Leading the News: Fed's plan on banker pay divides industry

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Italians bid farewell to fallen returnees

Reuters

SAD HOMECOMING: Soldiers at Ciampino Airport in Rome carry coffins containing the bodies of six soldiers who were killed by a bomb in Afghanistan on Thursday.

G-20 to press new policies to lift growth

By Bob Davis and Stephen Fidler

WASHINGTON—The Group of 20 nations is scrambling to finalize a plan before this week's Pittsburgh summit that would commit the U.S., Europe and China to make big changes in national economic policies to produce lasting growth as the world recovers from the worst recession in decades.

The G-20 summit, the third such gathering in a year, is shaping up as a test of whether industrialized and developing nations can function as a board of directors for the global economy. The focus is on a previously undisclosed U.S. proposal, called the "Framework for Sustainable and Balanced Growth," which, if it is implemented, would involve measures such as the US saving more and cutting its budget deficit, China spending more and relying less on exports and Europe making structural changes to boost business investment.

The G20 is working on ways to enforce commitments countries make, which would involve annual reviews—though no specific sanctions. Similar efforts have been attempted in the past and failed, but the U.S. and other believe that having faced down the deepest recession since the Great Depression will produce a different result this time.

"As private and public savings rises, the world will face lower growth unless other G-20 countries undertake policies that support a shift towards greater domestic, demand-led growth," Senior White House aide Michael Froman wrote to his G-20 colleagues in a letter dated Sept. 3. In the missive, which has not been made public, he called the framework "a pledge on the part of G-20 leaders" to press new policies.

The proposal has set off political wrangling among the G-20, with European countries arguing that the U.S. may be unrealistic about how rapidly the global economy can grow and with China warily agreeing to participate. The U.S. helped bring along the Chinese by endorsing Beijing's view that developing countries deserved a bigger stake in the International Monetary Fund said several G-20 officials.

As the air of crisis is dissipating and the outlook for the global economy improves, the political appetite to push through difficult changes is diminished. The G-20 countries have yet to decide how detailed to make their pledges to change. And the U.S. and Europe have different ideas on

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A bear market lurks as Dow nears 10000

By E.S. Browning

Rarely has the stock market seen a six-month rally like the one it just turned in. The Dow Jones Industrial Average's 46% surge was one of just six of that magnitude in the last 100 years. And that is exactly what worries many analysts.

All previous rallies of this magnitude took place in the 1930s and the 1970s, according to Ned Davis Research. Those were periods of turbulence for both the economy and the markets, and none of the gains was sustained.

Many analysts believe that stocks are again in such a turbulent period, and that this rally could lead to another slump. Stocks did enjoy a rally of 40% in 1982, at the start of a long-running period of stock-market prosperity. That rally wasn't of the same magnitude of the others, however. It came as economic troubles, notably inflation, were finally being squeezed out of the economy.

"We could end up having another big decline next year," said Tim Hayes, Ned Davis's chief investment strategist, who correctly forecast a rally early this year. "Right now, people are asking me, 'Is it too late to get in?' We are saying, sure, you can get in, but don't fall asleep at the wheel, you have to get out, too. If you

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Carbon concerns

Can countries cut emissions without hurting growth? **Journal Report**, page 17

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	CLOSE	PCT CHG
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Nasdaq	2132.86	+0.29
DJ Stoxx 600	244.92	-0.48
FTSE 100	5172.89	+0.17
DAX	5703.83	-0.48
CAC 40	3827.84	-0.19
Euro	$1.4726	-0.13
Nymex crude	$72.04	-0.59

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LEADING THE NEWS

New finance rules necessitate pain for banks

Limits on leverage would reduce profits; goal is a stable system

BY MARK WHITEHOUSE

This week, leaders of the world's 20 largest economies will launch a debate over how new financial rules can prevent a repeat of the Great Panic. One fact, though, is already becoming clear: For the rules to work, bankers will have to suffer.

According to economists and a Wall Street Journal analysis, prudent financial-health standards could take as much as a 30% chunk out of the profits of banking giants such as **Bank of America** Corp., **J.P. Morgan Chase** & Co., **Citigroup** Inc. and **Morgan Stanley**—and perhaps more for the largest among them. While that would likely mean fewer losses when markets sour, it could also mean much leaner times for bank executives and investors.

THE OUTLOOK

"It may not be good news for shareholders, but it would be good news for the system as a whole," says Hyun Shin, an economist at Princeton University who advises central banks on financial stability.

In preparation for the G-20 meeting, to be held Thursday and Friday in Pittsburgh, global policy makers have sketched the outlines of a plan that will penalize risk-taking in a number of new ways. Banks that grow large enough to present a threat to the entire financial system, do a lot of short-term borrowing or invest in hard-to-sell assets will have to keep bigger capital cushions against losses. They also will have to hold added capital in good times to absorb losses in bad times, and could face limits on how much borrowed money they can use to boost their returns.

So far, the proposals have been short on specifics—such as exactly how much capital banks will have to set aside—that would allow executives and investors to assess the impact on banks' profits. Policy makers aren't planning to come up with a complete set of rules until the end of next year, a slowgoing approach that may reflect a reluctance to spook banks at a time when a tentative economic recovery depends heavily on their willingness to keep lending.

But as economists build a better picture of what a new capital regime should look like, some back-of-the-envelope guesses at the costs are possible. The upshot: New rules will take a big bite out of profits, because they will place tougher limits on banks' ability to use large amounts of borrowed money—one of the main ways they increase their returns to shareholders.

Mr. Shin believes a reasonable set of capital requirements would cap overall leverage, or the amount banks borrow and invest for every dollar of their shareholders' money. The limits, he says, would be particularly strict in boom times, when banks tend to take on bigger risks. In the run-up to the crisis, for example, investment banks boosted their total assets to an average of about 30 times their total equity, up from about 22 times four years earlier.

A leaner future?

New capital requirements could take a big chunk out of banks' profits. Estimates of banks' profitability if they had faced leverage limits in the five years preceding the financial crisis.

	Return on equity*	Return on equity with leverage limit**	Reduction in profitability
Citigroup	17.5%	12.3%	–29.9%
J.P. Morgan Chase	9.7	6.9	–28.8
Bank of America	18.2	14.0	–22.9
Goldman Sachs	21.3	18.8	–12.0
Morgan Stanley	18.3	13.0	–28.8

*Average annualized returns, July 2002 – June 2007 **Total assets capped at 20 times total equity for investment banks, 10 times for commercial banks.

Note: For commercial banks, measures of original leverage included assets held in conduits, based on estimates from New York University economist Philipp Schnabl.

Source: Capital IQ; WSJ analysis

For investment banks such as **Goldman Sachs Group** Inc., Mr. Shin believes a reasonable leverage limit would be 20 times—a ceiling that Canada, for example, imposes on its banks. For commercial banks, which tend to be more tightly regulated because they hold customer deposits insured by the government, he puts the limit at 10 times.

A Wall Street Journal analysis suggests that if similar limits had existed in the five years leading up to the crisis, all else being equal, the top five surviving Wall Street banks—Bank of America, J.P. Morgan, Citigroup, Goldman Sachs and Morgan Stanley—would have generated an average return on equity of 13%, compared with the actual 17%. Citigroup would have seen the largest drop, to 12.3% from 17.5%. Goldman would have seen the smallest, to 18.8% from 21.3%.

The pain doesn't end there. Policy makers are likely to impose even tougher limits on larger and more interconnected banks, out of concern that their failure would have an outsize impact on the whole system. Markus Brunnermeier, a colleague of Mr. Shin's at Princeton, offers an extreme example: If Bank A accounted for a fifth of the industry's market value, and was also twice as large as Bank B, it should face a leverage limit of about 8.7 times, compared with 10 times for Bank B.

Representatives for Goldman Sachs, Morgan Stanley, Bank of America, Citigroup and J.P. Morgan declined to comment on the estimates of effects on profits.

To be sure, if tough leverage limits are imposed, Wall Street banks might face less competition and are likely to change the way they do business—both factors that could help mitigate the effects on profitability. Morgan Stanley, for example, is shifting into the retail brokerage business, in part to prepare for an environment of lower leverage. Banks' share prices might also hold up if investors perceive them as less susceptible to busts, and thus place a higher value on their earnings.

Some economists warn against imposing unduly harsh capital requirements and punishing size too aggressively. For one, bigger banks are able to offer some services more cheaply. Harsh rules could also create an incentive to move the business of banking outside the purview of regulators—a process that helped create the current crisis.

Regulators are already imposing costly rules on banks' trading and derivatives businesses, requiring them to hold more cash and make trades through centralized counterparties. In a recent research report, analysts at J.P. Morgan estimated that these and other rules could slash global investment banks' profits by about 29% in 2011, excluding the effects of changes in broader capital requirements.

