from McGraw-Hill Chief Executive Harold "Terry" McGraw III, Ms. Tillman—currently an executive vice president who led S&P's ratings service for a decade—will take up a newly created position overseeing "sustainability" initiatives at McGraw-Hill. She will start that job with a title of senior vice president, global sustainability business development, on Aug 3.

In her new role, Ms. Tillman will oversee activities and develop strategies in areas such as environment, carbon trading and sustainability indexes for all of McGraw-Hill's brands.

Ms. Tillman referred a request for comment to a spokesman. S&P is looking for candidates within and outside the company to fill Ms. Tillman's position in credit ratings, said McGraw-Hill spokesman Steve Weiss.

Bloomberg News

Vickie Tillman, shown at a meeting in New York in April 2008, was a public face of S&P.

Ms. Tillman joined S&P as a municipal analyst in 1977 and oversaw structured-finance ratings from 1994 to 1999 before taking her most recent position. She played a large role in expanding S&P's presence in overseas markets such as China and India.

In the past two years, Ms. Tillman has been a public face of S&P, testifying before lawmakers about why ratings providers were slow to respond to the deterioration in the subprime-mortgage market, and detailing steps S&P has taken to better manage conflicts of interest.

S&P's rating arm, like other rating providers, has been vilified by politicians and investors for issuing lofty credit ratings on subprime-mortgage securities that went bad soon after they were issued.

Rating companies underestimated the likelihood of losses from shaky home loans, blessing hundreds of billions of dollars of mortgage-linked securities with triple-A credit ratings from 2005 to 2007. Many banks, insurance companies, pension funds and investors relied heavily on ratings in determining whether complex securities were safe enough to hold.

The Obama administration, in its recent white paper on financial-regulatory reform, proposed tightening rules for credit-rating companies, requiring more disclosures and introducing a different rating scale for structured-finance securities.

Ms. Tillman's move is the latest executive change at S&P. In August 2007, Deven Sharma succeeded Kathleen Corbet as president of S&P. Last summer, four senior S&P executives that oversaw ratings of structured securities left the firm. S&P hired new individuals to oversee structured-finance ratings and strengthen ratings policies.

NYSE trade time: 5 milliseconds

By Jacob Bunge

NYSE Euronext cut order-execution times 20-fold at the New York Stock Exchange, part of an effort to catch up to faster competitors that have taken market share.

With the implementation of a new system for processing orders on the NYSE, customers will see trades executed within five milliseconds, compared with 105 milliseconds previously. As recently as 2007, the time was 350 milliseconds.

That change is huge in the realm of high-frequency trading firms, which now measure time by the microsecond, or one-millionth of one second.

But even after the speed boost, NYSE Euronext lags behind rival **Nasdaq OMX** as well as new electronic platforms **BATS Exchange** and **Direct Edge**, streamlined venues that have attracted algorithm-driven investment firms and proprietary trading groups with a combination of fast executions and attractive pricing.

"For [competitors] who have come into the market recently, the barriers of competition are low, so they can come in with the newest technologies and without a lot of the constraints of running a big market," said Louis Pastina, head of NYSE Operations. "This allows us to be very competitive, on a latency basis, with most of our competition."

Latency is the amount of time needed for a packet of data to move across a network connection; the less latency, the faster trades are executed.

While NYSE Euronext has juggled fees to stay competitive, it also is counting on new technology to draw traders, with the new order-processing system replacing its 33-year-old SuperDOT platform. The exchange operator also is building a new low-latency network for data centers in New York and London.

The moves aim to reassert NYSE Euronext's dominance in U.S. stock trade, badly dented by intense competition in recent years. This month saw the exchange's share of U.S. stock trading slide to 29%; in March 2008, it had half the market.

Chief Executive Duncan Niederauer this year targeted a 50% market share in stocks listed on the NYSE, a goal he has acknowledged as "aggressive." In late June, NYSE Euronext claimed about 39.9% of trade in so-called Tape A securities.

Alex Lamb, head of business development for **RTS Realtime Systems Group**, said the push for speed will raise NYSE Euronext's profile among the high-frequency trading outfits his company serves.

NYSE Euronext's markets claim about 15% of the order flow from clients of **Lightspeed Financial** LLC, another direct-market access provider for high-speed traders. Chief strategy officer Andrew Actman said that number could grow if clients see faster execution times. "Every microsecond in their world can potentially equate to getting a better fill, and better profitability," he said.

NYSE Euronext also will promote its trading floor, which has lost much volume to electronic trading, but can help damp volatility when markets are under stress.

"As venues progress toward zero latency, the content of the marketplace will become more important," said RTS's Mr. Lamb. "NYSE and Nasdaq offer a broader portfolio of services than other venues, so to maintain their position as a place of trade absolutely makes sense."

TCI partners' profit jumped 73%

By William Hutchings

HEDGE FUNDS

U.K. hedge-fund manager **The Children's Investment Fund Management** LLP, better known as activist shareholder TCI, lifted its revenue and profit by more than 70% in its last financial year, its fourth consecutive year of double-digit increases.

However, "current market conditions will have a material impact on the income stream of the partnership of the following 12 months," which runs through the end of August, TCI founder Christopher Hohn wrote in a report on behalf of the partnership's owners. "That said, the members are optimistic about the future profitability of the partnership," he said.

TCI's fund fell about 43% during the 2008 calendar year, according to investors.

The manager reported an increase in revenue to £574 million ($945.3 million) for the year ended Aug. 31, 2008, according to the latest financial statements of The Children's Investment Fund Management (UK) LLP, published at Companies House. This is up 72% from £333 million a year earlier. Its profits, available to be divided among the members of the partnership, increased 73% to £555.9, from £320.9 million.

TCI's accounts say its revenue represents fees receivable during the year, rather than accrued during the year. This means its 2008 accounts record its performance-fee income relating to 2007.

—From Financial News

Auto-parts maker Lear reaches pact with lenders

By Jeff Bennett And Jay Miller

Lear Corp., a maker of automotive seats and interior electronics, reached a tentative agreement with lenders to restructure its debt and said it plans to file soon for Chapter 11 protection.

A filing would add evidence that even the automotive sector's largest suppliers are feeling the squeeze from plant closures, slumping demand and tight credit markets. Bankruptcies threaten to increase product-flow disruptions that could shutter assembly plants and drain cash from auto makers that could be forced to provide bankruptcy financing.

Separately, a bankruptcy judge on Wednesday rejected **Delphi Corp.**'s request to reimburse as much as $30 million of its proposed buyer's expenses should another bidder acquire the Troy, Mich., auto parts maker's assets.

Judge Robert D. Drain of the U.S. Bankruptcy Court in Manhattan said at a hearing that the fees private-equity firm **Platinum Equity** LLC sought to collect with its bid were "not reasonable or appropriate."

Lear received commitments from a syndicate of secured lenders, led by **J.P. Morgan** & Co. and **Citigroup** Inc., for $500 million in new debtor-in-possession financing. The financing will convert into exit financing with a three-year term upon Lear's release from bankruptcy protection.

The company's units outside the U.S. and Canada won't be part of the bankruptcy filing. It said those operations are well-capitalized and have a strong backlog of new business.

Lear would be the eighth major auto-parts supplier to seek Chapter 11 since 2005 and the third to file in the past month after **Visteon** Corp. and **Metaldyne** Corp. The Southfield, Mich., company raised the possibility of bankruptcy on June 1 after electing to use a 30-day grace period to skip an interest payment of about $38 million.

The payment was to cover some senior notes maturing in 2013 and 2016. Lear had said it would use the grace period to reorganize its debts.

The company rode the pickup truck and sport-utility vehicle craze beginning in the late 1990s as U.S. consumers drove demand for its products. But the market began to change in mid-2005 as skyrocketing raw material prices began eroding the industry's slim profit margins.

Beazer to pay $53 million to settle mortgage-fraud case

By Brent Kendall And Sarah N. Lynch

WASHINGTON—**Beazer Homes USA** Inc. will pay as much as $53 million to settle mortgage-fraud charges related to federally insured mortgage loans the company made to buyers of its homes.

The U.S. Department of Justice said Wednesday that Beazer will pay $5 million to the federal government and as much as $48 million to victimized homeowners.

The settlement is tied to an agreement with federal prosecutors in North Carolina that will allow the Atlanta-based company to avoid criminal prosecution on the mortgage-fraud charges and on other accounting-fraud charges related to the manipulation of company earnings.

In a separate action, the Securities and Exchange Commission filed civil charges against Beazer's former chief accounting officer, accusing him of conducting a fraudulent earnings scheme and hiding his wrongdoing from outside auditors and other company accountants.

In the mortgage-fraud case, prosecutors said Beazer ignored income requirements in making loans to unqualified buyers and sought to hide from the Federal Housing Administration that some company branches had excessive default rates on their loans.

Beazer said in a statement that it has fully cooperated with governmental authorities since irregularities in its mortgage-origination business and its financial reporting came to light.

In the SEC's accounting-fraud case, the agency said Beazer's former chief accountant, Michael T. Rand, engaged in a scheme that caused the company to understate its income between 2000 and 2005.

Mr. Rand's lawyer didn't return a call for comment.

Some Madoff claims settled

By Jay Miller

The Securities Investor Protection Corp. and the trustee in the Bernard Madoff fraud case said a total of $231 million has been set aside for claims from victims of the Ponzi scheme, with another $2.74 billion authorized for potential recoveries.

The $231 million will settle 543 claims submitted by investors in **Bernard L. Madoff Investment Securities** LLC, according to court-appointed trustee Irving Picard and Stephen Harbeck, president of the SIPC. As of mid-May, SIPC had committed $61.4 million to 125 claimants.

Mr. Madoff was sentenced Monday to 150 years in prison.

A total of $2.97 billion in claims has been allowed, including $2.74 billion that exceed the statutory limit of protection. Investors with allowed claims will share on a pro-rated basis in assets recovered by the trustee. SIPC said its protection is intended to cover only as much as $500,000 an investor.

SIPC and Mr. Picard also stressed that trustee expenses aren't paid out of recovered assets. SIPC covers those costs.

In addition, Mr. Picard made it easier for last-minute filers to make claims. The deadline for those claims to be received by the trustee's claims agent, **AlixPartners** LLP, was Thursday.

Standard Chartered taps Peace to be its chairman

Analysts say finding targets for deals is one of his priorities

By Margot Patrick

Standard Chartered

John Peace was previously deputy chairman of Standard Chartered.

Standard Chartered PLC named John Peace as chairman Thursday.

Mr. Peace, previously Standard Chartered's deputy chairman, had been the U.K.-based bank's acting chairman since Mervyn Davies left in January to take a job with the U.K. government.

The appointment comes as Standard Chartered looks to capitalize on the retreat of some of its rivals from key markets, including Asia and the Middle East.

The bank has weathered the credit crisis better than many of its peers because of its strong presence in emerging markets and relatively small European and U.S. businesses.

Last week, Standard Chartered said the first five months of the year produced record levels of income and profit, but it didn't provide specific figures. The bank will report earnings for the first half in August.

Analysts said Mr. Peace's priorities will include identifying acquisitions and stemming losses in countries feeling the strongest effects of the global recession.

"Standard Chartered needs to grab the opportunities while they are there, while making sure the existing losses don't get out of control," said Irfan Younus, an analyst at NCB Stockbrokers.

Chief Executive Peter Sands has said the bank would consider acquisitions in the Middle East, Asia and Africa.

Mr. Peace will work at least three days a week in his duties and will give up his chairmanship at credit-information group Experian PLC, Standard Chartered said. However, he will continue to be chairman at retailer Burberry Group PLC.

Before joining Standard Chartered's board in 2007, Mr. Peace was chief executive at retail conglomerate GUS PLC, which during his tenure spun off its Experian and Burberry units through initial public offerings. He took over as acting chairman at the bank when Mr. Davies, one of the architects of the U.K. government's bank-bailout plan last year, stepped down to become U.K. minister for trade promotion and investment. Standard Chartered said Mr. Peace wasn't available for comment.

Treasurys rise on poor report about U.S. jobs

By Deborah Levine

Treasury prices rose Thursday, pushing yields on the two-year note to the lowest in about a month, after the Labor Department said the U.S. economy shed many more jobs than expected, raising concerns that continued weakness in consumer spending will slow the economy's recovery.

"This tells us that employment is still under huge stresses," said William Bellamy, who manages about $1 billion as director of fixed income at Thompson Siegel & Walmsley. "Given the lack of improvement in the employment picture, yields should move lower."

BOND MARKETS

Late afternoon, the benchmark 10-year note was up 5/32 at 96 30/32 to yield 3.494%, while the two-year note was up 5/32 at 100 9/32 for a yield of 0.982%.

Two-year yields have fallen from 1.11% a week ago, marking their fourth week of declines as investors readjust hopes for a robust recovery from the recession.

Interest-rate futures traders pared expectations that the Federal Reserve will raise benchmark rates from the current range of zero to 0.25%. Fed funds futures for December indicate a 25% chance of interest rates rising 0.5 percentage point by then, down from a 33% chance before the jobs data.

The FDIC raises worries over bank-buying rules

By Michael R. Crittenden

WASHINGTON—The Federal Deposit Insurance Corp. Thursday proposed new rules that would place restrictions on private-equity investors wanting to buy failed banks, sparking concern the policies could scare away potential investors.

The FDIC proposed that private-equity investors who buy banks must keep much higher capital-reserve requirements than normal banks: a 15% Tier 1 leverage ratio for at least three years. The rules would also require investors to hold onto an acquired bank for three years, unless the FDIC grants them permission to sell.

The FDIC's five-member board of directors voted to issue the proposal, but two directors—Comptroller of the Currency John Dugan and Office of Thrift Supervision acting Director John Bowman—said they were concerned it might scare away investors.

Billionaire investor Wilbur Ross, whose investment firm was part of the private-equity consortium that acquired a failed Florida bank, said he was surprised by the restrictions, calling them "harsh and discretionary."

"I think it could guarantee that there will be no more private equity coming into banks," Mr. Ross added.

More than 40 banks have failed in 2009, putting the industry on pace for its worst year since the savings-and-loan crisis ended in the early 1990s. The FDIC has found banks to buy up the assets of most failed companies, but for two of the largest failures in the last year–IndyMac in July 2008 and BankUnited FSB in May—the agency brokered unconventional deals by selling the operations to private investors, which prompted the agency to set up guidelines for future sales.

FDIC officials are concerned private-equity investors, could pose more risks to the government's deposit insurance fund if they manage the banks too aggressively.

"There is a significant need for capital, and there's significant capital out there," said FDIC Chairman Sheila Bair at the meeting. "We want to accommodate that, but accommodate it in a way that is prudent."

The proposal would prevent certain buyers operating under "complex and functionally opaque ownership structures" to buy a failed bank, and could require investors that own other banks to provide cross-guarantees, meaning the banks should rely on each other if one needed capital.

Ms. Bair said the FDIC has already received bids from some firms with legal structures that raised red flags. She also said the FDIC has rejected some bids after government officials learned the investors wanted to quickly flip their investment.

The FDIC said it would solicit comment on the proposal for a month.

—Kristina Peterson contributed to this article.

Oil at lowest in a month

By Madalina Iacob

NEW YORK—Oil prices tumbled, following the release of woeful job numbers in both Europe and the U.S. that soured the outlook for consumer demand.

Light, sweet crude for August delivery fell $2.58, or 3.72%, to $66.73 a barrel Thursday on the New York Mercantile Exchange, its lowest settle since June 3.

For the week, it was down $2.43, or 3.51%. Brent crude on the ICE futures exchange was down $2.19, or 3.2%, at $66.60 a barrel.

"The unemployment data is one of the factors that's driving us lower," said Tim Jennings, an oil broker at Vantage Trading in New York. "It's another reflection that the economy is not bouncing back," which could stabilize oil demand.

Rising unemployment levels could further damp gasoline consumption during the U.S.'s summer driving season. Travel is forecast to be down over this July Fourth holiday weekend from a year ago, the AAA auto group has said.

In the 16 nations that use the euro, unemployment hit a 10-year high in May. The seasonally adjusted unemployment rate for the euro zone in May stood at 9.5%, up from April's 9.3% and the highest level since May 1999.

The fall in oil prices continued a selloff triggered by U.S. oil inventory data Wednesday that showed rising stockpiles of gasoline and distillates.

Calyon sets credit-trade boss

By Radi Khasawneh

Calyon has brought in a new head of its credit trading desk in Europe as the French investment bank moves to shore up the parts of this business that aren't being affected by closure plans announced last year.

The investment-banking arm of Crédit Agricole SA has created the new role of head of global credit trading for Europe and Asia and appointed Stephen Lane to fill it.

Mr. Lane, who previously ran global flow credit trading at ABN Amro, will be based in Calyon's debt and credit markets team in London.

Calyon said last September that it would be closing its structured-credit and exotic-derivatives unit as part on an overhaul of its entire business. A spokesman confirmed the bank was continuing its bond and credit-derivatives trading business while closing the so-called exotic books that handle more complicated risks.

—From Financial News

THE INTERNATIONAL INVESTOR

Orix may raise $1.03 billion

Planned share sale is latest in Japan from a financial firm

By Kazuhiro Shimamura And Atsuko Fukase

TOKYO—**Orix** Corp. said it will raise as much as 99.94 billion yen ($1.03 billion) through a share sale, as it seeks to strengthen its finances and prepare for future expansion.

The Tokyo-based leasing and financial-service firm said Thursday it will issue 16.29 million common shares in late July, and may offer an additional 1.71 million shares if there is strong demand. The price will be set between July 13 and July 15. The company's shares ended down 0.7% at 5,490 yen Thursday on the Tokyo Stock Exchange after falling 4.8% Wednesday on speculation of a sale.

Orix's capital raising underscores how many Japanese financial institutions, facing financial difficulties, are eager to strengthen their capital base amid improved market sentiment. The Nikkei Stock Average of 225 companies surged 22.8% last quarter, its biggest quarterly gain since 1995. In the three sessions since then, it has shed 0.8%.

Last week, Daiwa Securities Group Inc. said that it will raise as much as 240 billion yen through a public offering plan, its first in nearly 20 years. Japan's second-largest bank by assets, Mizuho Financial Group Inc., has said it aims to raise about 600 billion yen through a share issuance. Two other major banks, Sumitomo Mitsui Financial Group Inc. and Mitsubishi UFJ Financial Group Inc., also have said they want to raise capital.

Orix, which saw a big decline in profit for the fiscal year that ended in March due to losses on investment securities, said in a statement that it will focus on improving its business, including expansion in Asia. It will use 30 billion yen of the expected proceeds to repay debt.

The new shares, which will equal 19% of currently outstanding shares, excluding those that may come into the market from exercising share warrants, are expected to result in a 22.6% share dilution, Orix said.

UBS Securities Japan, Merrill Lynch Japan Securities, Morgan Stanley Japan Securities and Nikko Citigroup are in charge of the sale.

Tata Steel to sell shares overseas

By John Satish Kumar And Ankur Relia

MUMBAI—India's **Tata Steel** Ltd. plans to raise about $600 million by selling shares overseas in the next four to six weeks, an investment banker with direct knowledge of the matter said Thursday.

"The listing could either be in London or in Luxembourg and discussions are still on to decide on that," the banker told Dow Jones Newswires.

Citigroup Global Markets India Pvt. Ltd., a unit of **Citigroup** Inc., and J.P. Morgan India Pvt. Ltd., a unit of **J.P. Morgan Chase** & Co., have been hired to raise the money through an issue of global depositary receipts, he said.

Sanjay Choudhry, a Tata Steel spokesman, said the company hasn't any comment at this time.

Analysts, who said they had no knowledge of a possible overseas share sale, suggested that the most likely use of the funds would be to repay some debt tied to Tata Steel's Corus unit in the U.K. and to fund additional production capacity at the company's largest plant at Jamshedpur in eastern India.

Sanjay Jain, an analyst at Motilal Oswal Securities, said the debt load of Tata Steel, including its U.K. and Asian units, was around $10 billion. The share sale "will help lower the company's debt-equity ratio a bit, and also may help it meet some of the debt covenants."

Tata Steel's lenders last month revised covenants on £3.7 billion ($6.1 billion) of debt. As part of the package, Tata Steel will infuse £425 million into Tata Steel U.K., of which around £200 million will be used to prepay the debt and deleverage the European balance sheet, the company said at the time.

Tata Steel U.K. is a special-purpose vehicle that was formed to acquire Corus in 2007.

The Indian company plans to raise about $600 million with a foreign listing.

Pawan Burde, a senior research analyst at Angel Broking, said a share sale could lead to a significant equity dilution. "At current share price, it could result in a 6% to 7% equity dilution, but it all depends on what kind of price it gets for the issue."

A share sale would come when many Indian companies are raising money through the stock market, capitalizing on a 52% gain in the benchmark 30-share Sensitive Index this year.

Aluminum producer Hindalco Industries Ltd. on Tuesday said it is raising $500 million through a share sale to institutional investors.

Tata Steel shares rose 6.4% on the Bombay Stock Exchange, outperforming a 0.1% rise for the benchmark index. They have surged 94% so far this year.

Profit and revenue at metals companies globally have been under pressure as prices of steel, aluminum and copper have fallen sharply since the second half of 2008 because of the economic slowdown.

Tata Steel is continuing with its plan to expand capacity in Jamshedpur by 10 million metric tons.

It also has said it will try to cut capital spending by $2 billion over the next three years. The Jamshedpur plant now has a capacity of 6.8 million tons a year.

Chinalco keeps Rio Tinto stake

MELBOURNE—**Aluminum Corp. of China**, or Chinalco, confirmed Thursday it has taken up all of its allocation of rights in **Rio Tinto** PLC's US$15.2 billion raising and will maintain its position as the miner's biggest shareholder.

"This was an economically rational decision as it prevented the dilution of our ownership in Rio," Chinalco said.

Rio Tinto last month walked away from a US$19.5 billion alliance with Chinalco, turning instead to a rights issue to pay down debt.

Chinalco, which will maintain a stake of 9.3% in the dual-listed mining group through a holding of about 12% in its London-listed stock, said it will continue to monitor developments at Rio.

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Leading 10 Performers

FUND RATING	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US ** YTD	1-YR	2-YR	5-YR
5	**Griffin Ottoman Acc**	Griffin Capital Management Limited	EUR	Ireland	**34.78**	-22.85	-17.71	NS
1	**Pioneer Fds (A) South East Eur S T Acc**	Pioneer Investments Austria GmbH	EUR	Austria	**29.13**	-26.63	-29.26	NS
NS	**Trigon Active Alpha Acc**	Trigon Capital	EUR	Estonia	**38.78**	-30.19	NS	NS
NS	**Skarbiec FIO Sub Akcji Nowej Europy Acc**	SKARBIEC TFI S.A.	PLN	Poland	**14.29**	-32.99	NS	NS
5	**MC Premium Eastern Europ Eqs A Acc**	Valartis Asset Management S.A.	EUR	Luxembrg	**8.85**	-33.28	-21.66	10.39
NS	**SGAM Fd Eqs Europe Expansion A Acc**	Société Générale Asset Management SA	EUR	Luxembrg	**9.20**	-34.08	NS	NS
4	**Zenith Investment EU Growth**	Zenith Investment Fund P.L.C	GBP	Ireland	**15.80**	-35.82	-25.20	0.56
3	**Templeton Eastern Europe A Acc**	Franklin Templeton Investment Funds	EUR	Luxembrg	**50.41**	-37.00	-27.37	7.77
5	**Skarbiec FIO Sub Zrównowazony Waga Acc**	SKARBIEC TFI S.A.	PLN	Poland	**2.20**	-38.21	-18.25	8.55
4	**Stelphia Convergence Actions I Acc**	Stelphia Asset Management	EUR	France	**15.90**	-38.58	-25.90	NS

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

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Tokyo, Hong Kong decline; Shanghai hits 13-month high

By Colin Ng And Wei-Zhe Tan

ASIAN-PACIFIC STOCKS

Asian shares ended mostly lower Thursday, with investors locking in profits ahead of U.S. jobs data due out later in the day.

Japan's Nikkei Stock Average of 225 companies closed down 0.6% at 9876.15 points. Hong Kong's Hang Seng Index gave up 1.1% to finish at 18178.05 as trading resumed after a holiday to commemorate Hong Kong's establishment as a special administrative region of China.

"In spite of a trillion-dollar stimulus program, some people are saying that the unemployment situation in the U.S. is still getting worse," said Francis Lun, general manager at Fulbright Securities in Hong Kong.

China's Shanghai Composite gained 1.7% to end at 3060.25, its highest level in 13 months. Australia's S&P/ASX 200 finished 0.1% higher at 3877.30.

Financial and property stocks led the decline, with **HSBC Holdings** falling 2.6% and **Cheung Kong (Holdings)** falling 2.1% in Hong Kong. **Mitsubishi UFJ Financial Group** gave up 1% and **Mitsui Fudosan** dropped 2.4% in Tokyo. In Singapore, **DBS Group Holdings** lost 2.8% and CapitaLand slid 3.2%. **Commonwealth Bank of Australia** gave up 1.8% in Sydney and **KB Financial Group** slipped 0.8% in Seoul.

Hopes of a recovery supported some stocks in China. A-shares of **China Shenhua Energy** gained 4.3% in Shanghai, while the firm's H-shares fell 0.7% in Hong Kong. **China Construction Bank** gained 2.6% in Shanghai and 0.2% in Hong Kong.

In Australia, a report that China had backed down in iron-ore price negotiations helped mining stocks, with **BHP Billiton** rising 1.2% and **Rio Tinto** adding 0.3%. The China Iron & Steel Association retreated from a tough position on iron-ore price cuts, with signs of a compromise emerging Wednesday, the Australian newspaper reported on its Web site.

In Japan, **Hitachi** jumped 3%, boosted by a report in the Nikkei newspaper that it plans to spend between 20 billion yen ($206 million) and 30 billion yen to boost production capacity for lithium-ion batteries for hybrid cars, targeting a 70-fold increase by 2015.

—V. Phani Kumar contributed to this article.

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
Am Blend Portfolio A	US	EQ	LUX	07/01	USD	8.48	3.3	–30.9	–24.1
Am Blend Portfolio I	US	EQ	LUX	07/01	USD	9.96	3.8	–30.3	–23.4
Am Growth A	US	EQ	LUX	07/01	USD	24.88	8.6	–21.8	–13.5
Am Growth B	US	EQ	LUX	07/01	USD	21.02	8.1	–22.6	–14.4
Am Growth I	US	EQ	LUX	07/01	USD	27.46	9.1	–21.2	–12.8
Am Income A	US	BD	LUX	07/01	USD	7.80	11.7	0.5	1.5
Am Income A2	US	BD	LUX	07/01	USD	17.10	12.4	0.9	1.7
Am Income B	US	BD	LUX	07/01	USD	7.80	11.3	–0.3	0.7
Am Income B2	US	BD	LUX	07/01	USD	14.79	12.0	0.2	1.0
Am Income I	US	BD	LUX	07/01	USD	7.80	12.0	1.1	2.1
Am Value A	US	EQ	LUX	07/01	USD	7.41	2.8	–22.9	–21.4
Am Value B	US	EQ	LUX	07/01	USD	6.85	2.1	–23.7	–22.2
Am Value I	US	EQ	LUX	07/01	USD	7.94	3.1	–22.3	–20.8
Asian Technology A	OT	EQ	LUX	07/01	USD	11.59	32.5	–20.1	–18.3
Asian Technology B	OT	EQ	LUX	07/01	USD	10.19	31.8	–20.9	–19.2
Asian Technology I	OT	EQ	LUX	07/01	USD	12.87	33.0	–19.5	–17.7
Emg Mkts Debt A	GL	BD	LUX	07/01	USD	13.86	23.2	1.0	1.5
Emg Mkts Debt A2	GL	BD	LUX	07/01	USD	17.29	24.2	1.9	1.9
Emg Mkts Debt B	GL	BD	LUX	07/01	USD	13.86	22.7	0.1	0.5
Emg Mkts Debt B2	GL	BD	LUX	07/01	USD	16.74	23.6	1.0	0.9
Emg Mkts Debt I	GL	BD	LUX	07/01	USD	13.86	23.4	1.5	2.0
Emg Mkts Growth A	GL	EQ	LUX	07/01	USD	26.41	31.8	–35.4	–18.7
Emg Mkts Growth B	GL	EQ	LUX	07/01	USD	22.49	31.1	–36.1	–19.6
Emg Mkts Growth I	GL	EQ	LUX	07/01	USD	29.16	32.3	–34.9	–18.1
Eur Growth A	EU	EQ	LUX	07/01	EUR	6.10	9.5	–29.0	–25.8
Eur Growth B	EU	EQ	LUX	07/01	EUR	5.52	9.1	–29.6	–26.5
Eur Growth I	EU	EQ	LUX	07/01	EUR	6.63	10.0	–28.3	–25.2
Eur Income A	EU	BD	LUX	07/01	EUR	5.80	18.0	–4.9	–5.0
Eur Income A2	EU	BD	LUX	07/01	EUR	10.94	18.8	–4.4	–4.8
Eur Income B	EU	BD	LUX	07/01	EUR	5.80	17.6	–5.6	–5.7
Eur Income B2	EU	BD	LUX	07/01	EUR	10.21	18.3	–5.0	–5.5
Eur Income I	EU	BD	LUX	07/01	EUR	5.80	18.2	–4.4	–4.5
Eur Strat Value A	EU	EQ	LUX	07/01	EUR	7.15	2.7	–33.1	–33.2
Eur Strat Value I	EU	EQ	LUX	07/01	EUR	7.29	3.1	–32.5	–32.6
Eur Value A	EU	EQ	LUX	07/01	EUR	7.67	5.4	–27.8	–30.2
Eur Value B	EU	EQ	LUX	07/01	EUR	7.09	4.7	–28.6	–30.9
Eur Value I	EU	EQ	LUX	07/01	EUR	8.82	5.6	–27.3	–29.7
Gl Balanced (Euro) A	EU	BA	LUX	07/01	USD	14.10	5.1	–23.0	–18.2
Gl Balanced (Euro) B	EU	BA	LUX	07/01	USD	13.80	4.5	–23.8	–19.0
Gl Balanced (Euro) C	EU	BA	LUX	07/01	USD	14.01	5.0	–23.2	–18.4
Gl Balanced (Euro) I	EU	BA	LUX	07/01	USD	14.29	5.3	–22.5	–17.7
Gl Balanced A	US	BA	LUX	07/01	USD	14.20	6.8	–23.7	–16.8
Gl Balanced B	US	BA	LUX	07/01	USD	13.57	6.3	–24.4	–17.6
Gl Balanced I	US	BA	LUX	07/01	USD	14.68	7.2	–23.1	–16.2
Gl Bond A	US	BD	LUX	07/01	USD	8.78	4.6	2.7	2.7
Gl Bond A2	US	BD	LUX	07/01	USD	14.92	5.0	3.1	2.8
Gl Bond B	US	BD	LUX	07/01	USD	8.78	4.1	1.7	1.6
Gl Bond B2	US	BD	LUX	07/01	USD	13.13	4.5	2.1	1.8
Gl Bond I	US	BD	LUX	07/01	USD	8.78	4.8	3.3	3.2
Gl Conservative A	US	BA	LUX	07/01	USD	13.66	5.3	–11.4	–7.8
Gl Conservative A2	US	BA	LUX	07/01	USD	15.35	5.3	–11.5	–7.8
Gl Conservative B	US	BA	LUX	07/01	USD	13.65	4.8	–12.3	–8.7
Gl Conservative B2	US	BA	LUX	07/01	USD	14.66	4.8	–12.4	–8.8
Gl Conservative I	US	BA	LUX	07/01	USD	13.70	5.8	–10.7	–7.1
Gl Eq Blend A	GL	EQ	LUX	07/01	USD	9.58	7.2	–39.5	–29.1
Gl Eq Blend B	GL	EQ	LUX	07/01	USD	9.04	6.7	–40.1	–29.8
Gl Eq Blend I	GL	EQ	LUX	07/01	USD	10.07	7.7	–38.9	–28.5
Gl Growth A	GL	EQ	LUX	07/01	USD	34.52	7.0	–40.6	–27.6
Gl Growth B	GL	EQ	LUX	07/01	USD	28.96	6.5	–41.2	–28.3
Gl Growth I	GL	EQ	LUX	07/01	USD	38.18	7.5	–40.1	–27.0
Gl High Yield A	US	BD	LUX	07/01	USD	3.65	28.7	–9.7	–6.2
Gl High Yield A2	US	BD	LUX	07/01	USD	7.47	29.7	–9.1	–5.9
Gl High Yield B	US	BD	LUX	07/01	USD	3.65	27.9	–10.8	–7.2
Gl High Yield B2	US	BD	LUX	07/01	USD	12.07	29.1	–10.0	–6.9

Please turn to next page

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THE INTERNATIONAL INVESTOR

Apollo and Angelo, Gordon look at REIT funding

Financiers seek cash for investments in real-estate debt

By Lingling Wei
And Peter Lattman

While most publicly traded vehicles that invest in mortgages have plummeted toward extinction, some big names are trying to line up money to buy battered real-estate debt.

Private-equity giant Leon Black's **Apollo Management** LP and distressed-investment specialist **Angelo, Gordon** & Co. have held discussions with investment banks about raising capital through mortgage real-estate-investment trust offerings, according to people familiar with the talks. Apollo and Angelo Gordon declined to comment.

Fidac, the investment-advisory unit of **Annaly Capital Management** Inc., by far the most successful home-mortgage REIT in the U.S., is trying to raise $500 million for a REIT that would invest in debt used to finance office towers, shopping malls, hotels and other commercial property.

Such assets are becoming increasingly attractive to bargain-hunting investors, who also are drawn to the low-rate financing being offered by the government on mortgage debt now held by banks.

Those incentives are available through the federal Term Asset-Backed Securities Loan Facility and Public-Private Investment Program.

"Conceptually, it's a terrific idea, as the new REITs are starting with a clean slate, no legacy assets and no debt," said Barden Gale, chief executive at real-estate investment firm J.E. Robert Cos. in McLean, Va.

The biggest question, he said, is whether "these REITs will deliver the returns" to investors to compensate them for the risks they are taking on.

REITs that own debt act like leveraged bond funds, making money if the yields on their investments exceed their borrowing costs.

Boom to bust

Some of the U.S. mortgage REITs that crashed when the real-estate bubble burst

- **iStar Financial**: market cap down 95% since end of 2006
- **Thornburg Mortgage**: filed for bankruptcy in May
- **American Home Mortgage**: filed for bankruptcy in 2007
- **New Century Financial**: filed for bankruptcy in 2007

During the past two years, most established mortgage REITs were clobbered by the credit crisis, with the number of mortgage REITs shrinking to 19 from 38 at the end of 2006, according to the National Association of Real Estate Investment Trusts.

The sector's total stock-market value has declined to $15 billion from $29 billion.

So far, investors seem lukewarm about a new crop of mortgage REITs.

Invesco Mortgage Capital Inc. was taken public last week by Atlanta-based fund manager Invesco Ltd. at $20 a share, but underwriters reduced the size of the offering to 8.5 million shares from 20 million shares.

On Thursday, the stock rose 14 cents, or 0.7%, to $19.64 in 4 p.m. composite trading on the New York Stock Exchange.