Still, systemic risk has in some ways increased during the crisis, as mergers have left the banking industry dominated by a handful of giant players, none of which the government could allow to fail without dire consequences. "Now the banks know they're too big to fail," says Simon Johnson, an economist at MIT and former chief economist at the International Monetary Fund. "If we keep the same banking system, you are asking for trouble."

In short, if bankers aren't squealing, there's a good chance policy makers haven't done their job.

Expand yuan's trade use, urges Chinese think tank

BY JOY SHAW

SHANGHAI—China should actively pursue the regionalization of its currency by allowing broad-based yuan settlement of trade in Asia and permitting foreigners to invest more of their yuan holdings, the director of a Chinese government think tank said Sunday.

"To push for the regionalization of the yuan, we don't need trial programs [in selected cities. The program] should be implemented everywhere nationwide," said Xia Bin, director general of Financial Research Institute, a State Council research center.

Beijing has allowed Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai to take part in the yuan-settlement trial program.

Mr. Xia said the efforts China has made to internationalize the yuan so far—including establishing the yuan-settlement trial program in the five coastal cities—is far from sufficient in generating offshore demand for and liquidity in the yuan.

To achieve regionalization, considered the first step toward the yuan's internationalization, China needs to develop an offshore market for the Chinese currency. Hong Kong would be the most suitable location for such a market, Mr. Xia said.

CORRECTIONS & AMPLIFICATIONS

Citigroup Inc. Chief Executive Vikram Pandit said Wednesday that the bank has "turned the corner." A Money & Investing article in some editions Friday incorrectly included in a quote from Mr. Pandit several words that summarized his remarks.

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German book fair fuels tension with China

Frankfurt's guest list spurs boycott threat from Beijing

By Vanessa Fuhrmans

A cultural dispute between China and organizers of the famed Frankfurt Book Fair threatens to overshadow the world's premiere publishing event and become a diplomatic headache for German Chancellor Angela Merkel ahead of elections later this month.

The rift broke open last weekend at a symposium to herald next month's Frankfurt Book Fair, whose guest country of honor is China.

The fair's Chinese delegation took issue with the invitations of two dissidents to a symposium called "China and the World-perception and Reality." After China threatened to boycott the event, the fair's organizers withdrew its invitations to journalist and environmental activist Dai Qing and poet Bei Ling—only to have them come as the guests of the German PEN club of independent writers.

Part of the Chinese delegation walked out of the conference, and returned only when the book fair's director, Juergen Boos, apologized for failing to inform them of the dissidents' attendance ahead of time.

"We did not come to be instructed about democracy," said Mei Zhaorong, China's former ambassador to Germany.

China's ambassador to Germany, Wu Hongbo, lambasted the fair's organizers for the surprise readdition of the two dissidents to the symposium in a German newspaper interview, the full text of which was posted on the embassy's Web site. "It was not an expression of respect for [the fair's] Chinese partner," he said. "It was unacceptable."

Just as the 2008 Olympics ushered China's economic and sporting accomplishments onto the world stage, the fair is intended to do the same for its literary achievements. Some 2,000 Chinese publishers, artists and writers are expected to attend, and the first of hundreds of exhibits, readings and author tours already began this spring.

The squabble with China has rekindled public debate in Germany over whether China should have been chosen as the fair's guest of honor in the first place. The German government faces a tricky balancing act, given that China is a critical trading partner and helped jump-start Germany's export-heavy economy out of its recession in recent months.

But Chancellor Merkel has also made defending human rights a cornerstone of her foreign policy. Two years ago, she defied Chinese pressure and criticism by becoming the first German chancellor to receive the Dalai Lama. China has long vilified the Dalai Lama for what it says are his efforts to pry Tibet from Chinese control—a charge the Buddhist spiritual leader denies.

"Two principles also apply to the Frankfurt book fair: Guests are guests, and art without freedom is inconceivable," a German foreign ministry spokeswoman said.

The book fair puts China in an awkward position, too. More so than the Olympics, which it argued was no place for political debate, the fair makes it difficult to avoid discussion over its record on free speech or move to block certain attendees. Fair organizers have toughened their tone and insisted they won't yield to censorship pressure.

The fair, a marketing mecca for more than 7,000 publishers worldwide, will make plenty of room for "the independent, the other China," Mr. Boos, the fair's director, said in a statement. To that end, the fair organizers have set the stage for further tensions, inviting Gao Xingjian, a Nobel Prize winner whose works have been banned in China, the Dalai Lama's chief envoy and numerous other dissidents and exiles likely to rankle the Chinese government.

U.K. regulator doubles reviews of firms' actions

By Matt Turner

The U.K. Financial Services Authority initiated double the number of independent reviews into firms' activities over the 12 months to the end of March, as it took a more aggressive approach to regulation.

The FSA commissioned a record 56 independent reports into firms whose activities gave it cause for concern, up from 29 in the previous 12-month period. The previous high was in the year ended in March 2003, when 31 reports were commissioned.

The increase is in keeping with the more hands-on approach to regulation that the FSA has taken since it admitted failings in the run-up to the financial crisis, including over the 2007 collapse of the lender Northern Rock.

"The FSA would expect to use this more in the course of intensive supervision," a spokeswoman at the regulator said of the reviews. She added that the environment was different than in previous years, when the figure was lower.

A section of the Financial Services and Markets Act 2000 gives the regulator the authority to commission the reports. The company being investigated foots the bill for the review, rather than the regulator. One report cost the company involved £2.4 million ($3.9 million).

The reviews examine issues such as senior management arrangements, client-asset arrangements, market abuse and capital adequacy.

The increase is a result of a change in culture at the regulator, according to Carlos Conceicao, a partner at the law firm Clifford Chance and the former head of the FSA's wholesale group in enforcement.

The regulator's new stance on commissioning reports can be disappointing for the firms involved, which may have brought the issues in question to the FSA's attention in the first place.

"Where this can be frustrating for a firm is where it has proactively raised an issue with the FSA, and has said that it is ready to do further work to the FSA's specification," said Mr. Conceicao, "but the FSA has nonetheless required the appointment of an external party to carry out the work at the firm's expense."

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DRIVE THE CHANGE

LEADING THE NEWS: EXECUTIVE PAY

Fed's proposal divides banking industry

Some back policies to curb risk taking; new oversight feared

BY DAMIAN PALETTA AND DAVID ENRICH

Bankers and U.S. lawmakers are sharply divided over the Federal Reserve's plan to review—and possibly veto—the way that thousands of U.S. banks pay their key employees.

Some welcomed the Fed's proposal as necessary to guard against excessive risk-taking at financial institutions, while others were angered by the central bank's move to expand its oversight powers.

The split sets up a showdown in the next few weeks as the Fed completes work on a final proposal that would let it reject any compensation policies deemed to pose a potential threat to a financial institution's soundness. While the roughly 25 largest U.S. banks would get the most scrutiny, overall the plan would give the Fed sweeping powers over executives, traders and loan officers at more than 5,000 banks.

The proposal, which was first reported Friday in The Wall Street Journal, will "give [regulators] another opportunity to have someone come in and tell us how to run our business," said Edward Wehmer, chief executive of Wintrust Financial Corp., a Lake Forest, Ill., company with about $11 billion in assets and 79 branches. "It's opening Pandora's box," he said.

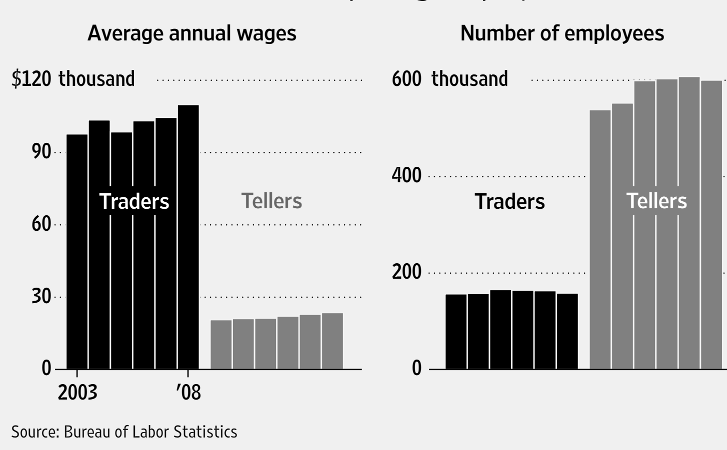
Others in the business applauded the Fed's plan, saying it wouldn't affect banks with prudent pay practices. "I like it," said Steve Steinour, chief executive of Huntington Bancshares Inc. in Columbus, Ohio. "Having disciplined pay practices is good for the country long term," he said. "I do believe people should be paid with a view of how much risk they're taking."

Amid the debate, other bank regulators could soon take similar steps. The Office of the Comptroller of the Currency has recently begun reviewing policies regarding compensation standards at the national banks it regulates, according to a person familiar with the matter.

White House officials didn't comment directly on the Fed plan. In a speech Friday, White House National Economic Council Director Lawrence Summers echoed many of the principles outlined in the Fed proposal, suggesting that the Obama administration is at least tacitly in favor of the plan.

"Properly designed compensation practices constitute an important measure in ensuring safety and soundness in our system," Mr. Summers said. "The key is to ensure that the right incentives are in place for long-term value creation."

A final proposal is still a few weeks from completion and could be revised, according to people familiar with the matter. It requires a vote by the central bank's board, but no congressional approval.



Under the plan, regulators wouldn't set the pay of individuals, but could require changes to salary and bonus policies to make sure they don't create harmful incentives. The Fed believes it can police compensation through its powers as the "safety and soundness" regulator for banks it monitors.

Sen. Richard Shelby of Alabama, the top Republican on the Senate Banking Committee, said there were "important unanswered questions regarding the basis for the Fed's authority and approach on this matter." Some Republicans question whether the Fed has jurisdiction over pay issues.

House Financial Services Committee Chairman Barney Frank (D., Mass.) praised the Fed's move but said a bill he helped pass through the House still needed to be signed into law because it would clear up ambiguity regarding whether the Fed had the authority to take such steps.

The Fed's proposal generally aligns the Fed more closely with European regulators as the Group of 20 world leaders prepare to meet in Pittsburgh this week. There has been a growing global debate over the way bank employees are paid ahead of the G-20 meeting. Officials in the U.S. and abroad worry that if they don't coordinate their approaches, some countries could draw away talent from others.

In the U.S., the Fed's plan will further inflame the debate between those who feel bank pay is too high and those who resent Washington's reach into the private sector. Banking lobbyists are "going to push back," said Patrick Doyle, a partner in the banking practice at law firm Arnold & Porter LLP in Washington.

Some bankers said the Fed's move is an indictment of a system that lets banks get too big. "If institutions were not allowed to grow so large as to threaten the entire financial system, then federal intervention such as this would not be necessary," said Chris Nunn, chief financial officer of Security Bancorp of Tennessee Inc., a Halls, Tenn., banking company with nearly $700 million in assets.

In the past, small-business owner Clement Suttmann of Leland, Mich., says he always favored free-market policies. But after his banks all but shut funding for his candle-making operation over the past year, the 54-year-old had a change of heart. "After what's happened to us and what happened to millions of small businesses...I say, let them have it," said Mr. Suttmann, who helps run his company with his wife, Holly. "This is a giant mess-up and we're not getting any help."

—Jane J. Kim, Sara Schaefer Muñoz and Andrea Thomas contributed to this article.

Compensation limits are easy to promise, hard to do

BY DAVID WESSEL

When the (mostly elected) leaders of the world's 20 major economies convene, one can be sure they want to talk about something that voters can understand. "Global imbalances" and "capital standards" and "IMF quotas" won't do. Talking about "jobs" would be popular, but the leaders can't promise much on that front. So it is no surprise that bankers' pay has risen on the agenda for Friday's conclave in Pittsburgh. Everyone understands that.

CAPITAL

There can be no doubt that the way bankers and traders were paid contributed to the crisis. Even bankers acknowledge that now. Getting big bonuses for failure isn't the way textbook capitalism is supposed to work.

Of course, political pressures go well beyond that line of argument. People in the U.S. and abroad are outraged that those who drove the world economy off the cliff just a few months ago already are collecting big paychecks when so many others are without jobs or suffering from wage cuts. Hence the chorus of criticism of bankers' pay from top politicians in Britain, France, Germany and the U.S. "I'm outraged, too," President Barack Obama says whenever the question is raised.

Mr. Obama has done a bit more than talk. He appointed a pay czar to police the pay of companies sustained by huge sums of taxpayer money. And now comes the Federal Reserve with a plan to oversee the way nearly all bankers are paid. Is Ben Bernanke joining forces with French President Nicolas Sarkozy to cap bankers' pay? Not quite. Here is what's going on.

The governments of U.S. President Barack Obama, left, and French President Nicolas Sarkozy differ on how to limit bankers' pay.

Elected government officials, central bankers and regulators across the globe have been moving for months to change the way bankers and traders are paid, part of their never-again plan. Finance ministers from the Group of 20 nations earlier this month endorsed principles articulated by the Financial Stability Board, an increasingly influential organization of central bankers and regulators that called for "global standards on pay structure...to ensure compensation practices are aligned with long-term value creation and financial stability."

But while the governments sound like they are moving in the same direction, there are differences—both symbolic and substantive.

The French, for instance, initially pushed for specific limits for all institutions. The U.S. objected, saying no single specific limit on, say, compensation as a percentage of revenue would fit all banks. Europeans made compensation a moral issue. The U.S., instead, framed it as a question of structuring incentives properly to avoid excessive risk-tasking. The Fed, for instance, is relying on its authority to monitor safety and soundness of banks to pursue new rules on pay—which, conveniently, doesn't require any congressional action.

To bolster their bargaining position, the European Union governments agreed on a common position to take in Pittsburgh. Now, in a move that makes sure that Europe doesn't set the Pittsburgh agenda, the Fed has let it be known that it, too, has a plan.

The Fed wants to avoid specific caps, but instead set some rules for paying bankers that, it says, will help avoid the steps that led to the recent crisis. Details won't be released for a couple of weeks, but the outlines are becoming clear.

One intriguing feature is to block any one of the 25 biggest banks from breaking ranks and offering sweet pay deals to lure talent, the way sports teams use their riches to lure and keep talent. That may secretly please bank CEOs, but the Fed is unlikely to go as far as to impose pay limits.

Recent history suggests that crafting rules to limit corporate pay is, well, almost impossible. Nearly every previous attempt has had huge unintended consequences or been diluted by wily executives. Restrict pay of those who work for banks, and risk an exodus of talent to hedge funds and private-equity funds that turns into tomorrow's crisis.

Almost every detail is tricky. The Fed, for instance, wants to adjust bonus-rule pay to reflect the risks that bankers or traders take. That make sense; Otherwise the rules encourage ever-bigger risks in the hope of ever-bigger windfalls. But it is hard to get right: Clever traders make bets with hidden risks that their bosses, and regulator, don't appreciate until it's too late.

Still, the dimensions of the recent crisis all but guarantee the imposition of restraints on bankers' pay. The goal, as one administration official put it, is "to do everything that makes sense, and nothing that doesn't make sense." It sounds nice. It's just hard to do.

Email to capital@wsj.com.

U.S. companies back plan on pay

Voluntary changes come as Washington weighs restrictions

By Deborah Solomon

WASHINGTON—A group of blue-chip companies is lining up behind efforts to voluntarily change their pay practices, in part to head off potentially more onerous restrictions out of Washington.

The Conference Board, a nonprofit business-research group, is set to announce Monday that companies including **AT&T** Inc., **Cisco Systems** Inc., **Hewlett-Packard** Co. and **Tyco International** Ltd., are endorsing a set of principles that hew closely to what the Obama administration is pushing, including tying pay to performance and reducing short-term financial incentives.

Another signatory to the report is the California State Teachers' Retirement System, which invests in many large corporations.

Companies are keenly aware that the government is looking at ways to rein in compensation and could soon dictate how firms pay employees, said Robert Denham, a partner with law firm Munger, Tolles & Olson LLP who was a co-head of the Conference Board's task force.

"There was concern about some of the compensation practices and concern that if companies don't show that they use compensation effectively, their flexibility to use it may get substantially impaired," said Mr. Denham, who once headed the former brokerage firm Salomon Inc.

In Washington, moves to change executive-compensation practices have gained steam, even as broader efforts to revamp regulations covering the finance industry have faltered.

The Federal Reserve is preparing a proposal that would give it extensive power over pay practices at the nation's biggest banks. The Obama administration has installed a pay czar to set and review compensation at seven firms receiving significant government aid. The administration hopes other firms will voluntarily adopt pay structures similar to those that the pay czar approves.

Hoping to head off regulations, companies are already moving to shift their compensation practices. **Verizon Communications** Inc. recently agreed to give shareholders a nonbinding vote on executive pay this year after shareholder complaints about compensation of its chief executive officer.

And some Wall Street firms are beginning to shift away from short-term compensation toward restricted stock and other pay that takes time to vest. **J.P. Morgan Chase** & Co. has said recently it won't offer multiyear employment contracts, which have come under criticism.

Many of the Conference Board's principles resemble those of the Obama administration, including tying a "significant portion" of incentive compensation to a company's long-term success, rather than rewarding short-term gains that some worry promote risky behavior. The proposal also calls for doing away with certain pay practices, such as "overly generous golden-parachute payments" in the event of a take-over, and long-term employment contracts that require generous severance payments.

The Conference Board report stops short of endorsing so-called "say on pay" legislation, which would give shareholders a nonbinding vote on executive pay packages. Mr. Denham said the group does not, as a matter of policy, endorse or oppose legislation. But he said the task force determined that simply having a "say on pay" vote isn't enough unless it promotes a discussion between shareholders and corporations.