Mark Armour, head of Invesco's institutional business, said the company sees "very good opportunities" in buying mortgage debt, and the REIT gives Invesco better access to retail investors than a private-equity fund.

Many individual investors find REITs attractive because of their high dividends. REITs pay no corporate income tax as long as they pay 90% of taxable income to investors as dividends.

Some analysts worry the market for beaten-up mortgage assets won't be large enough to generate sufficient returns.

Meanwhile, the Public-Private Investment Program, known as PPIP, has hit snags that are likely to scale back the government's ambitions to buy bad loans and toxic securities from banks.

But the clobbered real-estate prices across all types of commercial and residential real estate are impossible for some investors to resist.

On Tuesday, **Colony Financial** Inc., a new investment vehicle set up by Colony Capital LLC, a private-equity firm started by Thomas Barrack, filed for an initial public offering to raise $500 million to buy distressed commercial real-estate debt and other assets.

Earlier this month, Barry Sternlicht's **Starwood Capital Group** filed a $500 million initial public offering for Starwood Property Trust.

PennyMac Mortgage Investment Trust, run by former Countrywide Financial Corp. President Stanford Kurland, filed in May to sell $750 million in common stock.

The stock price of a previous foray by Mr. Sternlicht into mortgage REITs, iStar Financial Corp., has fallen about 95% in the past two years.

U.S. Treasury to appoint managers for toxic assets

By Deborah Solomon

WASHINGTON—The Treasury Department is expected to name as many as nine investment managers to operate funds that will buy toxic securities from financial institutions, according to people familiar with the plans.

An announcement is expected next week.

While the U.S. is tapping more fund managers than initially expected, the overall size of the program will likely be far smaller than government officials once envisioned.

The ultimate size will depend on how much money fund managers are able to raise in the private market, but isn't expected to reach the $1 trillion in purchasing power the Treasury suggested was possible earlier this year.

Half of the effort—a plan to auction off troubled bank loans—has been delayed indefinitely. Meanwhile, many banks have seen their financial situations improve, reducing their incentive to sell toxic securities on their books at any price.

At the same time, many investors are worried about overpaying for assets and partnering with the government, for fear Congress will intervene and change the rules midstream.

Treasury received more than 100 applications from firms wanting to operate investment funds for the government. It narrowed the list down to between 12 and 15.

Potential managers made presentations to the government so that it could judge whether they could handle the job. Firms considered include **BlackRock** Inc., **Allianz** SE's Pacific Investment Management Co., or Pimco; **TCW Group**; and **Wellington Management**. It isn't clear who made the final cut.

Over the next several weeks, the selected fund managers will have to raise at least $500 million apiece from private sources, with the government providing additional financing to make those private dollars go further. The fund managers will be able to tap a mix of government equity and debt financing to aid their effort but will likely face an overall cap on the amount of leverage provided to them, people familiar with the plans said.

The program could grow. The Treasury has said it may select additional fund managers beyond those chosen in the initial round.

Fissures appear at the New York Fed

Continued from page 17

Board, leaving regional business voices out of the mix.

Their original task was to set local discount rates and be more engaged with regional business. Now the discount rate is effectively nationalized, and directors' role in crises is hands-off.

The lack of clout upsets some directors. Ms. Nooyi was critical during an audit-committee meeting late last year where she and other directors were briefed, after the fact, on how the New York Fed handled the bailout of American International Group Inc.

If directors couldn't have a bigger role, attendees said Ms. Nooyi asked colleagues at the meeting, "What are we doing here?" In February, she stepped down from the Fed board, citing scheduling conflicts. Mr. Baxter declined to comment on specific directors.

Selecting a new president is one of the board's most important duties. A reserve bank's president has a five-year term and, in the case of New York, a permanent seat on the Federal Open Market Committee, which sets the federal-funds rate, or the rate at which institutions borrow from one another. The New York Fed president's geographic perch also offers close oversight of some of the nation's largest banks.

The search to replace Mr. Geithner began immediately after he was tapped in late November to be Treasury secretary. Mr. Friedman led it.

By early January, the list was narrowed to six, including Kevin Warsh, a member of the Federal Reserve Board in Washington; Rodgin Cohen, who specialized in banking law at Sullivan & Cromwell LLC, and Mr. Dudley, who had been head of the markets division since 2007.

Concern about the selection process comes at a sensitive time for the Fed.

Momentum for Messrs. Warsh and Cohen was strong, said people who were involved in the discussions, with Mr. Friedman speaking favorably about Mr. Warsh. Directors, includingRichard Carrión, CEO of Popular Inc., a banking company in Puerto Rico, advocated for Mr. Cohen, the people said.

On Jan. 10, the board convened early for a full day of interviews. The final candidates met with the board for about 45 minutes, attendees said, after which directors discussed their performances.

That afternoon, Mr. Geithner shared his own views, attendees said. Along with Federal Reserve Chairman Ben Bernanke and Vice Chairman Donald Kohn, these people said, Mr. Geithner had been briefed privately on the list of candidates and qualifications throughout the process.

At the meeting, Mr. Geithner argued that Mr. Warsh was too much a part of the Washington establishment, an attendee said, a link that could cause tension with the New York Fed. He said Mr. Cohen, who has represented investment banks and banks in private legal matters, could be considered too close to the Wall Street establishment, the attendee said.

Mr. Geithner's preference was clear, attendees said: Mr. Dudley, with his markets knowledge and home-court advantage, was the best choice. "Good decisions" and "execution" were among the economist's strong points, Mr. Geithner said, according to an attendee.

After Mr. Geithner left the room, GE's Mr. Immelt noted that an outgoing president's point of view shouldn't carry too much weight, attendees said. But during the discussion that followed, opinions seemed to be shifting toward Mr. Dudley, for some of the reasons that Mr. Geithner had cited.

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Continued from previous page

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
Gl High Yield I	US	BD	LUX	07/01	USD	3.65	29.2	–9.0	–5.6
Gl Value A	GL	EQ	LUX	07/01	USD	9.10	7.2	–38.5	–30.8
Gl Value B	GL	EQ	LUX	07/01	USD	8.41	6.7	–39.0	–31.4
Gl Value I	GL	EQ	LUX	07/01	USD	9.64	7.6	–38.0	–30.2
India Growth AX	OT	OT	LUX	07/01	USD	85.86	48.6	–1.7	–5.7
India Growth BX	OT	OT	LUX	07/01	USD	73.77	47.9	–2.6	–6.6
India Growth Fund USD A	OT	OT	LUX	07/01	USD	98.35	NS	NS	NS
India Growth I	EA	EQ	LUX	07/01	USD	88.75	48.9	–1.4	–5.4
Int'l Health Care A	OT	EQ	LUX	07/01	USD	116.90	–0.4	–19.2	–15.0
Int'l Health Care B	OT	EQ	LUX	07/01	USD	99.10	–0.9	–20.0	–15.9
Int'l Health Care I	OT	EQ	LUX	07/01	USD	127.21	0.0	–18.5	–14.3
Int'l Technology A	OT	EQ	LUX	07/01	USD	85.91	17.4	–28.6	–18.2
Int'l Technology B	OT	EQ	LUX	07/01	USD	74.82	16.9	–29.3	–19.0
Int'l Technology I	OT	EQ	LUX	07/01	USD	95.94	17.9	–28.0	–17.6
Japan Blend A	JP	EQ	LUX	07/01	JPY	5903.00	10.0	–33.3	–29.8
Japan Growth A	JP	EQ	LUX	07/01	JPY	5768.00	3.7	–33.7	–30.2
Japan Growth I	JP	EQ	LUX	07/01	JPY	5911.00	4.1	–33.2	–29.6
Japan Strat Value A	JP	EQ	LUX	07/01	JPY	5949.00	15.4	–34.0	–30.0
Japan Strat Value I	JP	EQ	LUX	07/01	JPY	6083.00	15.8	–33.5	–29.5
Real Estate Sec. A	OT	EQ	LUX	07/01	USD	11.19	4.9	–34.4	–27.7
Real Estate Sec. B	OT	EQ	LUX	07/01	USD	10.28	4.4	–35.0	–28.4
Real Estate Sec. I	OT	EQ	LUX	07/01	USD	11.98	5.3	–33.8	–27.1
Short Mat Dollar A	US	BD	LUX	07/01	USD	6.76	1.7	–11.7	–10.9
Short Mat Dollar A2	US	BD	LUX	07/01	USD	8.94	2.1	–11.6	–10.8
Short Mat Dollar B	US	BD	LUX	07/01	USD	6.76	1.5	–12.1	–11.3
Short Mat Dollar B2	US	BD	LUX	07/01	USD	8.92	1.8	–11.9	–11.2
Short Mat Dollar I	US	BD	LUX	07/01	USD	6.76	1.9	–11.3	–10.4

■ BANC INTERNACIONAL D'ANDORRA. BANCA MORA.
Avgd. Meritxell 96, Andorra la Vella. Andorra. Ph. +376.884884 www.bibm.ad

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
Andfs. Anglaterra	UK	EQ	AND	07/01	GBP	6.65	–0.1	–17.3	–16.6
Andfs. Borsa Global	GL	EQ	AND	07/01	EUR	5.52	–4.9	–31.5	–25.4
Andfs. Emergents	GL	EQ	AND	07/01	USD	13.42	34.2	–29.1	–15.1
Andfs. Espanya	EU	EQ	AND	07/01	EUR	11.35	4.9	–17.6	–18.9
Andfs. Estats Units	US	EQ	AND	07/01	USD	12.62	3.5	–28.1	–20.4
Andfs. Europa	EU	EQ	AND	07/01	EUR	6.57	1.2	–24.9	–24.7
Andfs. Franca	EU	EQ	AND	07/01	EUR	8.13	–1.8	–26.0	–27.1
Andfs. Japo	JP	EQ	AND	07/01	JPY	480.45	9.6	–28.7	–27.5
Andfs. Plus Dollars	US	BA	AND	07/01	USD	8.62	2.2	–15.0	–10.4
Andfs. RF Dolars	US	BD	AND	07/01	USD	10.70	4.7	–5.6	–2.2
Andfs. RF Euros	EU	BD	AND	07/01	EUR	9.94	11.0	–5.6	–6.0
Andorfons	EU	BD	AND	07/01	EUR	13.17	10.4	–7.5	–8.9
Andorfons Alternative Premium	OT	OT	AND	05/31	EUR	94.40	2.2	–17.8	–9.4
Andorfons Mix 30	EU	BA	AND	07/01	EUR	8.42	4.1	–20.3	–15.9
Andorfons Mix 60	EU	BA	AND	07/01	EUR	8.02	–1.3	–29.3	–22.8

■ CHARTERED ASSET MANAGEMENT PTE LTD - TEL NO: 65-6835-8866
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
CAM-GTF Limited	AS	EQ	MUS	06/26	USD	195318.67	44.8	–18.6	–14.8

■ DJE INVESTMENT S.A.
internet: www.dje.lu email: info@dje.lu phone:+00 352 269 2522 0 fax:+00 352 269 25252

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
DJE Real Estate P	OT	OT	LUX	07/02	EUR	9.71	–3.6	–5.4	–2.7
DJE-Absolut P	GL	EQ	LUX	07/02	EUR	179.29	2.3	–22.6	–16.1
DJE-Alpha Glbl P	EU	BA	LUX	07/02	EUR	158.98	3.4	–18.1	–12.0
DJE-Div& Substanz P	GL	EQ	LUX	07/02	EUR	183.88	5.1	–17.3	–13.7
DJE-Gold&Resourc P	OT	EQ	LUX	07/02	EUR	141.76	8.4	–28.3	–9.1
DJE-Renten Glbl P	EU	BD	LUX	07/02	EUR	124.38	3.9	3.5	0.8
LuxPro-Dragon I	AS	EQ	LUX	07/02	EUR	131.23	41.3	4.4	–5.6
LuxPro-Dragon P	AS	EQ	LUX	07/02	EUR	128.02	41.1	3.8	–6.7
LuxTopic-Aktien Europa	EU	EQ	LUX	07/02	EUR	15.49	8.1	–4.9	–8.3
LuxTopic-Pacific	AS	EQ	LUX	07/02	EUR	12.96	43.2	–26.1	–19.8

■ HERMES FINANCIAL MANAGEMENT (EGYPT) LIMITED, AMSALES@EFG-HERMES.COM
*Tel: 9714 363 4041 *Middle East & Developing Africa Fund*

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
EFG-Hermes Egypt	GL	EQ	BMU	05/29	USD	37.81	9.3	–43.2	–9.4
EFG-Hermes MEDA*	GL	EQ	BMU	05/29	USD	22.28	6.3	–43.7	–10.7
EFG-Hermes Saudi Arabia Equity	EA	EQ	SAU	06/28	SAR	5.38	13.5	–45.6	NS

Please turn to next page

For information about listing your funds, please contact: Peter Jennings, tel: +44-20-7842-9674; email: peter.jennings@dowjones.com or Carson Wong tel: +852 2831-6481; email: carson.wong@dowjones.com

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Continued from previous page

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
EFG-Hermes Telecom	OT	EQ	BMU	05/29	USD	27.89	8.8	–21.6	–9.9

■ **HSBC ALTERNATIVE INVESTMENTS LIMITED**

T +44 20 7860 3074 F + 44 20 7860 3174 www.hail.hsbc.com

■ **HSBC Portfolio Selection Fund**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Sel Emerg Mkt Debt	GL	BD	GGY	07/01	USD	300.81	22.5	–0.6	0.1
Sel Emerg Mkt Equity	GL	EQ	GGY	07/01	USD	170.72	30.3	–28.6	–15.4
Sel Euro Equity EUR	US	EQ	GGY	06/30	EUR	79.46	6.6	–32.2	–29.9
Sel European Equity	EU	EQ	GGY	07/01	USD	151.29	10.0	–36.8	–27.8
Sel Glob Equity	GL	EQ	GGY	07/01	USD	158.52	10.4	–31.7	–25.9
Sel Glob Fxd Inc	GL	BD	GGY	07/01	USD	131.26	1.8	–10.9	–2.8
Sel Pacific Equity	AS	EQ	GGY	07/01	USD	113.09	25.1	–27.6	–16.1
Sel US Equity	US	EQ	GGY	07/01	USD	105.39	4.6	–29.4	–22.1
Sel US Sm Cap Eq	US	EQ	GGY	07/01	USD	143.51	9.8	–30.0	–26.0

■ **LLOYD GEORGE MANAGEMENT (HK) LTD**

Suite 3808, One Exchange Square, HK: Tel. 852 2845 4433 Fax. 852 2845 3911

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
LG Antenna	GL	EQ	BMU	06/26	USD	47.10	38.0	–26.6	–14.7
LG Asian Plus	AS	EQ	CYM	06/26	USD	46.53	23.1	–27.1	–17.3
LG Asian SmallerCo's	AS	EQ	BMU	06/30	USD	76.34	38.4	–31.3	–32.5
LG India	EA	EQ	MUS	06/25	USD	49.23	54.3	–15.7	–12.8
Siberian Investment Co	OT	OT	IRL	02/27	USD	22.58	39.1	–70.6	–45.3

MP Asset Management Inc. www.mpam.si MP

■ **MP ASSET MANAGEMENT INC.**

Tel: + 386 1 587 47 77

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
MP-BALKAN.SI	OT	OT	SVN	07/01	EUR	24.22	–7.7	–53.4	–46.7
MP-TURKEY.SI	OT	OT	SVN	07/01	EUR	25.80	32.1	–12.9	–27.2

■ **PAREX ASSET MANAGEMENT IPAS**

Basteja Blvd. 14, Riga, LV-1050, Latvia
www.parexgroup.com Tel: +371 67010810

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Eastern European Bond Fund	OT	OT	LVA	07/01	USD	12.37	41.9	–12.6	–4.3
Parex Caspian Sea Eq	EU	EQ	LVA	07/01	EUR	2.83	34.8	–67.0	–47.1
Parex Eastern Europ Bd	EU	BD	LVA	07/01	USD	12.37	41.9	–12.6	–4.3
Parex Russian Eq	EE	EQ	LVA	07/01	USD	14.89	71.9	–52.2	–23.3

PICTET 1805 FUNDS

■ **PICTET & CIE, ROUTE DES ACACIAS 60, CH-1211 GENEVA 73**

Tel: + 41 (58) 323 3000 Web: www.pictetfunds.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
PF (LUX)-Asian Eq-Ica	AS	EQ	LUX	07/02	USD	139.40	25.7	–25.3	–17.4
PF (LUX)-Asian Eq-Pca	AS	EQ	LUX	07/02	USD	133.23	25.2	–26.0	–18.1
PF (LUX)-Biotech-Pca	OT	EQ	LUX	07/01	USD	272.52	–4.4	–19.6	–4.8
PF (LUX)-CHF Liq-Pca	CH	MM	LUX	07/01	CHF	124.14	0.1	0.7	1.4
PF (LUX)-CHF Liq-Pdi	CH	MM	LUX	07/01	CHF	93.70	0.1	0.7	1.4
PF (LUX)-Digital Comm-Pca	OT	EQ	LUX	07/01	USD	95.89	17.9	–14.1	–12.2
PF (LUX)-East Eu-Pca	EU	EQ	LUX	07/01	EUR	218.31	63.5	–44.9	–31.1
PF (LUX)-Emg Mkts LC-Pca	GL	EQ	LUX	07/02	USD	125.41	34.6	–33.8	–19.4
PF (LUX)-Emg Mkts-Pca	GL	EQ	LUX	07/02	USD	409.76	34.7	–34.7	–19.4
PF (LUX)-Eu Indx-Pca	EU	EQ	LUX	07/01	EUR	83.19	8.8	–23.4	–24.6
PF (LUX)-EUR Bds-Pca	EU	BD	LUX	07/01	EUR	372.95	–0.1	5.9	2.1
PF (LUX)-EUR Bds-Pdi	EU	BD	LUX	07/01	EUR	283.81	–0.1	5.9	2.1
PF (LUX)-EUR Cp Bd-Pca	EU	BD	LUX	07/01	EUR	135.88	8.8	6.0	1.8
PF (LUX)-EUR Cp Bd-Pdi	EU	BD	LUX	07/01	EUR	95.53	8.8	6.0	1.8
PF (LUX)-EUR HiYld-Pca	EU	BD	LUX	07/01	EUR	117.87	30.7	–11.6	–11.6
PF (LUX)-EUR HiYld-Pdi	EU	BD	LUX	07/01	EUR	68.33	30.7	–11.7	–11.6
PF (LUX)-EUR Liq-Pca	EU	MM	LUX	07/01	EUR	135.67	0.8	2.4	3.0
PF (LUX)-EUR Liq-Pdi	EU	MM	LUX	07/01	EUR	97.77	0.8	2.4	3.0
PF (LUX)-EUR Sov Liq-Pca	OT	OT	LUX	07/01	EUR	102.33	0.5	2.2	NS
PF (LUX)-EUR Sov Liq-Pdi	OT	OT	LUX	07/01	EUR	100.97	0.5	2.2	NS
PF (LUX)-Europ Eq-Pca	EU	EQ	LUX	07/01	EUR	340.14	11.2	–26.5	–28.8
PF (LUX)-EuSust Eq-Pca	EU	EQ	LUX	07/01	EUR	109.61	8.4	–23.4	–27.3
PF (LUX)-Gl Em Dbt-Pca	GL	BD	LUX	07/01	USD	219.14	15.7	10.3	6.9
PF (LUX)-Gl Em Dbt-Pdi	GL	BD	LUX	07/01	USD	149.08	15.7	10.3	6.9
PF (LUX)-Gr China-Pca	AS	EQ	LUX	07/02	USD	289.70	36.2	–12.7	–9.1
PF (LUX)-Indian Eq-Pca	EA	EQ	LUX	07/02	USD	291.49	52.1	–5.8	–10.7
PF (LUX)-Jap Index-Pca	JP	EQ	LUX	07/02	JPY	8842.03	8.5	–29.6	–27.8
PF (LUX)-Jp Eq Sel-Ica	JP	EQ	LUX	07/02	JPY	7651.23	4.8	–35.2	–33.0
PF (LUX)-Jp Eq Sel-Pca	JP	EQ	LUX	07/02	JPY	7444.70	4.5	–35.6	–33.4
PF (LUX)-JpEq130/30-Pca	JP	EQ	LUX	07/02	JPY	4296.50	9.4	–30.2	–28.7
PF (LUX)-Pacif Idx-Pca	AS	EQ	LUX	07/02	USD	200.36	26.6	–27.3	–16.4
PF (LUX)-Piclife-Pca	CH	BA	LUX	07/01	CHF	723.26	4.9	–6.0	–9.1
PF (LUX)-PremBrnds-Pca	OT	EQ	LUX	07/01	EUR	50.52	14.5	–14.9	–23.7
PF (LUX)-Rus Eq-Pca	OT	OT	LUX	07/01	USD	42.37	85.5	–56.1	NS
PF (LUX)-Security-Pca	GL	EQ	LUX	07/01	USD	83.08	16.3	–11.6	–15.0
PF (LUX)-Sm Cap Eu-Pca	EU	EQ	LUX	07/01	EUR	377.54	15.7	–26.6	–27.6
PF (LUX)-US Eq-Ica	US	EQ	LUX	07/01	USD	85.34	4.5	–28.0	–18.6
PF (LUX)-USA Index-Pca	US	EQ	LUX	07/01	USD	74.67	3.0	–26.9	–20.5
PF (LUX)-USD Gov Bds-Pca	US	BD	LUX	07/01	USD	504.79	–4.8	5.6	6.7
PF (LUX)-USD Gov Bds-Pdi	US	BD	LUX	07/01	USD	370.40	–4.8	5.6	6.7
PF (LUX)-USD Liq-Pca	US	MM	LUX	07/01	USD	130.84	0.5	1.4	2.5
PF (LUX)-USD Liq-Pdi	US	MM	LUX	07/01	USD	85.44	0.5	1.5	2.5
PF (LUX)-USD Sov Liq-Pca	OT	OT	LUX	07/01	USD	101.54	0.2	1.5	NS
PF (LUX)-USD Sov Liq-Pdi	OT	OT	LUX	07/01	USD	100.83	0.2	1.5	NS
PF (LUX)-Water-Pca	GL	EQ	LUX	07/01	EUR	109.60	6.4	–16.3	–17.9
PF (LUX)-WldGovBds-Pca	GL	BD	LUX	07/02	USD	159.61	–3.2	3.9	8.9
PF (LUX)-WldGovBds-Pdi	GL	BD	LUX	07/02	USD	132.11	–3.2	3.9	8.9
PTF (LUX)-MidEast&NorAfr-Pca	OT	OT	LUX	07/01	USD	45.42	9.4	–53.2	NS

■ **POLAR CAPITAL PARTNERS LIMITED**

International Fund Managers (Ireland) Limited PH - 353 1 670 660 Fax - 353 1 670 1185

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Global Technology	OT	EQ	IRL	07/01	USD	10.82	38.0	–12.4	–15.3
Japan Fund USD	JP	EQ	IRL	07/02	USD	15.78	7.4	1.0	–8.2
Polar Healthcare Class I USD	OT	OT	IRL	07/01	USD	10.82	NS	NS	NS
Polar Healthcare Class R USD	OT	OT	IRL	07/01	USD	10.83	NS	NS	NS

■ **Hemisphere Management (Ireland) Limited**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Discovery USD A	OT	OT	CYM	05/29	USD	127.43	10.8	12.5	12.2
Elbrus USD A	GL	EQ	CYM	05/29	USD	8.36	23.9	–48.7	–17.6
Europn Conviction USD B	EU	EQ	CYM	05/29	USD	134.28	6.3	12.7	11.8
Europn Forager USD B	OT	OT	CYM	05/29	USD	195.65	9.3	–5.5	–2.9
Latin America USD A	GL	EQ	CYM	05/29	USD	14.30	2.2	–4.7	14.7
Paragon Limited USD A	OT	OT	CYM	12/31	USD	309.60	12.7	12.7	14.2
UK Fund USD A	OT	OT	CYM	05/29	USD	179.87	8.5	7.9	4.4

■ **PT CIPTADANA ASSET MANAGEMENT**

Tel: 521-3479 Fax: 521-3478 Website: www.ciptadana-asset.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Indonesian Grth Fund	EA	EQ	CYM	06/24	USD	88.57	53.5	–27.7	NS

■ **RUSSELL INVESTMENT GROUP**

Multi-Style, Multi-Manager Funds www.russell.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Actions France A	EU	EQ	IRL	07/01	EUR	578.24	2.6	–25.5	NS
Core Eurozone Eq B	EU	EQ	IRL	07/01	EUR	682.29	3.8	–23.7	NS
Euro Fixed Income A	EU	BD	IRL	07/01	EUR	1154.17	2.0	–3.6	–4.0
Euro Fixed Income B	EU	BD	IRL	07/01	EUR	1228.48	2.3	–3.0	–3.4
Euro Small Cap A	EU	EQ	IRL	07/01	EUR	969.83	14.4	–31.1	–33.4
Euro Small Cap B	EU	EQ	IRL	07/01	EUR	1035.77	14.7	–30.6	–33.0
Eurozone Agg Eq A	EU	EQ	IRL	07/01	EUR	533.32	7.3	–26.3	–28.8
Eurozone Agg Eq B	EU	EQ	IRL	07/01	EUR	764.16	7.6	–25.9	–28.4
Glbl Bd (EuroHdg) A	GL	BD	IRL	07/01	EUR	1274.13	6.4	1.1	0.1
Glbl Bd (EuroHdg) B	GL	BD	IRL	07/01	EUR	1348.35	6.7	1.9	0.7
Glbl Bd A	EU	BD	IRL	07/01	EUR	1022.65	4.3	8.2	–0.3
Glbl Bd B	EU	BD	IRL	07/01	EUR	1085.41	4.6	8.9	0.3
Glbl Real Estate A	OT	EQ	IRL	07/01	USD	695.35	4.3	–37.3	–28.7
Glbl Real Estate B	OT	EQ	IRL	07/01	USD	714.72	4.6	–36.9	–28.3
Glbl Real Estate EH-A	OT	EQ	IRL	07/01	EUR	639.74	2.0	–35.9	–30.0
Glbl Real Estate SH-B	OT	EQ	IRL	07/01	GBP	59.87	1.0	–36.6	–29.6
Glbl Strategic Yield A	EU	BD	IRL	07/01	EUR	1347.15	19.2	–7.4	–5.3
Glbl Strategic Yield B	EU	BD	IRL	07/01	EUR	1437.31	19.5	–6.8	–4.7
Japan Equity A	JP	EQ	IRL	07/01	JPY	11874.00	14.9	–27.8	–27.3
Japan Equity B	JP	EQ	IRL	07/01	JPY	12618.00	15.2	–27.3	–26.9
PacBasn (Ex-Jap) Eq A	AS	EQ	IRL	07/01	USD	1737.90	35.1	–19.4	–15.0
PacBasn (Ex-Jap) Eq B	AS	EQ	IRL	07/01	USD	1849.13	35.5	–18.9	–14.5
Pan European Eq A	EU	EQ	IRL	07/01	EUR	783.23	9.0	–26.3	–27.5
Pan European Eq B	EU	EQ	IRL	07/01	EUR	832.43	9.3	–25.9	–27.1
US Equity A	US	EQ	IRL	07/01	USD	714.47	6.8	–29.7	–20.7
US Equity B	US	EQ	IRL	07/01	USD	762.72	7.1	–29.3	–20.2
US Small Cap A	US	EQ	IRL	07/01	USD	1058.20	5.2	–30.5	–23.3
US Small Cap B	US	EQ	IRL	07/01	USD	1130.28	5.5	–30.1	–22.9

■ **SEB ASSET MANAGEMENT S.A.**

www.seb.se

■ **SEB Fund 1**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Global Value -C-	GL	EQ	LUX	07/02	SEK	63.68	5.8	–30.5	–31.2
Choice Japan Fd	JP	EQ	LUX	07/02	JPY	48.65	8.2	–29.7	–29.8
Choice Jpn Chance/Risk	JP	EQ	LUX	07/02	JPY	50.30	12.3	–34.3	–30.7
Choice NthAmChance/Risk	US	EQ	LUX	07/02	USD	3.17	13.2	–36.5	–21.5
Europe 2 Fd	EU	EQ	LUX	06/12	EUR	0.79	14.1	–33.2	–28.9
Europe 3 Fd	EU	EQ	LUX	07/02	EUR	3.34	9.5	–31.4	–30.8
Global Chance/Risk Fd	GL	EQ	LUX	07/02	EUR	0.49	4.6	–26.7	–25.8
Global Fd	GL	EQ	LUX	07/02	USD	1.73	4.1	–34.6	–24.5
Intl Mixed Fd -C-	NO	BA	LUX	06/12	USD	23.70	3.2	–25.2	–14.3
Intl Mixed Fd -D-	NO	BA	LUX	06/12	USD	16.49	3.2	–25.3	–14.3
Wireless Fd	OT	EQ	LUX	06/12	EUR	0.12	28.0	–21.0	–19.4

■ **SEB Fund 2**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Asia ex. Japan Fd	AS	EQ	LUX	07/02	USD	5.98	32.1	–16.5	–15.3
Currency Alpha EUR -IC-	OT	OT	LUX	07/02	EUR	10.57	–3.1	–0.2	1.7
Currency Alpha EUR -RC-	OT	OT	LUX	07/02	EUR	10.50	–3.4	–0.6	1.2
Currency Alpha SEK -ID-	OT	OT	LUX	07/02	SEK	98.41	–6.9	–4.2	NS
Currency Alpha SEK -RC-	OT	OT	LUX	07/02	SEK	113.80	–3.4	–0.6	1.2
Generation Fd 80	OT	OT	LUX	07/02	SEK	6.98	9.4	–13.6	NS
Nordic Focus EUR	NO	EQ	LUX	07/02	EUR	61.21	22.7	–27.0	NS
Nordic Focus NOK	NO	EQ	LUX	07/02	NOK	68.28	22.7	–27.0	NS
Nordic Focus SEK	NO	EQ	LUX	07/02	SEK	70.69	22.7	–27.0	NS

■ **SEB Fund 3**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice North America Eq. Fd	US	EQ	LUX	07/02	USD	1.49	7.6	–29.1	–22.2
Ethical Global Fd	GL	EQ	LUX	07/02	USD	0.66	10.9	–29.1	–23.2
Ethical Sweden Fd	NO	EQ	LUX	07/02	SEK	34.06	23.5	–3.2	–16.0
Europe Fd	EU	EQ	LUX	06/12	USD	1.78	8.8	–25.8	–24.9
Index Linked Bd Fd SEK	OT	BD	LUX	07/02	SEK	12.73	–0.1	2.4	4.8
Medical Fd	OT	EQ	LUX	07/02	USD	2.74	–4.5	–20.5	–14.3
Short Medium Bd Fd SEK	NO	MM	LUX	07/02	SEK	8.80	1.0	2.2	2.8
Technology Fd	OT	EQ	LUX	07/02	USD	2.00	28.1	–19.0	–13.5
World Fd	NO	BA	LUX	07/02	USD	1.77	10.3	–26.4	–18.0

■ **SEB Fund 4**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Short Bond Fd EUR	EU	MM	LUX	07/02	EUR	1.27	0.0	0.5	1.4
Short Bond Fd SEK	NO	MM	LUX	07/02	SEK	21.90	1.6	2.4	2.9
Short Bond Fd USD	US	MM	LUX	07/02	USD	2.49	–0.2	0.5	1.9

■ **SEB Fund 5**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Alpha Bond Fd SEK -A-	NO	BD	LUX	07/02	SEK	10.08	0.2	–0.7	0.3
Alpha Bond Fd SEK -B-	NO	BD	LUX	07/02	SEK	8.73	0.2	–0.7	0.3
Alpha Bond Fd SEK -C-	NO	BD	LUX	07/02	SEK	25.24	0.1	–0.9	0.1
Alpha Bond Fd SEK -D-	NO	BD	LUX	07/02	SEK	7.86	0.1	–0.9	0.1
Alpha Short Bd SEK -A-	NO	MM	LUX	07/02	SEK	11.05	2.3	3.1	3.4
Alpha Short Bd SEK -B-	NO	MM	LUX	07/02	SEK	10.11	2.3	3.1	3.4
Alpha Short Bd SEK -C-	NO	MM	LUX	07/02	SEK	21.61	2.2	3.0	3.3
Alpha Short Bd SEK -D-	NO	MM	LUX	07/02	SEK	8.18	2.2	3.0	3.3
Bond Fd SEK -C-	NO	BD	LUX	07/02	SEK	42.13	1.4	11.8	6.6
Bond Fd SEK -D-	NO	BD	LUX	07/02	SEK	12.23	1.5	11.9	6.0
Corp. Bond Fd EUR -C-	EU	BD	LUX	07/02	EUR	1.16	6.2	0.3	–0.7
Corp. Bond Fd EUR -D-	EU	BD	LUX	07/02	EUR	0.89	6.3	0.3	–0.9
Corp. Bond Fd SEK -C-	NO	BD	LUX	07/02	SEK	11.43	6.4	–4.4	–2.2
Corp. Bond Fd SEK -D-	NO	BD	LUX	07/02	SEK	8.64	6.4	–4.4	–2.1
Danish Mortgage Bond Fd EUR -ID-	NO	BD	LUX	07/02	EUR	101.76	–2.0	6.0	NS
Danish Mortgage Bond Fd EUR -RC-	NO	BD	LUX	07/02	EUR	106.19	2.5	10.7	NS
Danish Mortgage Bond Fd SEK -ID-	OT	OT	LUX	12/17	SEK	121.91	NS	NS	NS
Danish Mortgage Bond Fd SEK -RC-	NO	BD	LUX	07/02	SEK	1151.40	2.5	10.7	NS
Flexible Bond Fd -C-	NO	BD	LUX	07/02	SEK	21.29	2.1	6.6	4.6
Flexible Bond Fd -D-	NO	BD	LUX	07/02	SEK	11.65	2.1	6.6	4.6

■ **SEB Global Hedge**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
SEB Asset Sele Defensive Acc	OT	OT	LUX	07/02	SEK	77.40	–3.3	–26.1	–15.8
SEB Asset Sele Defensive Inc	OT	OT	LUX	07/02	SEK	70.71	–3.4	–26.2	–17.1

■ **SEB Sicav 1**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Emerging Mkts Fd	GL	EQ	LUX	07/02	USD	2.07	34.3	–27.5	–13.3

■ **SEB Sicav 2**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Asia SmCap exJpn	AS	EQ	LUX	07/02	SEK	25.85	54.0	5.2	–15.8
Europe Chance/Risk Fd	EU	EQ	LUX	07/02	EUR	838.72	10.0	–35.1	–32.1

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
MENA Real Estate Fund	OT	OT	BMU	06/25	USD	968.40	3.0	NS	NS
MENA Special Sits Fund	OT	OT	BMU	05/31	USD	1031.41	6.2	NS	NS
UAE Blue Chip Fund	OT	OT	ARE	06/25	AED	5.36	16.9	NS	–22.7