Rajiv Gupta, former chairman and CEO of Rohm & Haas Co. and a director at Tyco and HP—two of the firms that have endorsed the report—said there is a desire by companies to head off potentially restrictive rules out of Washington that may not be in the best interest of the firms or their shareholders.

"If it's done voluntarily and done right I think it avoids the potential for over-regulation," Mr. Gupta said. "Even some of the regulatory changes in the past have resulted in unintended consequences."

Directors face an expansion of responsibility

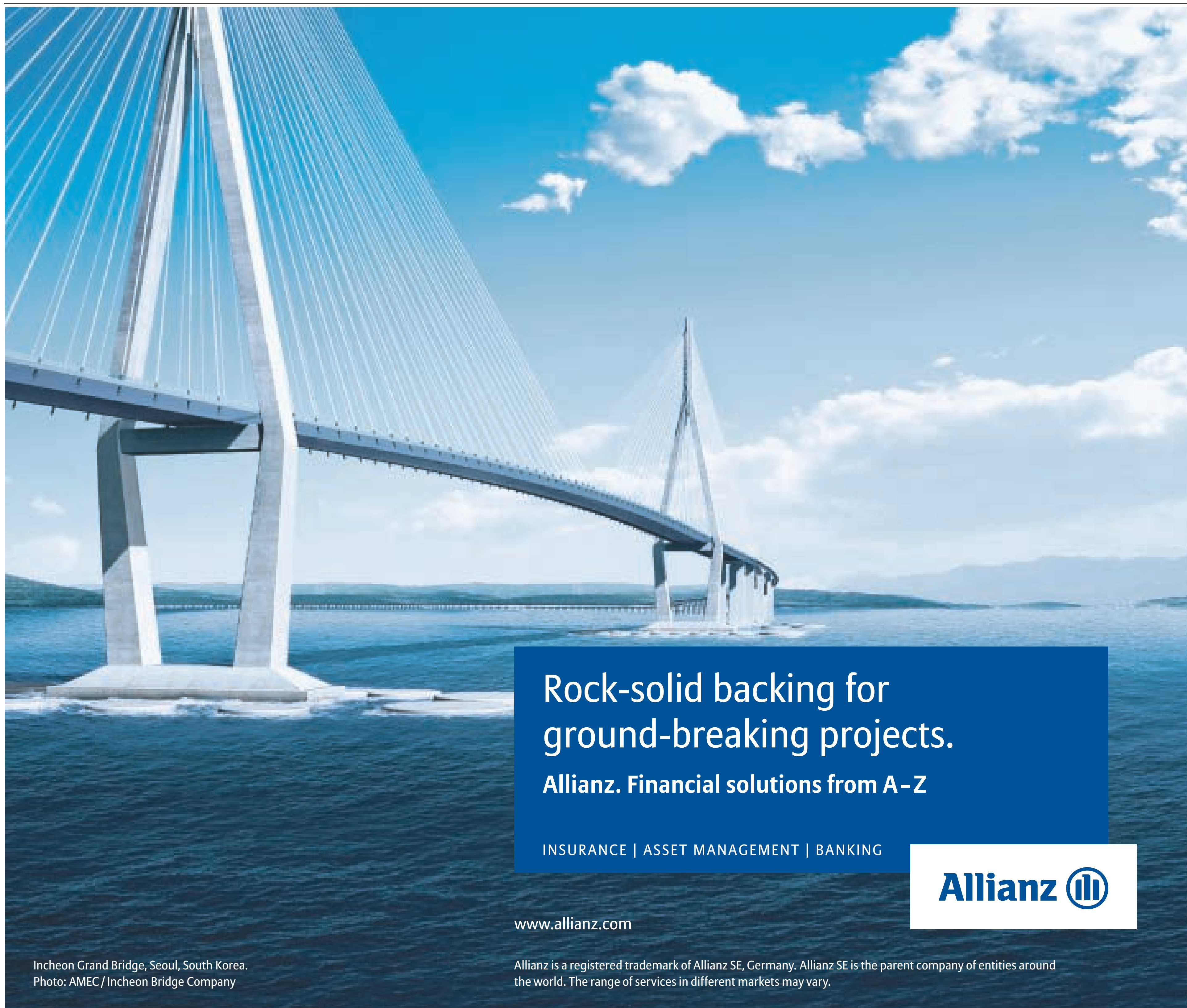
By Joann S. Lublin

The Federal Reserve's new push to regulate pay at U.S. banks will make things more difficult for boards and their compensation committees, already under fire for controversial pay practices.

The planned Fed move could increase time demands, recruitment challenges and legal exposure for boards, predict directors and pay consultants. "You're going to have to make sure the whole board is involved in risk issues," said Robert E. Denham, a Los Angeles attorney and former chief executive of Salomon Inc. Mr. Denham is co-chairman of an executive-pay task force created by the Conference Board, a New York business group.

He and others say the Fed's plan will force directors to scrutinize pay practices for more employees.

The board compensation committees at banks may undergo an overhaul, too, as they seek members who are experts on compensation.



Incheon Grand Bridge, Seoul, South Korea.
Photo: AMEC / Incheon Bridge Company

CORPORATE NEWS

BA urges JAL to stay in alliance

British carrier's talks focus on links, not funding, as rival SkyTeam woos Japanese airline

By Kaveri Niththyananthan And Doug Cameron

British Airways PLC on Friday said it is trying to keep **Japan Airlines** Corp. inside its oneworld alliance amid efforts by rival SkyTeam to lure it away.

But unlike fellow oneworld partner American Airlines, BA isn't offering JAL funding, people familiar with the situation said. BA's discussions instead focus on deeper cooperation, these people said, adding that the talks have been continuing for several months.

Keeping JAL in the alliance secures geographical reach into Asia for other members of oneworld and helps move traffic onto long-haul flights.

But within oneworld, the U.S.-Japan market is more important than traffic between Japan and Europe, industry officials say.

"JAL is valuable to us as part of oneworld," said a BA spokeswoman, who confirmed that BA is in talks with JAL, along with American parent **AMR** Corp. and other members of oneworld.

Australia's **Qantas Airways** Ltd., another oneworld airline, on Friday said it wasn't in acquisition or consolidation talks concerning the struggling Japanese airline but noted that it had a strong commercial interest in JAL's situation.

American is considering taking an equity stake in JAL, according to people familiar with the talks, and this week bolstered its weak balance sheet with a $2.9 billion fund raising.

Cooperation between members of SkyTeam and Star, the third industry alliance, is generally much deeper than within oneworld, a broad marketing pact that is less advanced than its rivals in integrating information-technology systems and other potential cost-saving measures. This could make it more difficult for BA and its partners to keep JAL.

American Chief Executive Gerard Arpey said Thursday that he "expects oneworld to expand" but didn't comment on talks with JAL.

—Daniel Michaels and Kazuhiro Shimamura contributed to this article.

Agence France-Presse/Getty Images

A JAL employee at Tokyo International Airport. British Airways says it considers JAL a valuable part of the oneworld alliance.

Jet-leasing deal highlights industry changes

By Daniel Michaels

The proposed merger of European airplane-leasing companies **AerCap Holdings** NV and **Genesis Lease** Ltd. highlights major changes in the $147 billion industry as the biggest players struggle with credit woes and midsize companies jockey for position.

Amsterdam-based AerCap on Friday agreed to acquire its smaller Clare, Ireland, rival for $300 million, creating the industry's third largest player by fleet size. The offering price of $8.81 a share is a 27% premium to the closing price of Genesis's American depositary receipts Sept. 11, the last trading day before the company said it was in talks with an unnamed bidder. Both companies are listed on the New York Stock Exchange.

The deal comes as lessors that control at least a quarter of the industry's 6,270 planes are up for sale.

Some of the biggest airplane lessors—mostly American companies—are grappling with fallout from the credit crisis. Healthier second-tier players in Europe and Asia, such as AerCap, are trying to capitalize on the giants' troubles and grow amid the current downturn.

Lessors world-wide own or manage more than 35% of all airliners flying, with a total value of roughly $147 billion, according to industry analysts Ascend Worldwide Ltd. In recent years, lessors have bought roughly one of every three planes built by **Boeing** Co. and rival Airbus. Lessors' deep pockets and stability helped the plane makers and airlines globally survive the last aviation crisis, in 2001, by buying new planes and helping carriers mortgage older ones. Today, however, lessors' own credit problems are heightening uncertainty within the weakened aviation sector.

"It's clear the leasing companies are not the stabilizing factor they were during the last downturn," said Tom Enders, chief executive of Airbus, a unit of **European Aeronautic Defence & Space** Co.

The credit crisis cut many lessors off from sources of cash they need to fund their own purchases. International Lease Finance Corp., a subsidiary of troubled insurer **American International Group** Inc. and the world's second-largest plane lessor, faces the most prominent troubles because it can't access commercial paper markets on which it previously relied, according to a regulatory filing last month.