SOCIETE GENERALE Asset Management

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SGAM FUND

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Bonds ConvEurope A	OT	OT	LUX	07/01	EUR	28.09	–0.9	–5.2	0.0
Bonds Eur Corp A	OT	OT	LUX	06/30	EUR	21.88	5.5	2.6	–0.3
Bonds Eur Hi Yld A	OT	OT	LUX	06/30	EUR	17.01	27.9	–12.3	–12.6
Bonds EURO A	OT	OT	LUX	07/01	EUR	39.99	1.3	9.8	5.2
Bonds Europe A	OT	OT	LUX	07/01	EUR	38.28	1.0	9.3	4.2
Bonds US MtgBkSec A	OT	OT	LUX	04/29	USD	24.41	–4.7	11.9	0.0
Bonds US OppsCoreplus A	OT	OT	LUX	06/30	USD	34.18	8.4	7.8	7.3
Bonds World A	OT	OT	LUX	06/30	USD	40.02	0.5	3.0	8.7
Eq. China A	OT	OT	LUX	06/30	USD	20.02	33.9	–9.9	–11.2
Eq. ConcentratedEuropeA	OT	OT	LUX	07/01	EUR	22.88	11.1	–26.0	–28.6
Eq. Eastern Europe A	OT	OT	LUX	07/01	EUR	17.06	29.1	–52.6	–35.8
Eq. Equities Global Energy	OT	OT	LUX	07/01	USD	15.43	8.2	–47.1	–17.1
Eq. Euroland A	OT	OT	LUX	07/01	EUR	9.14	–0.2	–29.4	–29.8
Eq. Euroland MidCapA	OT	OT	LUX	04/30	EUR	14.61	1.4	–45.7	–33.8
Eq. EurolandCyclclsA	OT	OT	LUX	07/01	EUR	15.06	9.6	–26.8	–23.7
Eq. EurolandFinancialA	OT	OT	LUX	07/01	EUR	9.33	10.7	–29.6	–33.4
Eq. Glbl Emg Cty A	OT	OT	LUX	07/01	USD	8.09	35.3	–29.8	–15.8
Eq. Global A	OT	OT	LUX	07/01	USD	22.76	8.2	–29.6	–23.9
Eq. Global Technol A	OT	OT	LUX	04/24	USD	4.46	22.1	–29.7	–21.6
Eq. Gold Mines A	OT	OT	LUX	07/01	USD	24.62	17.7	–20.7	–0.3
Eq. Japan Sm Cap A	OT	OT	LUX	07/01	JPY	1059.59	17.0	–20.7	–30.3
Eq. Japan Target A	OT	OT	LUX	07/02	JPY	1796.69	14.8	–7.3	–15.1
Eq. Pacific A	OT	OT	LUX	07/01	USD	8.02	25.6	–24.0	–16.9
Eq. US ConcenCore A	OT	OT	LUX	07/01	USD	18.60	14.5	–21.9	–15.4
Eq. US Lg Cap Gr A	OT	OT	LUX	07/01	USD	12.69	17.7	–35.6	–19.4
Eq. US Mid Cap A	OT	OT	LUX	07/01	USD	23.83	18.9	–33.2	–16.7
Eq. US Multi Strg A	OT	OT	LUX	07/01	USD	17.58	10.1	–34.1	–23.3
Eq. US Rel Val A	OT	OT	LUX	07/01	USD	16.73	7.7	–31.5	–28.2
Eq. US Sm Cap Val A	OT	OT	LUX	07/01	USD	13.45	4.0	–36.0	–31.3
Eq. US Value Opp A	OT	OT	LUX	07/01	USD	13.41	3.5	–40.9	–32.1
Money Market EURO A	OT	OT	LUX	07/01	EUR	27.33	0.8	3.0	3.6
Money Market USD A	OT	OT	LUX	07/01	USD	15.82	0.5	1.7	2.9

yuki

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■ **YMR-N Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
YMR-N Growth Fund	OT	OT	IRL	07/01	JPY	8966.00	4.2	–34.0	–35.2
YMR-N Japan Fund	OT	OT	IRL	07/01	JPY	10128.00	7.3	–31.2	–31.4
YMR-N Small Cap Fund	OT	OT	IRL	07/01	JPY	6941.00	8.1	–27.9	–34.7

■ **Yuki 77 Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki 77 General	JP	EQ	IRL	07/02	JPY	6293.00	6.6	–33.3	–32.9
Yuki 77 Growth	JP	EQ	IRL	07/02	JPY	5982.00	1.1	–36.8	–37.7

■ **Yuki Chugoku Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Chugoku Jpn Gen	JP	EQ	IRL	07/02	JPY	6642.00	6.4	–31.1	–33.5
Yuki Chugoku JpnLowP	JP	EQ	IRL	07/02	JPY	8556.00	4.5	–23.5	–27.7

■ **Yuki Daishi Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Daishi General	JP	EQ	IRL	07/02	JPY	6984.00	3.2	–35.1	–34.9

■ **Yuki Hokuyo Japan Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Hokuyo Jpn Gen	JP	EQ	IRL	07/02	JPY	4609.00	1.3	–38.2	–34.7
Yuki Hokuyo Jpn Inc	JP	EQ	IRL	07/02	JPY	5362.00	1.6	–30.7	–29.8
Yuki Hokuyo Jpn Sm Cap	JP	EQ	IRL	07/02	JPY	5129.00	9.0	–24.3	NS

■ **Yuki Mizuho Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Mizuho Gen Jpn III	OT	OT	IRL	07/02	JPY	4382.00	3.1	–40.7	–37.4
Yuki Mizuho Jpn Dyn Gro	OT	OT	IRL	07/02	JPY	4628.00	3.0	–41.4	–38.6
Yuki Mizuho Jpn Exc 100	OT	OT	IRL	07/02	JPY	6576.00	7.8	–36.0	–34.5
Yuki Mizuho Jpn Gen	OT	OT	IRL	07/02	JPY	8564.00	6.8	–30.5	–33.6
Yuki Mizuho Jpn Gro	OT	OT	IRL	07/02	JPY	6519.00	4.3	–30.8	–35.0
Yuki Mizuho Jpn Inc	OT	OT	IRL	07/02	JPY	7791.00	–2.0	–34.1	–31.9
Yuki Mizuho Jpn Lg Cap	OT	OT	IRL	07/02	JPY	5113.00	2.6	–32.8	–32.9
Yuki Mizuho Jpn LowP	OT	OT	IRL	07/02	JPY	12443.00	9.8	–19.0	–26.2
Yuki Mizuho Jpn PGth	OT	OT	IRL	07/02	JPY	8064.00	5.5	–34.6	–35.3
Yuki Mizuho Jpn SmCp	OT	OT	IRL	07/02	JPY	6962.00	13.5	–25.3	–34.6
Yuki Mizuho Jpn Val Sel	OT	OT	IRL	07/02	JPY	5782.00	11.3	–27.4	–29.3
Yuki Mizuho Jpn YoungCo	OT	OT	IRL	07/02	JPY	2827.00	18.4	–33.2	–41.9

■ **Yuki Nishi Nippon City Japan Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Nishi-Nippon Cty General	JP	EQ	IRL	07/02	JPY	4936.00	9.7	–37.7	–35.6

■ **Yuki Shizuoka Japan Series**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Shizuoka General Japan	JP	EQ	IRL	07/02	JPY	5406.00	6.0	–32.1	–34.2

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12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

■ **ALEXANDRA INVESTMENT MANAGEMENT**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	05/29	USD	1218.09	25.7	NS	NS

CAPITAL MANAGEMENT advisors

■ **CAPITAL MANAGEMENT ADVISORS**

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
CMA Dynamic	OT	OT	BHS	05/29	USD	1354.30	0.5	4.1	5.9
CMA MultHdge Arbtrge	OT	OT	CYM	05/29	USD	1763.67	1.3	–8.2	–4.1
CMA MultHdge Balncd	OT	OT	CYM	05/29	USD	1246.22	0.4	4.8	5.8
CMA MultHdge Growth	OT	OT	CYM	05/29	USD	1694.39	2.7	7.0	6.4
CMA MultiHdge Lvrgd	OT	OT	CYM	05/29	USD	955.15	–0.3	1.6	6.7

■ **D'AURIOL FUNDS WWW.DAURIOL.BIZ**

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
D'Auriol Alt Non-Lev A	EU	OT	CYM	04/30	EUR	97.08	–1.4	–22.4	–11.3
D'Auriol Opp F3 EUR	EU	MM	CYM	05/29	EUR	969.94	–2.6	–26.5	–15.8

■ **HERMITAGE CAPITAL MANAGEMENT LTD.**

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
The Hermitage Fund	GL	EQ	JEY	06/12	USD	784.53	73.9	–55.8	–25.3

■ **HORSEMAN CAPITAL MANAGEMENT LTD.**

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Horseman EmMkt Opp EUR	GL	EQ	GBR	05/29	EUR	183.00	–14.8	1.8	12.3
Horseman EmMkt Opp USD	GL	EQ	USA	05/29	USD	184.68	–15.9	–0.5	11.7
Horseman EurSelLtd EUR	EU	EQ	GBR	05/29	EUR	181.16	–13.4	–8.9	4.5
Horseman EurSelLtd USD	EU	EQ	GBR	05/29	USD	188.16	–13.5	–9.4	4.3
Horseman Glbl Ltd EUR	GL	EQ	CYM	05/29	USD	408.89	–17.0	1.7	10.2
Horseman Glbl Ltd USD	GL	EQ	CYM	05/29	USD	408.89	–17.0	1.7	10.2

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HSBC Absolute Companies

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Global Absolute	OT	OT	GGY	06/19	GBP	0.98	4.6	NS	NS
Global Absolute EUR	OT	OT	NA	06/12	EUR	1.45	5.2	NS	NS
Global Absolute USD	OT	OT	GGY	06/19	USD	1.85	4.9	NS	NS

■ **HSBC ALTERNATIVE STRATEGY FUND**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Special Opp EUR	OT	OT	CYM	06/19	EUR	79.40	4.0	NS	NS
Special Opp Inst EUR	OT	OT	CYM	06/19	EUR	74.78	4.2	NS	NS
Special Opp Inst USD	OT	OT	CYM	06/19	USD	84.63	4.8	NS	NS
Special Opp USD	OT	OT	CYM	06/19	USD	83.18	4.5	NS	NS

■ **HSBC Portfolio Selection Fund**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
GH Fund AP	OT	OT	JEY	05/22	EUR	123.47	3.5	–13.4	–3.8
GH Fund CHF Hdg	OT	OT	JEY	06/19	CHF	103.96	4.1	NS	NS
GH Fund EUR Hdg (Non-V)	OT	OT	JEY	05/22	EUR	111.63	2.9	–15.9	–5.9
GH Fund GBP Hdg	OT	OT	JEY	06/19	GBP	123.36	4.7	NS	NS
GH Fund Inst EUR	OT	OT	JEY	05/29	EUR	91.86	10.0	–10.4	NS
GH Fund Inst USD	OT	OT	JEY	06/19	USD	104.08	5.5	NS	NS
GH FUND S EUR	OT	OT	CYM	06/19	EUR	119.05	5.3	NS	NS
GH FUND S GBP	OT	OT	JEY	06/19	GBP	123.38	4.9	NS	NS
GH Fund S USD	OT	OT	CYM	06/19	USD	139.44	5.6	NS	NS
GH Fund USD	OT	OT	GGY	06/19	USD	255.88	5.0	NS	NS
Hedge Investments	OT	OT	JEY	06/19	USD	130.39	5.2	NS	NS
Leverage GH USD	OT	OT	GGY	06/19	USD	106.44	9.1	NS	NS
MultiAdv Arb CHF Hdg	OT	OT	JEY	06/19	CHF	88.63	5.5	NS	NS
MultiAdv Arb EUR Hdg	OT	OT	JEY	06/19	EUR	95.93	6.2	NS	NS
MultiAdv Arb GBP Hdg	OT	OT	JEY	06/19	GBP	103.35	6.6	NS	NS
MultiAdv Arb S EUR	OT	OT	CYM	06/19	EUR	101.91	6.5	NS	NS
MultiAdv Arb S GBP	OT	OT	CYM	06/19	GBP	106.48	6.8	NS	NS
MultiAdv Arb S USD	OT	OT	CYM	06/19	USD	116.27	7.3	NS	NS
MultiAdv Arb USD	OT	OT	GGY	05/29	USD	178.71	5.9	–18.6	–10.7

■ **HSBC Uni-folio**

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Alpha AdvantEdge	OT	OT	JEY	06/19	USD	111.15	3.8	NS	NS
Asian AdbantEdge EUR	OT	OT	JEY	06/19	EUR	95.68	7.9	NS	NS
Asian AdvantEdge	OT	OT	JEY	06/19	USD	175.02	8.0	NS	NS
Emerg AdvantEdge	OT	OT	JEY	06/19	USD	155.15	10.5	NS	NS
Emerg AdvantEdge EUR	OT	OT	JEY	06/19	EUR	86.50	10.1	NS	NS
Europ AdvantEdge EUR	OT	OT	JEY	06/19	EUR	122.28	6.1	NS	NS
Europ AdvantEdge USD	OT	OT	JEY	06/19	USD	129.46	6.1	NS	NS
Japan AdvantEdge JPY	OT	OT	JEY	06/19	JPY	7810.24	–3.3	NS	NS
Japan AdvantEdge USD	OT	OT	JEY	06/19	USD	91.28	–3.0	NS	NS
Lvgd Alpha AdvantEdge	OT	OT	JEY	06/19	USD	91.57	6.7	NS	NS
Real AdvantEdge EUR	OT	OT	NA	06/19	EUR	103.39	4.6	NS	NS
Real AdvantEdge USD	OT	OT	NA	06/19	USD	103.38	4.8	NS	NS
Trading Adv JPY	OT	OT	NA	06/19	JPY	9570.68	NS	NS	NS
Trading AdvantEdge	OT	OT	GGY	06/19	USD	145.33	–4.2	NS	NS
Trading AdvantEdge EUR	OT	OT	GGY	06/19	EUR	132.21	–3.9	NS	NS
Trading AdvantEdge GBP	OT	OT	GGY	06/19	GBP	139.39	–4.2	NS	NS
US AdvantEdge	OT	OT	JEY	06/19	USD	105.10	2.7	NS	NS

INTEGRATED alternative investments

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Altipro	OT	OT	FRA	05/29	EUR	189.44	–23.0	NS	NS
Integrated Dir Trading EUR	OT	OT	CYM	03/31	EUR	104.98	3.0	–1.6	6.9
Integrated Emg Markets EUR	OT	OT	CYM	05/29	EUR	86.21	21.1	–13.2	–6.3
Integrated European EUR	OT	OT	CYM	05/29	EUR	152.23	2.2	–0.1	–0.5
Integrated Event Driven EUR	OT	OT	CYM	03/31	EUR	81.30	–0.7	–21.2	–10.3
Integrated Lg/Sh Sel F EUR	OT	OT	CYM	03/31	EUR	85.76	0.2	–10.8	–4.9
Integrated MultSt B EUR	OT	OT	VGB	03/31	EUR	115.78	2.6	–15.0	–6.4
Integrated Relative Value EUR	OT	OT	CYM	03/31	EUR	91.94	2.6	–6.4	–3.3

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Tel. +7 495 792 5595 www.inventumcapital.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Inv Absolute Return Fund	OT	OT	BMU	05/29	USD	118.99	17.6	NS	NS

Meriden Group Wealth Management

■ **MERIDEN GROUP**

Tel: + 376 741 175 Fax: + 376 741 183 Email: meriden@meriden-ipm.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Antanta Combined Fund	EE	EQ	AND	06/26	USD	246.05	28.1	NS	–44.4
Antanta MidCap Fund	EE	EQ	AND	06/26	USD	408.93	41.1	NS	–46.9
Meriden Opps Fund	GL	OT	AND	06/24	EUR	77097906.00	88536637.4	71571464.9	NS

INDICES

FUND NAME	GF	NAV DATE	CR	NAV	% RETURN 1-WK	1-MO	1-Q	1-YR	2-YR

■ **ARIX ABSOLUTE RETURN INVESTABLE INDEX**

Feri Institutional Advisors, www.feri.de

FUND NAME	GF	NAV DATE	CR	NAV	1-WK	1-MO	1-Q	1-YR	2-YR
ARIX Composite Gross USD	OT	05/29	USD	1306.06	3.2	3.2	2.6	–18.0	–7.1

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Meriden Protective Div	OT	OT	AND	11/24	EUR	78.88	–2.8	NS	NS

■ **OTHER FUNDS**

For information about these funds, please contact us on Tel: +44 (0) 207 842 9694/9633

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Medinvest Plc Dublin	OT	OT	IRL	03/31	USD	1217.26	NS	–14.6	–5.6

SUPERFUND

■ **SUPERFUND ASSET MANAGEMENT GMBH**

For information about open funds, please contact us on Tel: +43 1 24700
*www.superfund.com *Closed for New Investments*

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Superfund Cayman*	OT	OT	CYM	06/30	USD	50.76	–39.4	–26.4	–1.2
Superfund GCT USD*	OT	OT	LUX	06/30	USD	2448.00	–33.4	–27.4	–5.5
Superfund Gold A (SPC)	OT	OT	CYM	06/30	USD	909.71	–22.1	–21.7	8.8
Superfund Gold B (SPC)	OT	OT	CYM	06/30	USD	920.18	–32.1	–31.4	4.4
Superfund Q-AG*	OT	OT	AUT	06/30	EUR	6861.00	–22.1	–15.1	0.5