ILFC ranks close behind **General Electric** Co.'s GE Capital Aviation Services, the industry's top player, according to Ascend. Each controls more than 1,000 planes, valued at around $35 billion per fleet, far bigger than any other lessor.

"Everyone is playing to be No. 3" said GE Capital Aviation Chief Executive Norman Liu. Mr. Liu said that although the company faced funding troubles during the credit crunch earlier in the year, it has regained access to inexpensive financing.

AerCap Chief Executive Klaus Heinemann said the Genesis acquisition, which is subject to shareholder approval, would increase AerCap's liquidity and allow the company to grow faster. The combined operation would have 358 planes, launching it into third place by number of aircraft, according to Ascend.

AerCap may not hold its perch for long. AWAS, a Dublin-based lessor owned by private-equity group **Terra Firma Capital Partners** Ltd., has similar ambitions.

Singapore-based **BOC Aviation** Pte. Ltd., another midtier player that remains on solid financial footing because it's part of state-owned **Bank of China** Ltd., has expanded its fleet by roughly 25% since last December and recently bought six more planes. Chief Executive Robert Martin said the company plans to capitalize on the industry slump to expand. "We find that it is best to grow during a downturn," he said.

American Airlines recently sold new Boeing 737s to GE's leasing division and will rent them back.

Associated Press

Shifting skies

The airplane-leasing business faces big changes as companies grapple with the credit crisis.

Leasing company	Fleet	Total value, in billions
GE Capital Aviation Services	1,834	$36.36
International Lease Finance Corp.	1,075	34.69
RBS Aviation Capital	228	6.81
CIT Aerospace	238	6.49
Babcock & Brown Aircraft Management	283	6.10
AerCap*	358	5.65
AWAS	210	4.41
Aviation Capital Group	234	4.27
Aircastle Advisor	130	3.12
Macquarie AirFinance	125	2.60

*After proposed Genesis acquisition
Note: Fleet value based on market value of models, not lessors individual planes
Source: Ascend Worldwide Ltd., AerCap

Trafigura agrees to compensate waste litigants

By Guy Chazan

Oil-trading firm **Trafigura Beheer** BV said it has agreed to pay nearly £30 million ($48.7 million) compensation to people in Ivory Coast who say they were made ill by waste dumped in the West African country in 2006.

Trafigura, one of the world's largest independent oil traders by volume, said it will pay £950 per person, but declined to say how many claimants it will pay. British law firm Leigh Day & Co., which filed the lawsuit, said it involves some 31,000 people.

The compensation relates to an incident in 2006 when slops from a cargo ship that Trafigura had chartered were dumped in Abidjan, Ivory Coast's main city. Trafigura and the plaintiffs' lawyers agreed that independent experts had been unable to identify a link between exposure to chemicals released from the slops and deaths and serious injuries.

A joint statement issued by the company and Leigh Day said "the slops could at worst have caused a range of short-term, low-level flu-like symptoms and anxiety." In a statement, Eric de Turckheim, a director of Trafigura, said the settlement "completely vindicates" the company. The agreement means Trafigura will be spared a class-action case due to be heard in a London court next month.

A spokesman for some victims said the compensation was insufficient.

But a spokesman for some of the victims said the compensation was insufficient. "The cost of medication spent over three years goes much beyond that amount," Outtara Aboubabacar head of the Toxic Waste Victims' Association, told the BBC.

The incident occured after Trafigura subcontracted a local outfit, Compagnie Tommy, to dispose of the slops contained on a ship it had chartered, the Probo Koala. During August and September 2006 Tommy dumped it at a number of locations around Abidjan. Afterwards, many local residents complained of breathing problems, birth defects and diarrhea.

A United Nations report released last week said there appeared to be a link between the slops and the deaths of at least 15 people and sickness suffered by thousands more. There was "strong prima facie evidence that the reported deaths and adverse health consequences are related to the dumping of the waste from the cargo ship," the report said.

Trafigura, which has offices in London, Amsterdam and Geneva, criticized the report as inaccurate and unbalanced. In its statement Sunday, the oil trader said it could not have foreseen Compagnie Tommy's "reprehensible acts" in dumping the slops, but stressed it had acted "entirely independently of, and without any authority from, Trafigura." It said the settlement "is in no way an acceptance of liability" by the company.

Alcatel quiets China fears

CEO Ben Verwaayen says talk of takeover by rivals is overblown

BY GERALDINE AMIEL

PARIS—The risk of a takeover of a Western telecommunications-equipment maker such as **Alcatel-Lucent** SA by a Chinese rival has been overplayed, Chief Executive Ben Verwaayen said in an interview, adding that the Franco-American company is "extraordinarily happy" with its position in China.

Mr. Verwaayen, speaking Thursday in his office in Paris, having recently returned from a World Economic Forum in Dalian, China, said the risks of a takeover by a Chinese competitor are "not more than yesterday or the day before." His comments follow recent speculation in the French media linking Alcatel-Lucent with China's **Huawei Technologies** Co. or peer **ZTE** Corp.

Huawei earlier this month said it wasn't in talks with Alcatel-Lucent about forming an alliance, though a spokesman for the company said it was open to "cooperation opportunities," without elaborating. ZTE has also said it isn't interested in buying a stake in Alcatel-Lucent.

Some Western network-equipment providers have been struggling as mobile operators have cut back on spending to preserve cash flow, trying to combat the impact of regulatory pressure, increased competition and the recession.

Compounding the slowdown, Alcatel-Lucent and Nokia Siemens Networks, a joint venture between **Nokia** Corp. and **Siemens** AG, have also had to contend with issues arising from their internal integration efforts. In July, Alcatel-Lucent posted its first quarterly profit since its creation in 2006.

These challenges have led to speculation that the pace of consolidation in the segment may quicken. Market leader **Telefon AB L.M. Ericsson** recently said it would pick up parts of bankrupt **Nortel Networks** Corp.'s infrastructure business, consolidating its top position. There has been further market speculation that a merger between global No. 4 Alcatel-Lucent and No. 2 Nokia Siemens Networks might aid their defense against Ericsson and fast-growing Chinese rivals such as Huawei, the No. 3 player, and ZTE.

Operators are also teaming up closer to home. Most recently, **Deutsche Telekom** AG and **France Telecom** SA announced the tie-up of their mobile activities in the U.K.

Alcatel-Lucent, Ericsson and Nokia Siemens Networks have been fighting for market share in China, where growth is still rapid and billions of dollars' worth of contracts are up for grabs as third-generation mobile networks are rolled out in the country.

Alcatel-Lucent has provided a third of the country's fixed-line and mobile infrastructure, Mr. Verwaayen said, adding that China represents more than half of Alcatel-Lucent's activities in the Asian-Pacific region.

Mr. Verwaayen said the network-gear industry is more focused on transformation than consolidation.

"The only strategy you have to understand is your own strategy—never adapt to the other guy's," Mr. Verwaayen said, citing Arsene Wenger, the manager of London-based Arsenal Football Club. "I'm a big fan," he said.

Still, Mr. Verwaayen said it would be wrong to believe that the major network-gear players will always be European or U.S.-based.

"There are new players on the block," he said. "The whole idea is, 'We have our Western players and they're the only ones there.' Well, think again."

China has a young population keen on activities such as online social networking, with a "thirst to communicate," Mr. Verwaayen said, adding that consumers are also becoming increasingly sophisticated, leading to more opportunities.

"China is a building block for what we want to do on a global basis," he said. "This is not an industry that has to look to anything else than innovation, speed to market and cost competitiveness. ... That's what we're doing."

Mr. Verwaayen reiterated that he expects the global network-equipment market to contract between 8% and 12% this year from 2008, adding that things will pick up in 2010.

"Every quarter will be a little better than the previous one," while economic stimulus packages could also benefit the company, he said.

Bloomberg News

Alcatel-Lucent Chief Ben Verwaayen said in a recent interview that the telecom-equipment company is 'extraordinarily happy' with its position in China.

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CORPORATE NEWS

Chrysler deputy CEO feels debt squeeze

Jim Press owes nearly $1 million in taxes, faces liens

By Kate Linebaugh

DETROIT—**Chrysler Group** LLC Deputy Chief Executive Jim Press appears to have fallen victim to the same financial crisis that pushed the auto maker into bankruptcy-court protection earlier this year, according to documents filed in a Michigan county court.

Mr. Press, who was kept on in senior management after **Fiat** SpA took control of Chrysler in June, owes $947,410 in back taxes to the U.S. government and has defaulted on $609,286 he owes Western Federal Credit Union, according to the documents filed in Oakland County.

In a letter last November to the credit union based in Manhattan Beach, Calif., Mr. Press said he was unable to make two $203,000 payments he owed at the time because Chrysler had suspended bonuses and he had been planning to use the bonus money for the payments.

"You don't have to worry about my ability to pay, it's just a cash flow issue at this time," Mr. Press wrote in the Nov. 11, 2008, letter filed with the court. "My employment is not in jeopardy, and I still have monthly income to service the note."

The letter was sent two weeks before the chief executives of the three major U.S. car makers flew to Washington to ask for emergency funds from Congress. At that time, Chrysler said it needed $7 billion. On April 30, the company filed for bankruptcy protection and went through a federally orchestrated bailout, emerging 42 days later under the control of Fiat Chief Executive Sergio Marchionne.

Reuters

In a letter last November to a credit union, Chrysler executive Press said he was unable to make two $203,000 payments because the auto maker had suspended bonuses that he had been planning to use for the payments.

Chrysler spokeswoman Shawn Morgan declined to comment, saying the issue is "personal." Telephone calls to Mr. Press seeking comment weren't returned. His attorney, Walter Handler, declined to comment. Neil Jansen, a lawyer for Western Federal Credit Union, also declined to comment.

Details of Mr. Press's financial difficulties were first reported by the Detroit Free Press and the Detroit News.

Mr. Press is the only one of Chrysler's top executives who was retained after the bailout. The 62-year-old former star at Toyota Motor Corp. is expected to leave the auto maker before the end of the year, according to people informed of the plan.

The U.S. Internal Revenue Service filed liens against Mr. Press and his wife, Suwichada, earlier this month for failing to pay 2007 income taxes, according to Oakland County Register of Deeds records and New York City's City Register.

One was filed against a property in Birmingham, Mich., on which Mr. Press took out a $2.2 million mortgage in May 2008, according to the records. Another was placed on a town house in Manhattan's exclusive Lenox Hill neighborhood. The Presses got a $12.96 million mortgage for that property from **Cerberus Capital Management** LP in December 2007.

The three-floor property in Manhattan had been on the market for $15.7 million until five weeks ago when the family decided it wasn't ready to sell, according to Chris Halstead, the listing agent. A tenant occupies the premises, Mr. Halstead said. According to Streeteasy.com, the property was rented for $35,000. Mr. Halstead declined to comment on the rent.

Mr. Press is also the owner of a 1,212-square-foot second-floor apartment in New Orleans, according to public records. It was purchased in 2005.

The Chrysler executive's personal financial jam follows a rocky two-year stint at Chrysler. Hired by the car maker's former owner, Cerberus Capital Management LP, in September 2007, Mr. Press arrived at Chrysler with great fanfare. But the car market tanked six months later, leaving him little time to have an impact.

Mr. Press's leadership also was criticized after Chrysler dropped 789 dealers and he became the public face of the decision, testifying before the U.S. Congress about the rationale.

Casino weighs bid for Dutch asset

By Mimosa Spencer

PARIS—French supermarket operator **Casino Guichard Perrachon** & Cie. moved a step closer to its goal of shedding €1 billion ($1.5 billion) in assets by the end of next year when a potential buyer emerged for Super de Boer, the Dutch retailer in which Casino holds a 57% stake.

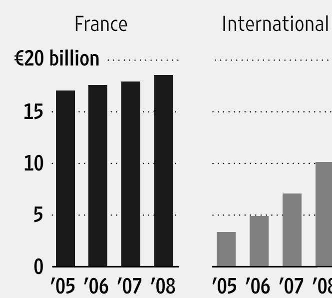
Super de Boer said Friday that it received a takeover offer from closely held Dutch peer **Jumbo Groep Holding** BV that values it at about €480 million.

The offer is "good news for Casino, which would be getting rid of an asset whose profitability is lower than the group average and would thus be improving its financial profile," said Nicolas Champ, an analyst with Oddo Securities.

Jumbo said it needs approval from only a majority of Super de Boer's shareholders for the deal to go through as it has made a bid on the company's assets and liabilities, not its shares.

Looking further afield

Casino aims to shed noncore assets and focus on emerging markets in Asia and Latin America. Annual sales:



Source: the company

If Friday's offer succeeds, Casino would book a small capital gain on the sale, a spokeswoman for the French retailer said. Casino said it will support the offer if Super de Boer's management and supervisory board approve it.

The disposal would help with Casino's goal of reducing its ratio of net debt to annual earnings before interest tax depreciation and amortization to 2.2 by the end of next year, from 3.1 as of the end of June.

A conclusion of the sale would also help Casino further focus its efforts abroad on faster-growing emerging markets in Asia and Latin America. The company generates over a third of its annual revenue outside of France, with international growth led by businesses in Brazil, Thailand, Vietnam and Colombia, where it controls the country's largest retailer, Almacenes Exito SA.

The company has steadily increased the proportion of sales from emerging markets to almost 30% in the first half from 12% in 2004.

Foreign markets remain a cornerstone for Casino and its much larger rival **Carrefour** SA. Casino is considered the nimbler of the two French retailers, having recognized changes in French shopping habits earlier than Carrefour.

However, both companies are dogged by the issue of how to restore the popularity of their large, out-of-town hypermarket models, which sell everything from food to clothes and have come under pressure from specialty stores.

Real estate in Thailand, Colombia and Vietnam was singled out by Casino Chief Executive Jean Charles Naouri in August as ripe for sale.

Analysts also point to the group's business in Argentina as a likely candidate for disposal, citing the business' small market share in the country and lower operating profit than the company's average in Latin America. Casino declined to comment on future asset sales.

Dutch supermarkets are fighting a price war to lure customers who are cutting their budgets in the wake of the recession.

—Maarten van Tartwijk and Anna Marij van der Meulen in Amsterdam contributed to this article.

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Eni rejects making bid for Britain's Tullow Oil

By Liam Moloney and Benoît Faucon

ROME—Italian oil-and-gas company **Eni** SpA has decided it would be too costly to try to take over **Tullow Oil** PLC after studying the U.K. oil company and its African oil-development prospects, a person familiar with the matter said Friday.

The person and another said Eni recently studied Tullow and other potential acquisition targets but had reservations about Tullow because of its potential price tag.

Eni remains interested in a partnership with Tullow, the people said, perhaps by purchasing a stake in Tullow's African assets.

Eni declined to comment, and Tullow said the company isn't for sale.

The news that Eni considered and then rejected a takeover bid for Tullow followed market speculation about whether Eni was planning such a move. Last month, Eni Chief Executive Paolo Scaroni visited Ghana and Uganda, where strategic Tullow assets are located, prompting speculation by analysts about his reasons for the trip.

Tullow's market valuation jumped more than $1.5 billion last week after it announced two large discoveries in its fast-growing African portfolio.

In Uganda, Eni is looking at possible partnerships with Tullow on a string of projects that include oil blocks, people familiar with the matter have said in the past. Eni is interested in buying stakes in Tullow's oil blocks and teaming up to build a proposed $3 billion pipeline and a refinery, the people have said.

Any attempt by Eni to take over Tullow outright would have faced big obstacles.

One of the people familiar with the matter said Tullow would "put up a huge fight" against any takeover, arguing that its stock has unrealized potential. Any prospective buyer would probably have to pay at least a 50% premium for Tullow, based on Addax Petroleum Corp.'s recent acquisition by **China Petrochemical** Corp., the person said.

The Italian firm may consider purchasing a stake in Tullow's African assets.

Tullow's hydrocarbon-reserves update, due later this year, is expected to reclassify a significant part of its unproven resources into proven reserves and unlock more of its market potential.

CORPORATE NEWS

Right-hand man to leave Pepsi

Pair of successors expected to step in for Michael White

BY VALERIE BAUERLEIN AND JOANN S. LUBLIN

Michael D. White, a veteran **PepsiCo** Inc. executive who led negotiations for the company's $7.8 billion acquisition of its two biggest independent bottlers, is retiring by the end of this year.

Chairman and Chief Executive Indra Nooyi once described Mr. White, the 57-year-old chief of PepsiCo's international businesses as well as a vice chairman and board director, as her "closest partner" in running the snack and beverage giant. He has played a major role alongside Ms. Nooyi in key developments in recent years, and is leaving just as the company is preparing to integrate its two biggest independent bottlers. PepsiCo agreed to acquire Pepsi Bottling Group Inc. and PepsiAmericas Inc. in August.

Bloomberg News

PepsiCo CEO Indra Nooyi once called Michael D. White—who is retiring by the end of the year—her 'closest partner.' Mr. White led negotiations for Pepsi's acquisition of its two biggest independent bottlers. A Pepsi delivery truck shown in New York.

PepsiCo confirmed Mr. White's departure, reported by The Wall Street Journal Saturday.

In an interview, Mr. White said he will remain at PepsiCo until the end of November or December, but that PepsiCo "will be well prepared" to integrate the bottlers when the deal closes," probably early next year.

He will also remain on the board until he retires, and will continue to oversee corporate functions such as procurement and information technology and global concentrate operations.

Currently, 17 separate task forces are working on how best to fold the bottlers into PepsiCo, he said. He expects "design and architecture" of the integration to be complete by the end of October. "I certainly believe by the time I leave, it's more about execution," he said.

Mr. White wouldn't say who might run the new bottling unit. He said he has met for planning meetings with both PepsiAmericas CEO Robert Bob Pohlad and Pepsi Bottling Group CEO Eric Foss, a former PepsiCo executive.