■ **WINTON CAPITAL MANAGEMENT LTD**

Tel: +44 (0)20 7610 5350 Fax: +44 (0)20 7610 5301

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Winton Evolution EUR	GL	OT	VGB	06/30	EUR	1202.45	–7.1	–12.8	1.9
Winton Evolution GBP	GL	OT	VGB	06/30	GBP	1183.65	–7.2	–12.5	2.9
Winton Evolution JPY	OT	OT	VGB	02/27	JPY	115254.95	0.7	–3.8	7.1
Winton Evolution USD	GL	OT	CYM	06/30	USD	1171.22	–7.3	–13.2	1.9
Winton Futures EUR	GL	OT	VGB	06/30	EUR	192.44	–6.5	–4.0	11.4
Winton Futures GBP	GL	OT	VGB	06/30	GBP	207.44	–6.5	–3.4	12.8
Winton Futures JPY Lead Series 2	GL	OT	VGB	06/30	JPY	13762.49	–6.7	–6.1	8.7
Winton Futures USD	GL	OT	VGB	06/30	USD	681.97	–7.1	–4.8	11.4

For information about listing your funds, please contact: Peter Jennings, tel: +44-20-7842-9674; email: peter.jennings@dowjones.com or Carson Wong tel: +852 2831-6481; email: carson.wong@dowjones.com

GLOBAL MARKETS LINEUP

Commodities

Prices of futures contracts with the most open interest

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

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	Percentage	Contract high	Contract low
Corn (cents/bu.)	CBOT	**357.50**	–11.75	**–3.18%**	707.00	302.00
Soybeans (cents/bu.)	CBOT	**1006.00**	–9.50	**–0.94**	1,557.50	670.00
Wheat (cents/bu.)	CBOT	**529.00**	–6.50	**–1.21**	1,072.00	522.75
Live cattle (cents/lb.)	CME	**84.875**	–0.875	**–1.02**	117.500	78.075
Cocoa ($/ton)	ICE-US	**2,494**	–10	**–0.40**	3,237	1,950
Coffee (cents/lb.)	ICE-US	**117.80**	–1.25	**–1.05**	183.30	109.00
Sugar (cents/lb.)	ICE-US	**17.58**	–0.17	**–0.96**	18.09	11.05
Cotton (cents/lb.)	ICE-US	**60.92**	0.44	**0.73%**	101.50	45.25
Crude palm oil (ringgit/ton)	MDEX	**2,175.00**	–84	**–3.72**	3,637	1,425
Cocoa (pounds/ton)	LIFFE	**1,572**	2	**0.13**	2,004	1,040
Robusta coffee ($/ton)	LIFFE	**1,334**	11	**0.83**	2,324	1,250
Copper (cents/lb.)	COMEX	**230.55**	–2.50	**–1.07**	375.35	129.55
Gold ($/troy oz.)	COMEX	**931.00**	–10.30	**–1.09**	1,020.70	724.60
Silver (cents/troy oz.)	COMEX	**1340.80**	–35.20	**–2.56**	2,009.00	886.00
Aluminum ($/ton)	LME	**1,643.00**	–1.50	**–0.09**	3,340.00	1,288.00
Tin ($/ton)	LME	**14,350.00**	–50.00	**–0.35**	23,700.00	9,750.00
Copper ($/ton)	LME	**5,019.00**	–32.00	**–0.63**	8,811.00	2,815.00
Lead ($/ton)	LME	**1,729.50**	24.50	**1.44**	2,225.00	870.00
Zinc ($/ton)	LME	**1,570.00**	–4.50	**–0.29**	2,034.50	1,065.00
Nickel ($/ton)	LME	**16,250**	450	**2.85**	22,000	9,000
Crude oil ($/bbl.)	NYMEX	**66.73**	–2.58	**–3.72**	139.50	43.42
Heating oil ($/gal.)	NYMEX	**1.7016**	–0.0641	**–3.63**	4.0277	1.2230
RBOB gasoline ($/gal.)	NYMEX	**1.7908**	–0.0682	**–3.67**	3.6250	1.1425
Natural gas ($/mmBtu)	NYMEX	**3.615**	–0.180	**–4.74**	12.038	3.520
Brent crude ($/bbl.)	ICE-EU	**66.65**	–2.14	**–3.11**	129.00	43.41
Gas oil ($/ton)	ICE-EU	**545.50**	–22.00	**–3.88**	1,267.00	401.25

Source: Thomson Reuters; WSJ Market Data Group

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Currencies

London close on July 2

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	5.3277	0.1877	3.7988	0.2632
Brazil real	2.7310	0.3662	1.9473	0.5135
Canada dollar	1.6271	0.6146	1.1602	0.8620
1-mo. forward	1.6268	0.6147	1.1600	0.8621
3-mos. forward	1.6262	0.6149	1.1595	0.8624
6-mos. forward	1.6255	0.6152	1.1590	0.8628
Chile peso	763.17	0.001310	544.15	0.001838
Colombia peso	2932.91	0.0003410	2091.20	0.0004782
Ecuador US dollar-f	1.4025	0.7130	1	1
Mexico peso-a	18.4643	0.0542	13.1653	0.0760
Peru sol	4.2285	0.2365	3.0150	0.3317
Uruguay peso-e	32.496	0.0308	23.170	0.0432
U.S. dollar	1.4025	0.7130	1	1
Venezuela bolivar	3.01	0.332051	2.15	0.465701
ASIA-PACIFIC				
Australia dollar	1.7615	0.5677	1.2560	0.7962
China yuan	9.5810	0.1044	6.8314	0.1464
Hong Kong dollar	10.8694	0.0920	7.7501	0.1290
India rupee	67.2148	0.0149	47.9250	0.0209
Indonesia rupiah	14284	0.0000700	10185	0.0000982
Japan yen	134.65	0.007426	96.01	0.010416
1-mo. forward	134.61	0.007429	95.98	0.010419
3-mos. forward	134.52	0.007434	95.92	0.010426
6-mos. forward	134.33	0.007444	95.78	0.010440
Malaysia ringgit-c	4.9368	0.2026	3.5200	0.2841
New Zealand dollar	2.2274	0.4489	1.5882	0.6297
Pakistan rupee	114.381	0.0087	81.555	0.0123
Philippines peso	67.432	0.0148	48.080	0.0208
Singapore dollar	2.0360	0.4912	1.4517	0.6888
South Korea won	1786.08	0.0005599	1273.50	0.0007852
Taiwan dollar	46.184	0.02165	32.930	0.03037
Thailand baht	47.818	0.02091	34.095	0.02933

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.7130	1.4025
1-mo. forward	0.9999	1.0001	0.7130	1.4026
3-mos. forward	1.0001	0.9999	0.7131	1.4024
6-mos. forward	1.0002	0.9998	0.7132	1.4022
Czech Rep. koruna-b	25.889	0.0386	18.460	0.0542
Denmark krone	7.4450	0.1343	5.3084	0.1884
Hungary forint	271.54	0.003683	193.61	0.005165
Norway krone	8.9847	0.1113	6.4062	0.1561
Poland zloty	4.3698	0.2288	3.1157	0.3210
Russia ruble-d	43.764	0.02285	31.205	0.03205
Sweden krona	10.8720	0.0920	7.7519	0.1290
Switzerland franc	1.5200	0.6579	1.0838	0.9227
1-mo. forward	1.5194	0.6582	1.0833	0.9231
3-mos. forward	1.5182	0.6587	1.0825	0.9238
6-mos. forward	1.5160	0.6596	1.0809	0.9252
Turkey lira	2.1533	0.4644	1.5353	0.6513
U.K. pound	0.8566	1.1673	0.6108	1.6372
1-mo. forward	0.8567	1.1673	0.6108	1.6371
3-mos. forward	0.8568	1.1672	0.6109	1.6370
6-mos. forward	0.8569	1.1670	0.6110	1.6367
MIDDLE EAST/AFRICA				
Bahrain dinar	0.5287	1.8914	0.3770	2.6526
Egypt pound-a	7.8386	0.1276	5.5890	0.1789
Israel shekel	5.4333	0.1841	3.8740	0.2581
Jordan dinar	0.9934	1.0067	0.7083	1.4118
Kuwait dinar	0.4033	2.4795	0.2876	3.4775
Lebanon pound	2114.27	0.0004730	1507.50	0.0006634
Saudi Arabia riyal	5.2600	0.1901	3.7505	0.2666
South Africa rand	10.9851	0.0910	7.8325	0.1277
United Arab dirham	5.1512	0.1941	3.6729	0.2723
SDR -f	0.9066	1.1030	0.6465	1.5469

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies.

Note: Based on trading among banks in amounts of $1 million and more, as quoted by Thomson Reuters.

Major stock market indexes

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

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION Close	Net change	Percentage change	PERFORMANCE Yr.-to-date	52-wk.
26	**EUROPE**	**DJ Stoxx 600**	204.12	–5.34	**–2.55%**	3.7%	–27.9%
14		**DJ Stoxx 50**	2075.97	–60.03	**–2.81**	0.5	–27.8
19	**Euro Zone**	**DJ Euro Stoxx**	220.89	–6.45	**–2.84**	–0.9	–30.1
16		**DJ Euro Stoxx 50**	2369.65	–80.08	**–3.27**	–3.3	–28.9
8	Austria	**ATX**	2099.38	–40.29	**–1.88**	19.9	–45.7
12	Belgium	**Bel-20**	2038.05	–35.93	**–1.73**	6.8	–34.0
8	Czech Republic	**PX**	886.5	–12.5	**–1.39**	3.3	–38.5
15	Denmark	**OMX Copenhagen**	271.07	–4.28	**–1.55**	19.8	–28.8
12	Finland	**OMX Helsinki**	5607.20	–110.23	**–1.93**	3.8	–32.9
11	France	**CAC-40**	3116.41	–100.59	**–3.13**	–3.2	–28.3
19	Germany	**DAX**	4718.49	–186.95	**–3.81**	–1.9	–25.7
...	Hungary	**BUX**	15099.57	–326.41	**–2.12**	23.3	–24.8
8	Ireland	**ISEQ**	2665.69	–25.72	**–0.96**	13.8	–46.0
9	Italy	**FTSE MIB**	18928.66	–514.52	**–2.65**	–2.7	–34.9
9	Netherlands	**AEX**	252.69	–7.60	**–2.92**	2.7	–38.1
8	Norway	**All-Shares**	331.99	–6.31	**–1.87**	22.9	–35.6
17	Poland	**WIG**	30252.24	–436.49	**–1.42**	11.1	–24.6
14	Portugal	**PSI 20**	7119.11	–121.13	**–1.67**	12.3	–18.1
...	Russia	**RTSI**	960.46	–17.48	**–1.79%**	52.0	–56.6
9	Spain	**IBEX 35**	9643.5	–260.2	**–2.63**	4.9	–19.5
15	Sweden	**OMX Stockholm**	244.55	–5.60	**–2.24**	19.7	–10.8
11	Switzerland	**SMI**	5355.23	–117.71	**–2.15**	–3.2	–21.8
...	Turkey	**ISE National 100**	37038.21	–207.65	**–0.56**	37.9	9.2
10	U.K.	**FTSE 100**	4234.27	–106.44	**–2.45**	–4.5	–22.7
20	**ASIA-PACIFIC**	**DJ Asia-Pacific**	105.81	–0.13	**–0.12**	13.1	–23.1
...	Australia	**SPX/ASX 200**	3877.3	3.3	**0.09%**	4.2	–22.4
...	China	**CBN 600**	26065.10	332.35	**1.29**	76.5	17.6
16	Hong Kong	**Hang Seng**	18178.05	–200.68	**–1.09**	26.3	–14.4
17	India	**Sensex**	14658.49	13.02	**0.09**	51.9	11.9
...	Japan	**Nikkei Stock Average**	9876.15	–63.78	**–0.64**	11.5	–25.5
...	Singapore	**Straits Times**	2320.82	–31.73	**–1.35**	31.7	–19.4
11	South Korea	**Kospi**	1411.48	–0.18	**–0.01**	25.5	–12.1
14	**AMERICAS**	**DJ Americas**	236.34	–5.38	**–2.23**	4.5	–29.0
...	Brazil	**Bovespa**	50954.05	–589.73	**–1.14**	35.7	–14.7
16	Mexico	**IPC**	24122.50	–401.51	**–1.64**	7.8	–15.4

*P/E ratios use trailing 12-months, as-reported earnings

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

Sources: Thomson Reuters; WSJ Market Data Group

Reuters Group PLC is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

Dow Jones and Dow Jones Stoxx Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	PERFORMANCE (euros) Last	Daily	52-wk.	PERFORMANCE (U.S. dollars) Last	Daily	52-wk.
2.73%	12	**World** -a				183.01	**–2.06%**	–29.7%
2.21	14	**Global Dow**	1094.60	**–0.22%**	–24.1%	1636.99	**–0.57**	–32.0
3.37	26	**Stoxx 600**	204.10	**–2.55**	–27.9	213.69	**–3.33**	–35.7
3.53	17	**Stoxx Large 200**	218.70	**–2.69**	–28.4	227.76	**–3.47**	–36.2
2.54	-17	**Stoxx Mid 200**	188.90	**–1.92**	–25.1	196.65	**–2.71**	–33.2
2.74	-28	**Stoxx Small 200**	117.80	**–1.79**	–24.4	122.57	**–2.58**	–32.6
3.35	19	**Euro Stoxx**	220.90	**–2.83**	–30.1	231.25	**–3.61**	–37.7
3.51	14	**Euro Stoxx Large 200**	234.60	**–3.04**	–30.7	244.11	**–3.82**	–38.2
2.58	-12	**Euro Stoxx Mid 200**	210.50	**–1.99**	–27.9	218.88	**–2.77**	–35.7
2.82	16	**Euro Stoxx Small 200**	128.10	**–1.53**	–26.0	133.18	**–2.32**	–34.0
5.96	8	**Stoxx Select Dividend 30**	1142.60	**–2.22**	–31.2	1370.65	**–3.01**	–38.6
5.19	9	**Euro Stoxx Select Div 30**	1320.40	**–2.55**	–41.0	1590.08	**–3.33**	–47.4
4.75%	11	**U.S. Select Dividend** -b				508.81	**–1.97%**	–22.1%
4.52	15	**Infrastructure**	1242.60	**0.08%**	–17.1%	1668.22	**–0.26**	–25.7
1.84	7	**Luxury**	691.60	**–0.49**	–15.3	825.67	**–0.83**	–24.1
6.60	5	**BRIC 50**	349.90	**–0.27**	–15.7	469.70	**–0.62**	–24.5
4.32	11	**Africa 50**	722.70	**0.36**	–26.3	645.91	**0.01**	–34.0
3.53	6	**GCC**				1404.94	**0.77**	–51.8
3.38	12	**Sustainability**	679.20	**–1.59**	–23.7	804.29	**–2.32**	–31.9
2.57	12	**Islamic Market** -a				1597.60	**–1.93**	–28.0
2.86	11	**Islamic Market 100**	1458.90	**–1.23**	–16.5	1751.20	**–1.97**	–25.5
2.86	11	**Islamic Turkey** -c						
2.14	12	**DJ U.S. TSM**				9281.96	**–2.06**	–27.6
		DJ-UBS Commodity	119.00	**–1.15**	–42.9	121.19	**–1.95**	–49.0

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

Source: Dow Jones Indexes

Cross rates

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

	USD	GBP	CHF	SEK	RUB	NOK	JPY	ILS	EUR	DKK	CDN	AUD
Australia	1.2560	2.0563	1.1589	0.1620	0.0402	0.1961	0.0131	0.3242	1.7615	0.2366	1.0826	...
Canada	1.1602	1.8994	1.0705	0.1497	0.0372	0.1811	0.0121	0.2995	1.6271	0.2185	...	0.9237
Denmark	5.3084	8.6909	4.8982	0.6848	0.1701	0.8286	0.0553	1.3703	7.4450	...	4.5756	4.2265
Euro	0.7130	1.1673	0.6579	0.0920	0.0228	0.1113	0.0074	0.1841	...	0.1343	0.6146	0.5677
Israel	3.8740	6.3425	3.5746	0.4997	0.1241	0.6047	0.0403	...	5.4333	0.7298	3.3392	3.0845
Japan	96.0100	157.1876	88.5905	12.3854	3.0768	14.9870	...	24.7832	134.6540	18.0864	82.7565	76.4432
Norway	6.4062	10.4882	5.9111	0.8264	0.2053	...	0.0667	1.6536	8.9847	1.2068	5.5219	5.1006
Russia	31.2045	51.0880	28.7931	4.0254	...	4.8710	0.3250	8.0549	43.7643	5.8783	26.8970	24.8450
Sweden	7.7519	12.6914	7.1528	...	0.2484	1.2101	0.0807	2.0010	10.8720	1.4603	6.6818	6.1721
Switzerland	1.0838	1.7743	...	0.1398	0.0347	0.1692	0.0113	0.2797	1.5200	0.2042	0.9341	0.8629
U.K.	0.6108	...	0.5636	0.0788	0.0196	0.0953	0.0064	0.1577	0.8566	0.1151	0.5265	0.4863
U.S.	...	1.6372	0.9227	0.1290	0.0320	0.1561	0.0104	0.2581	1.4025	0.1884	0.8620	0.7962

Source: Thomson Reuters via WSJ Market Data Group

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of July 2, 2009

Dividend yield	Price-to-earnings ratio	Morgan Stanley Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
3.00%	16	**ALL COUNTRY (AC) WORLD***	247.33	0.99%	**8.6%**	–30.4%
3.00	17	**World (Developed Markets)**	972.85	0.91	**5.7**	–30.6
2.70	18	**World ex-EMU**	114.17	0.59	**6.1**	–29.4
2.80	19	**World ex-UK**	970.19	0.77	**5.0**	–30.0
3.80	16	**EAFE**	1,325.58	1.41	**7.1**	–32.6
2.90	14	**Emerging Markets (EM)**	773.07	1.55	**36.3**	–28.9
4.40	11	**EUROPE**	73.04	1.77	**5.2**	–27.8
4.60	12	**EMU**	147.32	2.71	**3.7**	–36.8
4.10	13	**Europe ex-UK**	79.77	1.93	**2.8**	–27.5
5.50	9	**Europe Value**	81.43	1.81	**5.0**	–28.8
3.30	15	**Europe Growth**	63.68	1.73	**5.4**	–26.8
3.50	12	**Europe Small Cap**	127.31	1.42	**26.1**	–27.4
2.70	7	**EM Europe**	209.90	3.32	**32.2**	–48.7
5.00	8	**UK**	1,290.40	2.13	**–1.9**	–22.5
3.10	13	**Nordic Countries**	115.44	2.72	**17.7**	–29.8
2.00	6	**Russia**	572.57	4.66	**38.9**	–60.4
4.20	10	**South Africa**	613.08	2.24	**5.9**	–14.4
3.40	17	**AC ASIA PACIFIC EX-JAPAN**	324.45	0.19	**31.2**	–24.6
1.70	-117	**Japan**	572.21	–0.14	**8.0**	–31.4
2.40	16	**China**	55.12	0.02	**35.1**	–11.2
1.10	18	**India**	575.42	1.14	**55.8**	5.7
1.30	20	**Korea**	388.75	1.65	**26.6**	–15.1
4.40	29	**Taiwan**	239.77	2.24	**38.3**	–18.4
2.20	22	**US BROAD MARKET**	1,018.82	0.55	**3.7**	–27.7
1.60	-40	**US Small Cap**	1,347.96	1.62	**8.1**	–25.5
3.50	13	**EM LATIN AMERICA**	3,011.82	1.25	**45.0**	–36.6

*Twenty-three developed and 26 emerging markets

Source: MSCI Barra

BLUE CHIPS & BONDS

Major players & benchmarks

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

Dow Jones Stoxx 50: Thursday's best and worst...

Company	Country	Industry	Market value, in billions of US$	Previous close, in local currency	STOCK PERFORMANCE Previous session	52-week	Three-year
Diageo	U.K.	Distillers & Vintners	$40.9	9.05	**0.89%**	0.3%	–1.0%
Barclays	U.K.	Banks	45.8	2.89	**–0.43%**	–1.0	–52.6
British Amer Tob	U.K.	Tobacco	55.8	16.85	**–0.53**	–1.8	19.0
Nestle S.A.	Switzerland	Food Products	144.8	41.00	**–1.20**	–9.8	7.6
Nokia	Finland	Telecoms Equipment	54.8	10.44	**–1.51**	–33.3	–34.0
ING Groep	Netherlands	Life Insurance	$20.0	6.87	**–6.10%**	–66.5	–77.7
Anglo Amer	U.K.	General Mining	37.9	17.26	**–5.81**	–47.2	–23.0
Rio Tinto	U.K.	General Mining	51.0	20.35	**–5.70**	–54.9	–13.5
Daimler	Germany	Automobiles	37.2	24.98	**–5.54**	–35.3	–35.2
AXA S.A.	France	Full Line Insurance	38.1	13.01	**–5.42**	–30.5	–50.3

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

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE Latest	52-week	Three-year
France Telecom France (Fixed Line Telecoms)	60.2	16.42	**–1.56%**	–18.4%	–4.0%
Roche Hldg Part. Cert. Switzerland (Pharmaceuticals)	95.5	147.40	**–1.73**	–19.4	–29.1
HSBC Hldgs U.K. (Banks)	140.9	5.00	**–1.81**	–25.4	–40.6
SAP Germany (Software)	48.2	28.08	**–1.84**	–15.1	–32.9
BP U.K. (Integrated Oil & Gas)	162.7	4.81	**–1.85**	–13.7	–24.6
Sanofi-Aventis S.A. France (Pharmaceuticals)	78.0	42.33	**–1.90**	–5.8	–45.5
ENI Italy (Integrated Oil & Gas)	95.3	16.98	**–1.96**	–26.7	–27.1
Telefonica S.A. Spain (Fixed Line Telecoms)	105.4	15.99	**–2.05**	–8.9	21.7
Deutsche Telekom Germany (Mobile Telecoms)	51.3	8.39	**–2.21**	–23.6	–33.8
Unilever Netherlands (Food Products)	41.4	17.24	**–2.21**	–4.0	–3.0
Novartis Switzerland (Pharmaceuticals)	106.3	43.60	**–2.24**	–24.7	–35.1
Astrazeneca U.K. (Pharmaceuticals)	62.9	26.44	**–2.35**	14.3	–18.6
Deutsche Bk Germany (Banks)	36.5	41.97	**–2.50**	–24.8	–52.5
UniCredit Italy (Banks)	41.8	1.78	**–2.63**	–44.4	–65.1
Tesco U.K. (Food Retailers & Wholesalers)	45.1	3.51	**–2.67**	2.6	0.9
ABB Switzerland (Industrial Machinery)	36.3	16.95	**–2.75**	–38.5	10.2
GlaxoSmithKline U.K. (Pharmaceuticals)	99.5	10.64	**–2.79**	–10.0	–30.8
Iberdrola S.A. Spain (Conventional Electricity)	38.4	5.49	**–2.92**	–35.0	–16.7
BG Grp U.K. (Integrated Oil & Gas)	60.3	10.29	**–3.02**	–15.5	39.3
Credit Suisse Grp Switzerland (Banks)	52.6	48.18	**–3.06**	6.1	–29.3
GDF Suez France (Multiutilities)	83.7	26.43	**–3.08%**	–32.4%	2.7%
UBS Switzerland (Banks)	38.7	13.01	**–3.20**	–38.1	–78.2
BNP Paribas S.A. France (Banks)	67.2	45.85	**–3.26**	–21.9	–39.8
Vodafone Grp U.K. (Mobile Telecoms)	110.1	1.16	**–3.35**	–24.4	–3.7
Assicurazioni Gen Italy (Full Line Insurance)	28.7	14.54	**–3.39**	–37.9	–42.2
L.M. Ericsson Tel B Sweden (Telecoms Equipment)	29.3	76.10	**–3.43**	19.3	–36.3
Royal Dutch Shell A U.K. (Integrated Oil & Gas)	87.2	17.53	**–3.44**	–30.2	–33.7
Bayer Germany (Specialty Chemicals)	43.3	37.38	**–3.46**	–29.0	5.8
Soc. Generale France (Banks)	30.8	37.90	**–3.51**	–32.6	–64.8
Banco Bilbao Viz Spain (Banks)	46.2	8.80	**–3.51**	–27.3	–46.4
Koninklijke Phlps Netherlands (Consumer Electronics)	17.4	12.74	**–3.59**	–38.5	–47.6
Banco Santander Spain (Banks)	95.8	8.38	**–3.73**	–24.2	–22.4
Total S.A. France (Integrated Oil & Gas)	125.6	37.77	**–3.77**	–26.7	–26.5
E.ON Germany (Multiutilities)	68.5	24.42	**–4.20**	–42.4	–18.8
Allianz SE Germany (Full Line Insurance)	41.2	64.94	**–4.40**	–41.4	–47.3
BHP Billiton U.K. (General Mining)	49.6	13.58	**–4.70**	–22.4	29.5
ArcelorMittal Luxembourg (Iron & Steel)	49.9	22.79	**–4.76**	–57.8	...
Intesa Sanpaolo Italy (Banks)	37.5	2.26	**–4.85**	–40.0	–50.4
BASF Germany (Commodity Chemicals)	35.6	27.61	**–5.15**	–35.2	–11.8
Siemens Germany (Diversified Industrials)	60.9	47.50	**–5.34**	–31.5	–30.3

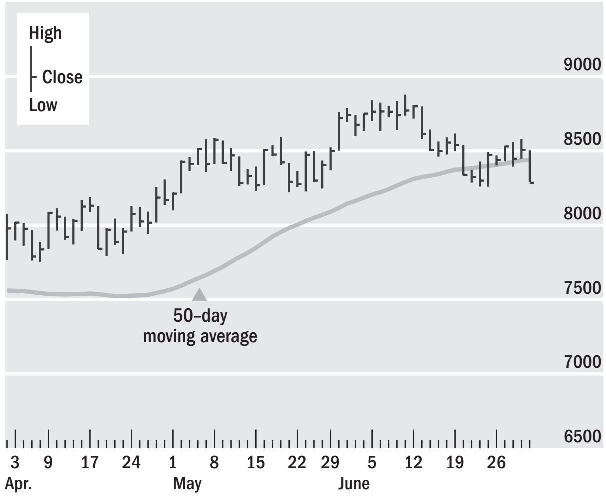
Sources: Dow Jones Indexes; WSJ Market Data Group

Dow Jones Industrial Average P/E: 12

LAST: **8285.57** ▼ 218.49, or 2.57%

YEAR TO DATE: ▼ **490.82, or 5.6%**

OVER 52 WEEKS ▼ **3,002.97, or 26.6%**



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

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	Percentage
AT&T	T	**25.10**	$24.59	–0.48	**–1.91%**
Alcoa	AA	**28.00**	9.89	–0.46	**–4.44**
AmExpress	AXP	**11.50**	22.43	–0.57	**–2.48**
BankAm	BAC	**197.90**	12.66	–0.39	**–2.99**
Boeing	BA	**6.70**	40.89	–1.34	**–3.17**
Caterpillar	CAT	**12.90**	31.81	–1.38	**–4.16**
Chevron	CVX	**9.00**	64.57	–1.95	**–2.93**
CiscoSys	CSCO	**37.40**	18.50	–0.30	**–1.60**
CocaCola	KO	**10.40**	48.87	–0.31	**–0.63**
Disney	DIS	**14.40**	22.89	–0.56	**–2.39**
DuPont	DD	**5.10**	24.84	–0.96	**–3.72**
ExxonMobil	XOM	**20.60**	68.44	–2.12	**–3.00**
GenElec	GE	**67.50**	11.52	–0.26	**–2.21**
HewlettPk	HPQ	**10.90**	37.93	–0.75	**–1.94**
HomeDpt	HD	**12.60**	22.87	–0.84	**–3.54**
Intel	INTC	**51.70**	16.72	–0.32	**–1.88**
IBM	IBM	**6.30**	102.02	–2.82	**–2.69**
JPMorgChas	JPM	**33.00**	32.57	–1.20	**–3.55**
JohnsJohns	JNJ	**14.00**	55.97	–1.10	**–1.93**
KftFoods	KFT	**9.80**	25.99	–0.62	**–2.33**
McDonalds	MCD	**6.50**	57.48	–0.74	**–1.27**
Merck	MRK	**13.70**	27.01	–1.04	**–3.71**
Microsoft	MSFT	**60.70**	23.37	–0.67	**–2.79**
Pfizer	PFE	**37.90**	14.50	–0.40	**–2.68**
ProctGamb	PG	**12.90**	51.00	–1.00	**–1.92**
3M	MMM	**5.10**	60.21	–0.53	**–0.87**
TravelersCos	TRV	**5.70**	39.33	–1.80	**–4.38**
UnitedTech	UTX	**5.00**	50.35	–1.93	**–3.69**
Verizon	VZ	**11.80**	30.22	–0.60	**–1.95**
WalMart	WMT	**18.70**	47.85	–0.52	**–1.08**

Source: WSJ Market Data Group

Tracking credit markets & dealmakers

Hedge funds

Dow Jones Hedge Benchmark	TOTAL RETURN for rolling periods, net of fees* One week	One month	One quarter	Year to date	One year
Merger Arbitrage	0.85%	1.21%	2.0%	4.7%	-3.4%
Event Driven	0.23	1.82	4.2	6.4	-22.3
Equity Market Neutral	0.71	0.21	-1.3	-3.2	-12.6
Equity Long/Short	0.21	1.27	1.4	0.8	-18.3

*Estimates as of 07/01/09, after fees; Source: www.djhedgefundindexes.com

Credit derivatives

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

Markit iTraxx Indexes

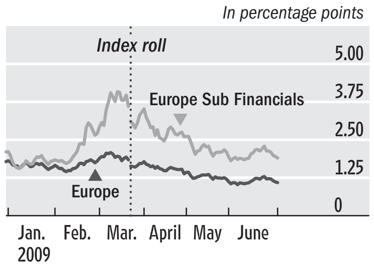
Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 11/1	1.09	103.47%	0.02%	1.87	1.02	1.36
Eur. High Volatility: 11/1	2.13	107.11	0.04	3.89	2.03	2.73
Europe Crossover: 11/1	7.02	109.92	0.10	9.71	6.60	7.99
Asia ex-Japan IG: 11/1	1.89	107.14	0.04	3.84	1.58	2.49
Japan: 11/1	1.80	114.93	0.05	4.33	1.41	2.48

Note: Data as of July 1

Spreads

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

In percentage points



Source: Markit Group

Credit-default swaps: European companies

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

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Intl Pwr	597	**–20**	–51	–1
PPR	263	**–19**	–40	–23
ThyssenKrupp	436	**–18**	–31	10
Rhodia	952	**–14**	–37	133
Renault	417	**–14**	–46	57
Lafarge	266	**–12**	–51	–22
ArcelorMittal Fin	408	**–11**	–56	–92
Pernod Ricard	340	**–11**	–23	7
Marks & Spencer	178	**–11**	–24	–13
Norske Skogindustrier	1219	**–10**	–27	223

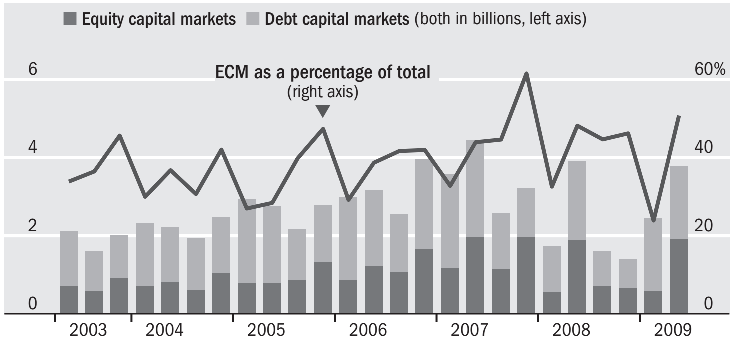
And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
ITV	470	**1**	–8	–130
Unilever	35	**1**	–5	–5
Gov & Co Bk Irlnd	367	**1**	–12	54
Societe Television Francaise	96	**1**	...	3
Rank Gp	197	**1**	–3	–3
Accor	132	**2**	–11	–1
Brit Awys	759	**9**	–23	135
Fiat	836	**10**	–30	136
Deutsche Lufthansa	189	**12**	1	29
Contl	978	**43**	87	172

Source: Markit Group

Europe, Middle East & Africa: Bank revenues from equity capital markets

Behind every IPO, follow-on or convertible equity offering is one or more investment banks. At right, investment banks historical and year-to-date revenues from global equity-capital-market (ECM) deals



Source: Dealogic

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FROM PAGE ONE

Fund manager investigated for alleged kickbacks

Continued from first page

Ms. Kohn, a 60-year-old Viennese former Wall Street penny-stock broker, has repeatedly denied prior knowledge of Mr. Madoff's $65 billion fraud or any wrongdoing. A judge sentenced Mr. Madoff to 150 years in prison on Monday.

A spokeswoman for Bank Medici said neither Ms. Kohn nor the bank had received kickbacks.

According to an April U.S. Department of Justice affidavit filed with Vienna prosecutors, Ms. Kohn is under investigation in the U.S. for potential criminal charges of conspiracy, fraud and wire fraud in connection with the alleged kickbacks The fraud charges carry maximum jail terms of 20 years each, while conspiracy carries a maximum five-year term, according to the affidavit.

Regulators have filed civil, but not criminal charges against several fund managers who steered their clients' money to the Madoff firm. Several of those actions allege that these so-called feeder funds should have known that Mr. Madoff's consistent returns were suspect, but stop short of alleging complicity.

Bank Medici, which is part of the U.S. Justice Department investigation, is owned 75% by Ms. Kohn and 25% by Bank Austria, a unit of Italy's **UniCredit** SpA. U.S. prosecutors allege that Ms. Kohn acted on her own behalf in receiving kickbacks. U.S. prosecutors allege that Ms. Kohn and Bank Medici failed to disclose to investors that their funds were being invested wholly with Mr. Madoff. The affidavits do not suggest Bank Medici knew of the alleged kickbacks to Ms. Kohn.

Representatives for Bank Austria and UniCredit referred all questions to Bank Medici.

Two streams of alleged payments are under investigation. Early this year, U.S. investigators noticed a flow of payments totaling about $32 million over 10 years from Mr. Madoff's advisory firm, **Bernard L. Madoff Investment Securities** LLC, to Infovaleur Inc., a New York company that was "owned by Sonja Kohn personally," according to a U.S. affidavit filed on April 6. The U.S. affidavit said U.S. prosecutors were unable to locate a registration for Infovaleur Inc.

"It does not appear that Kohn, or Bank Medici, ever disclosed to investors in the feeder fund that Kohn was personally receiving payments from Madoff at the same time as she was investing the feeder funds with [Mr. Madoff's fund]," the affidavit says. Mr. Madoff was "actually in full control" of Bank Medici's investments, according to the affidavit.

Prospectuses for the Bank Medici funds that Ms. Kohn oversaw claimed they were investing in a basket of 35 to 50 Standard & Poors' 100 stocks, as well as in U.S. Treasuries, the affidavit says. The prospectuses did not mention Mr. Madoff or his company, when in fact all of the funds' money was being forwarded to Mr. Madoff, the affidavits say.

Meanwhile Grant Thornton U.K. LLP, the accounting firm liquidating Mr. Madoff's London-based unit, Madoff Securities International Ltd., discovered a bank receipt that triggered a U.K. investigation, according to a March 24 affidavit filed with Austrian prosecutors by the Serious Fraud Office, a U.K. government agency responsible for prosecuting complex fraud cases. The bank receipt referenced a check that Madoff International paid to a company called Erko Inc. and which was deposited in a Vienna bank account, according to the U.K. affidavit. The affidavit said the Serious Fraud Office had determined that both Erko and the bank account were controlled by Ms. Kohn. The fraud office also said in the affidavit it was unable to locate a registration for Erko.