Messrs. Foss and Pohlad as well as Al Carey, who runs PepsiCo's Frito-Lay North America division, are considered by company insiders as possible candidates to run the new unit.

Indra Nooyi

At the moment, Mr. Foss is the frontrunner followed by Mr. Carey, according to someone familiar with the situation. This person added, "There still is a lot to be worked out" and so PepsiCo may not announce its pick during a meeting with bottlers this week.

When she became chief executive officer three years ago, Ms. Nooyi, 53, said her first priority was keeping Mr. White as a deputy. Under SEC pay-disclosure rules, PepsiCo reported for Mr. White a 2008 total-pay figure of $10.1 million, far more than any other company executive except for Ms. Nooyi, whose total pay was $13.4 million.

Mr. White said he first talked with Ms. Nooyi in the summer of 2008 about wanting to move on to "another chapter in my life" after nearly 20 years with the company. The two took the first step toward making his retirement possible with a restructuring of the international business last fall under two executives who will now take it over from Mr. White.

But Ms. Nooyi also tried to talk Mr. White out of leaving, he said, and gave him a big role starting last December in planning for the acquisition of the bottlers.

In a statement, Ms. Nooyi credited Mr. White with leading a "dramatic transformation" of the company's international business. Sales outside North America have risen to close to $20 billion, from less than $8 billion in 2003, she said.

Oversight of international operations will be handed over to the two executives elevated last fall. Zein Abdalla will become chief executive officer of PepsiCo Europe and Saad Abdul-Latif will become chief executive officer of PepsiCo Asia, Middle East, and Africa, the company said. Both will report to Ms. Nooyi.

Mr. White said he has been so busy with his duties at PepsiCo that he hasn't planned his next chapter. "I don't have a plan other than that I'm not looking to go play golf," he said. But he said, "I'm ready to do something very different." He said he hopes to look at "some intriguing opportunities" in private equity or a leadership role at another company.

Mr. White's retirement likely will heighten speculation about internal eventual successors for Ms. Nooyi, with increased focus on John Compton, head of the foods division.

Mr. White, however, said PepsiCo has a deep bench. "There are a number of folks who could lead a large company like PepsiCo," he said.

—Betsy McKay contributed to this article

Korn/Ferry faces gay-discrimination suit

BY SARAH E. NEEDLEMAN

A former senior client partner for **Korn/Ferry International** Inc. is suing the executive-search and consulting firm for allegedly firing her because she is gay.

The lawsuit, filed in March by Marti Smye in Los Angeles County Superior Court, claims that Korn/Ferry breached her employment contract by dismissing her last year and not paying her nearly $4 million she earned in bonuses. The case is set for trial on March 1.

Korn/Ferry's "workplace was permeated with antigay animus," the lawsuit says, describing alleged antigay comments made by top Korn/Ferry executives.

As part of the suit, Ms. Smye's attorney filed a declaration by Donna McNicol, senior vice president of human resources for Canadian telecommunications company Telus Corp., who says a Korn/Ferry recruiter told her the search firm could "screen out gay and lesbian candidates" for its clients. Ms. McNicol didn't return a call and a Telus spokesman declined to comment.

A Korn/Ferry spokeswoman said the charges are "baseless" and are "being vigorously defended" but declined to comment further. In January, the firm sued Ms. Smye and her partner, Denise Tobin-McCarthy, who also worked for Korn/Ferry, for allegedly misappropriating confidential information, including client names and contact information. Korn/Ferry recently dropped the suit, which had been filed in Ontario, Canada.

Ms. Smye denies those allegations. She says Korn/Ferry "was discriminating against me and they were also not paying me what I had earned. I believe it was due to my sexual orientation."

Ms. Smye, 58 years old, joined Korn/Ferry in July 2005, when the company bought her four-year-old executive-coaching business, KFY Coach LLC in Naples, Fla. She was assigned to build and lead an executive-coaching and consulting practice within Korn/Ferry. The company terminated her employment contract in December 2008.

In the lawsuit, Ms. Smye says senior leaders at Korn/Ferry began openly making antigay comments around 2007. The complaint alleges that Jeff Rosin, president of Korn/Ferry Canada, cautioned employees against associating with gay employees, including Ms. Smye. It claims that Mr. Rosin fired Ms. Tobin-McCarthy after learning that she and Ms. Smye were dating. The discovery came when Ms. Tobin-McCarthy dialed into a company meeting from Ms. Smye's home phone, the lawsuit alleges.

Through the Korn/Ferry spokeswoman, Mr. Rosin declined to comment.

There is no federal law prohibiting discrimination based on sexual orientation in the workplace, though 21 states and the District of Columbia have such laws, including California. Ms. Smye filed suit in California because Korn/Ferry is based in Los Angeles.

Complaints of sexual-orientation discrimination are rising in California, to 821 last year from 815 in 2007 and 722 in 2006, according to the state's Department of Fair Employment and Housing.

Most discrimination cases based on sexual orientation are settled out of court, said Brad Sears, executive director of the Williams Institute, a research center at UCLA School of Law that specializes in the issue.

In 2004, Foot Locker Inc. settled a suit by a gay former employee in Columbia, S.C., who said he was humiliated by supervisors and coworkers, according to Lambda Legal, a gay-rights group that represented the ex-employee. The athletic footwear and apparel chain didn't admit wrongdoing but agreed to change its policy governing workplace harassment and pay a monetary settlement, the advocacy group said. Foot Locker didn't return calls seeking comment.

Proving discrimination in a single case can be challenging because plaintiffs must show that there weren't other reasons for the company's actions, said James Esseks, an attorney for the American Civil Liberties Union in New York who isn't involved in Ms. Smye's case.

Intel makes push beyond PC processors

BY DON CLARK

Intel Corp. will soon introduce chips based on a new manufacturing technology it hopes will help the company attack potentially tough new markets as well as boost computer performance.

Intel has said the new production process will make it the first to offer chips with circuit dimensions measured at 32 nanometers—or billionths of a meter—compared with a 45-nanometer process it adopted two years ago. The company said last week it has begun manufacturing the new chips, which will be sold to computer makers in the fourth quarter.

Shrinking transistors and other circuitry boost chips' performance and data-storage capacity while reducing manufacturing costs. For this reason, Intel and its rivals are always racing to develop new production processes.

This time Intel, which commands four-fifths of the market for the microprocessors that act as calculating engines in computers, plans to simultaneously introduce two versions of its 32-nanometer production process. One will make chips for computers; the other will be tailored for "systems on a chip," or SoCs, which are multi-function chips used in consumer-electronics devices such as cellphones, cars and other applications outside the computer industry.

Intel Chief Executive Paul Otellini has identified such markets as an essential part of the company's growth strategy. But the company can't just rely on one of its biggest historical advantages—the array of programs that run on its chips—since many SoCs use specialized software.

Instead, Intel plans to make a case that its 32-nanometer technology offers big benefits over the production processes historically used by companies that serve the SoC market. "They have not kept up," said Sanjay Natarajan, director of 32-nanometer logic process development.

Among other things, Mr. Natarajan said, Intel can offer customers a choice between extremely high performance—including transistors that are about 22% faster than 45-nanometer versions—or opt for slower speeds but low power consumption, a benefit in extending the battery life of cellphones and other products.

The SoC market poses new challenges. Intel must offer a range of components that it doesn't typically include on its microprocessors and compete more directly with manufacturing services known as foundries that have long served SoC makers.

"The design side of it is more complex," said Risto Puhakka, an analyst at market researcher VLSI Research. "It's really venturing outside the classic computer-industry model."

Rivals expect to be close on Intel's heels. Gregg Bartlett, senior vice president in charge of technology at Globalfoundries—a manufacturing spinoff of **Advanced Micro Devices** Inc.—said it expects to be making 32-nanometer chips next year. His company's advantages, he said, include membership in a technology alliance that includes **International Business Machines** Corp. and other manufacturers.

ECONOMY & POLITICS

Russia responds to Obama's U-turn

Medvedev and Putin signal small thaw in relations, but both continue to say not to expect any direct concessions

Russia began to signal a small thaw in relations with the West on Friday in the wake of the U.S. cancellation of an antimissile defense system in Eastern Europe, as NATO offered a reset of its own thorny ties with Moscow.

By ***Gregory L. White*** *in Moscow and* ***Marc Champion*** *in Brussels*

President Dmitry Medvedev said Russia would be more attentive to U.S. concerns, and Prime Minister Vladimir Putin offered some rare warm words for the U.S.—though both continued to say not to expect any direct concessions. "It's not a magic wand," a senior Kremlin official said of the U.S. missile-defense move.

In another development that appeared related to the U.S. shift to a more-conventional style of missile defense Thursday, North Atlantic Treaty Organization ally Turkey announced Friday that it would buy $1 billion of interceptors in the style of the U.S. Patriot system that can shoot down medium-range rockets and aircraft. Turkey borders Iran, Iraq and Syria.