The U.K. affidavit alleges that Mr. Madoff's London subsidiary paid about £7 million ($11.5 million) over five years to Erko. A British prosecutor alleges in the document that Mr. Madoff attempted to hide payments to Ms. Kohn by "falsely" declaring them in his company accounts as payment for research reports.

"It is suspected that the research papers were completely worthless and that the reports were never in fact used by [Madoff Securities International] for business decisions," the affidavit said.

The Serious Fraud Office is investigating Ms. Kohn in connection with potential criminal charges of money laundering and falsifying documents to receive kickbacks, according to the affidavit.

Representatives for the Vienna State Prosecutor's Office, the U.S. Attorney General's Office in New York, which is handling the Department of Justice investigation, and the U.K. Serious Fraud Office declined to comment.

The U.S. and British affidavits asked Austrian prosecutors to seize or share documents, witness statements and bank records related to companies and accounts controlled as above by Ms. Kohn. The Department of Justice also asked to observe an interview with Ms. Kohn.

Ms. Kohn was questioned for three hours in April by Austrian prosecutors at a court in Vienna, with a team of six U.S. officials present from the Department of Justice, the Securities and Exchange Commission and the Federal Bureau of Investigation. In the interview, she said she had no recollection of Erko. She said she had produced research for Madoff International, but was never paid for it, according to the court summary

Ms. Kohn answered routine questions, according to the Vienna State Court's nine-page summary of the questioning, such as: Age: 60; Education: high school diploma; Income: none. She also listened to questions based on the U.K. affidavit, but declined to respond, saying the questions were a surprise and she would need to prepare a response, the summary shows.

Mr. Madoff pleaded guilty in a New York court to defrauding billions of dollars from thousands of clients. In a statement to prosecutors, he said he never invested money on behalf of clients. A Ponzi scheme pays off investors using cash from new investors and works so long as the amount of fresh money flowing into the scheme remains bigger than the amounts being withdrawn.

U.S. prosecutors say Mr. Madoff depended on feeder funds run by investment advisers such as Ms. Kohn to recruit the large numbers of new investors needed to sustain the fraud.

Merkel to ask leaders to end cycle of bubbles and crises

Continued from first page

"know that a short-term weakening of another party always backfires on oneself in the long term," she said.

The chancellor's worries about instability in global finance have put her at odds with U.S. authorities, who are taking more aggressive policy steps than much of Europe to revive economic growth, and the U.K., which is seeking to defend London's competitiveness as a global financial center against EU regulation.

Germany's case against the volatility of finance-fueled economies such as the U.S. has a glaring weakness, some economists point out: Germany's own recession is the deepest of any major economy apart from Japan, with German gross domestic product widely expected to shrink by 6% this year.

That has led some economists to criticize Germany's heavy dependence on exports. Ms. Merkel insisted there is "no sensible alternative" to exports as a basis for much of Germany's prosperity.

Since the global financial crisis escalated last fall when Lehman Brothers failed, Germany has wielded its influence in Europe to restrain fiscal stimulus efforts in the EU, which accounts for nearly 30% of global economic activity. That has prompted criticism from U.S. observers who say Europe's cautious policy response increases the risk of global stagnation.

"She doesn't get how serious the problem is, or the need for unconventional policies," said Adam Posen, deputy director of the Peterson Institute for International Economics in Washington.

Ms. Merkel called that criticism "false," saying: "We have done everything we could to prevent our domestic demand from slumping. That is extremely good news for the world economy."

German consumer spending has been unusually strong in recent months, because of measures including subsidies for new car buyers. But that could fizzle as German unemployment rises in the coming year, economists warn.

She pointed out that Germany's fiscal measures in 2009 and 2010, totalling 3.6% of GDP, are nearly as big in proportion to its economy as the U.S.'s stimulus of 3.8% of GDP in the same period, according to International Monetary Fund figures.

The main difference is that U.S. fiscal measures began in 2008 and will continue more strongly in 2011, IMF figures show.

Ms. Merkel, a 54-year-old former particle physicist who grew up in communist East Germany, is strong favorite to remain in office after German elections on Sept. 27.

The main question is whether her conservative Christian Democrats will have to renew their awkward bipartisan coalition with the left-leaning Social Democrats, or whether they will win a center-right majority with their preferred allies, the tax-cutting Free Democrats.

Ms. Merkel has shown she knows how to attain power, in a rapid rise from outsider status. But years of tortuous compromises with the Social Democrats and a shift in German voters' appetite for further overhauls of the state and economy mean Ms. Merkel hasn't yet made much of an imprint on the country.

Ms. Merkel said she hasn't abandoned her ambitions to make the German economy more dynamic, which once earned her comparisons with former U.K. prime minister Margaret Thatcher. "I remain true to myself," Ms. Merkel said.

With a center-right government, she would reduce bureaucracy faster to encourage economic growth, she said. But she argues many of Germany's structural weaknesses have already been addressed, such as the need to make its labor market more flexible.

"If we didn't have this international crisis now, Germany would have better core economic data" than earlier this decade when Germany was less internationally competitive, she said.

Jobs data cast doubt on U.S. economy's ability to recover soon

Continued from first page

U.S. employment fell by a seasonally adjusted 467,000 jobs in June, after declining by 322,000 the month before, the Labor Department said Thursday.

U.S. households continue to be battered, as average hourly earnings rose just three cents between April and June to $18.53, the smallest quarterly gain since at least 1964, when the current data series was developed. Employers are also cutting back on shifts, squeezing how much workers can make. The average work week fell to 33 hours, down from 33.9 hours a year ago and the largest year-on-year drop since March 1975.

Thursday's jobs report dulled enthusiasm for a robust recovery, especially one counting on U.S. consumers, whose spending is the biggest component of gross domestic product.

J.P. Morgan chief economist Bruce Kasman says the U.S. economy is still on a path toward recovery, referring to a return to GDP growth in the second half—but he expects the recovery will be modest, with little job creation. "We'll get growth, but we will have a very difficult time generating jobs that offset these losses," he said.

The news also bodes poorly for trading partners—in particular China—that rely on Americans as the global engine of consumption.

The unemployment rate inched up just 0.1 percentage point to 9.5% in June, but the gain was was partly tempered by the 358,000 people who stopped looking for work, effectively removing themselves from the labor force. The labor force participation rate dipped to 65.7%, after rising slightly in May. Had those workers not dropped out of the search, the unemployment rate would have risen to 9.6%, said BNP Paribas economist Brian Fabbri.

The number of jobs lost in June is still far below the peak seen in the first quarter, when losses averaged more than 600,000 per month. One factor helping prop up employment is the Obama administration's $787 billion stimulus package, some economists say. While government jobs declined in June partly because of a layoff of temporary Census employees, state hiring held up, thanks in part to grants from the stimulus package.

While stimulus spending could prevent the economy from slipping deeper into recession, it alone isn't expected to be a major engine of second-half growth in jobs or the broader economy. That's partly because some of the money has gone to fill gaps in projects that lost state funding because of the precipitous drop in local tax receipts. Many states are looking at further job cuts as they struggle to balance budgets, despite the stimulus infusion.

"There's no question [stimulus spending] is beginning to have an effect," said William Dorey, chief executive of Granite Construction Inc., a large California-based general contractor. But, he added, the stimulus is "not the silver bullet that will make it like it was. It isn't causing us to go out and hire a bunch of people. We have excess capacity that's being unused."

Granite, which had $2.67 billion in sales last year, gets about 80% of its business from the public sector. The company employs about 2,000 people and reduced its payroll by 10% last year.

Other companies are similarly cautious about hiring again.

Engineering firm Stevens, Ferrone & Bailey Engineering Co. in Concord, Calif., has let go of one geologist and about a dozen union inspectors over the past two years because of the slowdown in construction.

Jonathan Bailey, a vice president and co-owner of the firm, said that during the past month developers have been calling the firm requesting plan reviews and design work for new and existing-housing developments. "We see the current activity as leading back to a higher level of construction work," Mr. Bailey said. But, he said, the company has no hiring plans at the moment.

—Conor Dougherty contributed to this article.

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Jobs data mow 'green shoots'

June's payrolls numbers contradict the "green-shoots" thesis. Worse, the data suggest that when they do appear, they won't exactly shoot up.

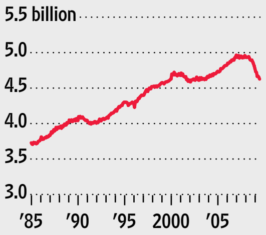
Since the U.S. officially entered recession in December 2007, 6.9 million jobs have been lost, on a seasonally adjusted basis. More bad news lies beneath Thursday's headline numbers.

The average workweek fell to 33 hours, the lowest ever on record and 0.8 hours less than before the recession began.

If Americans were still clocking those extra 48 minutes a week now, then the same aggregate amount of work could get done with 3.3 million fewer employees. The implication is that, were it not for shorter work-weeks, the unemployment rate would be 11.7%, not the official 9.5%.

Clocking off

Aggregate hours worked by U.S. employees per week, monthly data



Sources: U.S. Bureau of Labor Statistics; WSJ analysis

Stealth underemployment also is evident in the rise in the number of workers taking part-time jobs due to the slack economy. Their ranks have doubled in this recession, to about nine million, or 5.8% of the work force.

The likelihood is that when economic activity picks up, employers will choose to increase hours on existing workers and bring part-time workers to full-time status before making new hires.

That sets up a recovery that could rival the previous upswing in terms in joblessness. The difference between any coming upturn and the one that ended in December 2007 is that struggling workers will have less credit available to maintain spending habits.

Paradoxically, labor's woes will likely enable many firms to beat near-term earnings expectations, as wage costs dwindle or stagnate.

But the unavoidable conclusion is that the consumer spending power needed to fuel a sharp rebound in the economy just isn't there.

—Liam Denning

Waiting for Deutsche Telekom to ring up a deal

The buzz on the line about **Deutsche Telekom**'s potential sale of its U.K. mobile unit might fizzle. If so, it will be a missed opportunity for much needed consolidation in the mobile sector.

The U.K. has too much capacity, with five big competitors, rather than the three or four in most European countries. If either Spain's **Telefónica** or U.K.'s **Vodafone Group**, with 27% and 25% of the market, respectively, acquires T-Mobile U.K., all operators' margins could get a boost.

But the challenge will come finding a price that makes sense. Nomura thinks the business is worth about €3 billion ($4.24 billion), which is just four times estimated 2009 earnings before interest, taxes, depreciation and amortization. Deutsche Telekom could get nearer the typical six times Ebitda at which mobile networks are valued when market conditions improve.

For potential buyers, there would be significant cost savings. But buying the business would create an operational headache.

Moreover, Vodafone's dividend policy means much of its free cash flow is promised to shareholders. Telefónica has cash but is focused on Germany and Mexico. Both may decide to wait for the other to do the deal and reap the benefits for free.

—Sean Walters

Anglo's hidden treasure

Anglo Platinum, **Anglo American**'s 80%-held platinum mining unit, is a sort of precious metals OPEC. It sits on a large chunk of the world's platinum reserves and produced 38% of mined platinum output in 2008. Hence, Anglo's claim that **Xstrata**'s proposed no-premium merger is opportunistic, aimed at grabbing Anglo's exposure to any upswing in platinum prices for its own shareholders. Xstrata's assets are primarily in coal and base metals, some of which have risen sharply.

Anglo's problem is that platinum prices have bounced nicely this year, but not by enough to bolster profitability. Prices are around $1,200 an ounce. That is well below the 2008 peak of $2,280, but above last year's low of $810.

The reason? Unlike OPEC, Amplats is a high-cost producer. Partly because recent rand strength has offset higher dollar prices, the mines remain marginally profitable. Amplats's share price has missed the platinum rally, barely changing this year.

In contrast, the lowest-cost producer, **Impala Platinum**, is up 24%.

Anglo needs much higher platinum prices for profitability to improve. They may be a long time coming. Another difference between platinum and oil is that it isn't a China-sensitive commodity. Demand depends on the automobile and jewelry industries in the recession-mired U.S. and Europe.

Anglo can do little to fix platinum prices. But the company did start addressing Amplats's high costs before Xstrata made its offer. Analysts reckon at least 40% of the $1 billion of "asset optimization" that Anglo has promised across its business by 2011 comes from platinum. Taxed and capitalized, those platinum savings alone are valued at about $2.8 billion.

But those savings aren't necessarily reflected in Anglo's share price. Anglo is only just starting overhauling the mines after years of tinkering. If Chief Executive Cynthia Carroll can show clear early progress in cutting costs, she might convince investors that Xstrata should offer not just a premium, but a big one.

—Matthew Curtin

The BBC prepares to protect its funding

Politicians suggest fees should be shared with hard-up rivals

By Aaron O. Patrick

The **British Broadcasting Corp**. is preparing an aggressive defense against a plan to redistribute some of its funding to struggling commercial rivals—the opening salvo in a broader budget struggle over one of the world's wealthiest state broadcasters.

The outline of a law proposed by the ruling Labour Party this week would allocate about £125 million ($200 million) of the BBC's £4.4 billion annual budget to rival media outlets to provide television news. While the proposal involves a fairly small portion of the BBC's budget, it could open the door to more sweeping attempts to tap into the BBC's rich funding in the future, BBC executives fear.

Most of the BBC's funding comes from the £3.4 billion it receives annually from a £142.50 tax—known as the TV license fee—on everyone who owns a TV in the U.K. Commercial rivals complain that gives the BBC an unfair advantage in dominating the radio and TV airwaves and, more recently, the Internet.

The BBC has never been forced to share its treasure trove in the past, a spokeswoman said. But TV tax is scheduled for renewal in 2012, and already there is talk that it could either be reduced or shared with other outlets.

That may explain why the BBC is going all-out to shut down the current proposal. "We are going to fight as hard as we can" to defeat the plan, said Caroline Thomson, BBC's chief operating officer, in an interview. She added that the public "knows what it is paying for. It knows it is paying for the BBC. The license fee has produced world-class broadcasting that people love. The stakes are high."

When the current revenue-sharing plan was initially proposed, BBC Chairman Michael Lyons sounded an even more urgent call: "The license fee must not become a slush fund to be dipped into at will, leading to spiraling demands on license-fee payers to help fund the political or commercial concerns of the day." The BBC, he added, "will not sit quietly by and watch this happen."

The rhetoric suggests that concern about the broadcaster's huge influence over the British media industry is starting to take a toll.

While the BBC is known around the world for its journalism, quirky comedies and period drama, in its home market it is a media behemoth. About two-thirds of all shows made by U.K. television networks are BBC productions, 56% of all U.K. radio shows are made by the BBC, and the most-read news Web site in the U.K. is www.bbc.co.uk, according to government figures. The BBC produces nine of the country's 20 top-rated TV shows, including the gritty soap opera EastEnders.

Cushioned by state funding, the BBC isn't suffering much from the recession. Its revenue from the TV tax is guaranteed by law to increase 2% a year for the next three years.

Meanwhile, competitors like **ITV** PLC, Britain's biggest commercial TV network, have been caught in a spiral: Falling ad revenue has reduced their capacity to develop new programs, making it harder to attract viewers and bring in more advertising. ITV lost £1.54 billion in the six months ended June 30 on big write-downs at its TV channels.

U.K. Communications Minister Stephen Carter issued a recent report on how public money should be spent on the media in the digital age.

To save money, ITV wants to cancel many or all of the daily news bulletins it produces in cities and regions like Manchester and Yorkshire. That would leave most Britons with one source of TV news about their cities or towns: the BBC.

The draft law issued Monday has caused consternation at the BBC. Under the law, commercial media outlets would be given money earmarked for the BBC to produce TV news bulletins about cities and towns that don't have their own commercial TV stations.

The plan could provide a useful source of funding for stretched media companies. The **Guardian Media Group** PLC, publisher of the Guardian newspaper, would like to broadcast TV news around Manchester, where it owns a small cable-TV channel, according to a spokesman.

BBC executives say giving its money to a variety of businesses could undermine public support for state broadcasting. "People won't know what they are paying for," Ms. Thomson said.

The plan will be debated publicly over the next three months and the government hopes it will become law before May, a spokeswoman said.

There is no guarantee it will be successful. The plan has to be approved by Parliament, which could vote against it. The government could drop the idea if there is a lot of public opposition. The Minister for Communications, Technology and Broadcasting, Lord Stephen Carter, declined to comment.

The funding debate comes at a particularly sensitive time for the BBC. The broadcaster was briefly caught up in Britain's political expenses scandal. Documents released last week under the Freedom of Information Act showed BBC executives had been reimbursed for an array of travel expenses, from parking-meter fees to a dinner for 29 at the Bellagio hotel in Las Vegas.

After the next election, due within a year, the BBC could face a more hostile political environment. The Conservative Party, which leads the Labour Government in polls and has escalated its criticism of the BBC, recently tried to block a routine annual increase in the BBC's budget, citing the tough economic conditions. The move failed, but may be a sign the opposition regards being tough on the BBC as a way to win votes.

The Conservatives' top policy official on the media industry, Jeremy Hunt, said he is concerned the BBC "could become the only player left in town" if its commercial rivals continue to decline. "We think the BBC needs to concentrate on doing fewer things better," he said. Mr. Hunt cites Birmingham, England, as an example of the lack of competition in the British media. Despite a population of one million, Birmingham doesn't have its own commercial TV channel. The BBC only launches new services that won't hurt the private sector and has cut 7,500 jobs over the past four years to become more efficient, according to the BBC's Ms. Thomson.