The new secretary-general of NATO offered Russia his own olive branch, suggesting Moscow and the West should work to link their missile-defense systems and conduct a joint NATO-Russia review of security threats.

In his first major speech Friday, NATO Secretary-General Anders Fogh Rasmussen said Russia should "make its voice heard" in development of the Western alliance's new security strategy. He said he wanted to see a fresh start in relations, strained in the aftermath of Russia's war with NATO aspirant Georgia in August 2008.

"It's good news for us," Russia's ambassador to NATO, Dmitry Rogozin, said after listening to the proposals from Mr. Fogh Rasmussen, former Denmark prime minister. "Military experts think that it's possible," he said of a joint missile system. "But we have to understand much more profoundly this proposal." Russia and NATO have so far conducted joint computer-based missile-defense exercises.

U.S. President Barack Obama said Thursday the U.S. would suspend plans to install an antiballistic missile system in Poland and the Czech Republic. The Kremlin had fiercely opposed the system, dismissing U.S. arguments that it wasn't a threat to Moscow's security. After a cool response Thursday, Russian officials warmed up their words on Friday.

Mr. Putin, long a critic of the missile-defense plans, called Mr. Obama's decision to shelve them "right and brave." But he also called on Washington to make more concessions.

Officials said any softening in Russia's positions is likely to come in areas like security cooperation in Europe and nuclear-arms-reduction talks with the U.S. On Iran, a U.S. priority, Moscow's opposition to tighter sanctions as a way to force Tehran to abandon its nuclear ambitions is unchanged, the Kremlin official said.

So far, Russia's only concrete response has been to say it won't followthrough with last year's threats to deploy missiles and bombers near Poland in the event the antimissile system was installed. A clearer test will come this week, when President Obama meets Mr. Medvedev in New York.

Russia and the U.S. agreed in a joint declaration in 2002 to cooperate on missile defense, but a chilled political atmosphere surrounding the 2003 U.S.-led invasion of Iraq quickly killed those proposals. The administration of former U.S. President George W. Bush began talks with Poland and the Czech Republic on its own.

"Both sides are being very coy. They say they are open to cooperation but only in the most general terms," said Philip Coyle, a former assistant secretary of defense and now senior adviser to the Center for Defense Information, a Washington think tank.

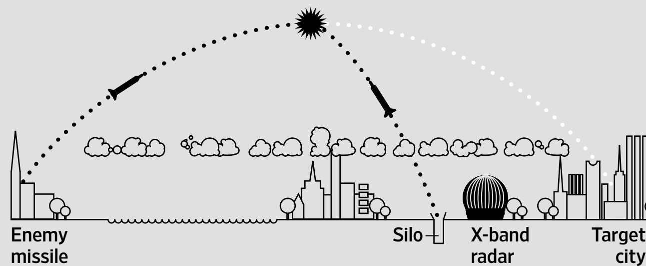
Mr. Coyle said Russia previously offered the U.S. to share good sites for radar coverage of Iran in the Caucasus and Southern Russia. But the missile-defense systems themselves are still in development and doubts remain over how dual control of the missiles could work; discussions haven't advanced.

Russia opposes further expansion of NATO to include its former Soviet neighbors, such as Ukraine and Georgia. For a real improvement in relations, Russia would need to acknowledge that NATO will continue to exist and will keep its doors open for new members, Mr. Fogh Rasmussen said in his speech. In return, NATO would need to acknowledge that Russia has interests it needs to take account of.

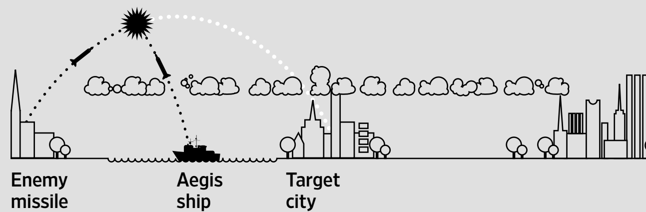
Comparing Russia to the dwarf planet Pluto—on the far fringes of NATO solar system—Mr. Fogh Rasmussen described it as "lonely, cold and frustrated."

Missile vs. missile | Two ways to knock out a weapon

Long-range system
A long-range X-band radar would detect enemy missiles. Land-based missiles would launch from silos and attempt to knock out the enemy missiles midway through their flight.



Medium-range system
Radar on Aegis ships positioned near a hostile territory would detect and follow an enemy missile after launch. The ship would then launch SM-3 missiles to knock out the enemy missile before its descent.



Source: Defense Department

Moving pieces
The U.S. says it will shelve a long-range missile-defense system based in the Czech Republic and Poland in favor of a short- and medium-range system that initially will be based on ships.

Source: Defense Department (locations and photo)

Cost concerns propelled U.S. pivot over missiles in Europe

BY JONATHAN WEISMAN AND PETER SPIEGEL

WASHINGTON—The Obama administration's scrapping of long-range missile interceptors in Europe wasn't just about security and diplomacy, according to people close to the process: It also came down to money.

"A ground-based interceptor is generally about a $70 million-per-missile asset going after a $10-$15 million [Iranian] missile," a senior administration official told arms-control analysts Thursday at a briefing explaining the rationale, according to a recording heard by The Wall Street Journal. "The trade is not a good one economically. It's not a good one from a military strategy position."

President Barack Obama's decision to shelve his predecessor's plans for long-range missile interceptors in Poland and an antimissile radar in the Czech Republic has divided opinion in Europe and provoked anger among U.S. conservatives. Administration officials have made the case that it will yield broad dividends diplomatically.

On Sept. 10, senior administration officials presented the case for substituting medium-range missile interceptors at a cabinet meeting at the White House. The presentation was the culmination of studies launched in 2006 by Defense Secretary Robert Gates, then serving in the same job in the Bush administration, to look at the efficacy of two separate missile-defense tracks. The "upper-tier" track included powerful rockets in Alaska and California as well as the small battery of interceptors in Poland.

The "lower tier" included ship-based Aegis missile defenses; the Terminal High Altitude Air Defense system, whose first operational deployment in Israel is set for the coming weeks; and more established Patriot missiles.

At the same time, administration officials said, intelligence showed Iran was shifting from difficult-to-build, expensive intercontinental ballistic missiles to middle-range missiles aimed at the Middle East and Europe. Iran had "a construct in their mind that they're going to hold their neighbors and eventually most of Europe at risk," one official said at the arms-control briefing. The Defense Department began emphasizing its lower tier in response.

With the advent of the Obama administration, former Rep. Ellen Tauscher was appointed in March as the top State Department hand overseeing nuclear nonproliferation—a powerful position that during the Bush administration was occupied by Russia hawks like John Bolton.

As chairman of a key House subcommittee, she had repeatedly stripped funding for the Czech and Polish sites, insisting the Pentagon prove the system actually worked.

Other shifts were under way at the Pentagon. Mr. Gates has said he began to have a change of heart about his embrace of the European system as intelligence made it clearer Iran was struggling with its ICBM program. Tehran, however, was becoming an innovator in short and medium-range missile technologies, officials believed.

Pentagon officials said Marine Gen. James Cartwright, vice chairman of the Joint Chiefs of Staff whose previous job was heading the military command responsible for missile and space weapons, became increasingly influential in these debates: He argued that focusing on Iranian long-range missiles was leading the Pentagon to build ever-more expensive defensive systems to counter an increasingly elusive threat.

Meanwhile, the military's most ardent missile defense backer, Air Force Lt. Gen. Trey Obering, retired; as longtime head of the Missile Defense Agency he had repeatedly advocated for the Czech and Polish system.

For Mr. Obama, another consideration was his personal push toward arms control and nonproliferation, said Joseph Cirincione, president of the Ploughshares Fund, an arms-control group with close ties to the administration.

In April, in a speech in Prague, Mr. Obama pledged to work toward a world without nuclear weapons. In July, in Moscow, he and Russian President Dmitry Medvedev committed to a binding treaty by December reducing the former Cold War nuclear arsenals. This week, Mr. Obama chairs a United Nations Security Council summit on nonproliferation and disarmament.

In the spring, the White House plans to press for ratification of the Comprehensive Nuclear Test Ban Treaty, ahead of a summer international conference to review the nuclear Non-Proliferation Treaty.

All of those issues require Russian cooperation, and the Russians made it clear they wanted the Eastern European antimissile system scrapped. "Anyone objectively assessing this European site knew it was a turkey. It was never going to work," Mr. Cirincione said. "But was there politics involved? Yes."

There was also money. The Pentagon had to start drawing up a new five-year defense plan, which lays out its plans for long-term defense spending. A decision had to be made whether to stick with about $5 billion in that new plan for the old system, or to devote half that amount to speed up deployment of the new missiles. The Pentagon chose the latter.

The presentation at the Sept. 10 cabinet meeting didn't end with a formal decision. That was made Sept. 13, according to people familiar with the timeline.