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THE WALL STREET JOURNAL.

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THE WALL STREET JOURNAL.

Obama targets big banks

U.S. plan comes amid new attacks on Wall Street; U.K. Treasury officials to consider proposal 'very carefully'

By Jonathan Weisman
And Henry J. Pulizzi

WASHINGTON—President Barack Obama proposed new rules designed to restrict the size and activities of the U.S.'s biggest banks, the latest in a series of administration moves to curb Wall Street.

New Limits

■ Financial stocks slump on both sides of the Atlantic .. 19

"Never again will the American taxpayer be held hostage by a bank that is too big to fail," Mr. Obama said Thursday.

The White House wants commercial banks that take deposits from customers to be barred from investing on behalf of the bank itself—what's known as proprietary trading—and said the administration will seek new limits on the size and concentration of financial institutions.

Administration officials said the rules would force major institutions from **J.P. Morgan Chase** to **Bank of America** to decide the direction of their business. Banks shielded from risk through federal-deposit insurance, or aided in financial crises by low-interest loans from the Federal Reserve Board, would no longer be allowed to engage in trading unrelated to their customers' interests, one senior administration official said.

Under the proposed rule, commercial banks would be prohibited from owning, investing in or advising hedge funds or private-equity firms. Bank regulators would not be simply given the discretion to enforce such rules. They would be required to do so.

"You can choose to engage in proprietary trading, or you can own a bank, but you can't do both," the official said.

Administration officials said they also want to toughen an existing cap on bank market share. Since 1994, no bank can have more than 10% of the nation's insured deposits.

The Obama administration wants that cap to include noninsured deposits and other assets.

The White House released no information on what those other assets might be, saying officials would work closely with Congress to set tougher caps designed to prevent the further concentration of financial-industry markets within a few behemoths.

U.K. Treasury officials were mulling the U.S. announcement on Thursday. "We will consider the proposals very carefully," a spokesman said.

The U.K. opposition Conservative party, meanwhile, welcomed the plan. In a statement, Conservative Treasury chief George Osborne said, "I have said consistently that we should look at separating retail banking from activities like large-scale propriety trading—and that this was best done internationally." The Conservatives are the current favorites to win an election due by June 3.

Please turn to page 4

Reuters

President Barack Obama flanked by Treasury Secretary Tim Geithner (left), Rep. Barney Frank and former Fed Chairman Paul Volcker.

Goldman profit leaps as firm restrains pay

By Joe Bel Bruno
And Jessica Papini

NEW YORK—**Goldman Sachs Group** Inc. on Thursday reported blowout fourth-quarter earnings, in part because it restrained compensation amid a public outcry about excessive pay.

The investment bank's record-high profit of $4.95 billion for the fourth quarter far exceeded Wall Street estimates. The amount eclipsed the combined returns of rivals **J.P. Morgan Chase** & Co., **Morgan Stanley**, **Citigroup** Inc. and **Bank of America** Corp., and it highlights Goldman's revival from a financial crisis that toppled competitors.

But the earnings report also revealed that Goldman is being swayed by intense criticism about compensation packages so soon after the U.S. bailout of the banking industry. After the earnings were released, President Barack Obama proposed limits on the size and risk-taking of the nation's biggest banks.

The most-watched topic in the report, compensation, took many on Wall Street by surprise. The bank set aside $16.2 billion for compensation for its employees in 2009, well below the record many expected the firm would announce.

Goldman sought to deflect criticism by cutting back how much it put into its bonus pool and giving $500 million to charity. That reduced amount helped lift profits and kept the investment bank from toppling the record $20.2 billion in compensation it devoted to employees in 2007. The figure for 2009 represented 35.8% of revenues for the year, down from 48% a year earlier and the lowest level since the firm went public in 1999.

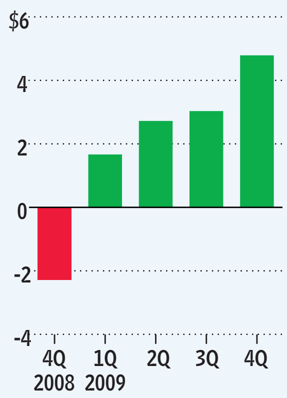
That said, Goldman's 32,500 employees, consultants and temporary workers will still receive compensation averaging about a half-million dollars for the year. It wasn't known how much Goldman Chief Executive Lloyd Blankfein would be paid for 2009, though the company's top 30 executives will receive their bonus in stock that can't be sold for at least five years.

Mr. Blankfein said the reduction in compensation, a "recognition of the broader environment, resulted in our lowest ever compensation to net revenues ratio." He went on to say that "despite significant economic headwinds, we are seeing signs of growth."

The bank's earnings of $8.20 a share for the quarter topped the average prediction of $5.20 a share by analysts surveyed by Thomson Reuters. Revenue was $9.62 billion, compared with forecasts of $9.65 billion.

Please turn to page 4

Goldman Sachs
Net profit/loss, in billions



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PAGE TWO

Regulators: Keep hands off accounts!

[Agenda]

By Simon Nixon

The financial crisis was either the result of too much capitalism or too little, depending on your point of view. Where one stands in this debate will determine what one thinks of Lord Turner's call for accounting-standard setters to reflect the concerns of regulators when they define new rules for the banking sector.

The chairman of the U.K.'s Financial Services Authority is a former McKinsey partner, ubiquitous government adviser and ultimate establishment insider, so perhaps it isn't surprising he fears mere investors cannot be trusted with the truth and need protecting from their own irrationality. But those who believe the financial system failed partly because of distortions created by too much government interference, such as the implicit guarantee over bank funding, will rightly resist Lord Turner's conclusions. Accounts should be for investors.

Lord Turner was speaking yesterday at a conference in London on the subject of whether banks are different from normal companies. Of course, banks are different for the obvious reasons Lord Turner and others point out: They're more leveraged, engage in maturity transformation (funding long-term assets with short-term debt), and they are a vital source of credit to the rest of the economy. But the real reason that banks are different was first identified by a penitent Alan Greenspan early in the crisis: that bank boards, almost uniquely among enterprises, cannot be trusted to run their businesses in the long-term interests of their shareholders, preferring instead to run them to the very limits that regulation permits so as to maximize payouts to employees.

The financial crisis was first and foremost a prudential failure, first by bank boards and second, by regulators. Mark-to-market

Agence France-Presse/Getty Images

Lord Turner and his fellow regulators are right to worry about pro-cyclicality

accounting of trading-book profits and incurred loss provisioning of banking books—only booking impairments in response to observable events rather than management expectations of future losses—are strongly pro-cyclical. But that imposes an obligation on boards and

The financial crisis was first and foremost a prudential failure by bank boards and by regulators

regulators to exercise their own contra-cyclical judgment when it comes to the distribution of profits. The idea that the recent failure to discharge this responsibility should result in worse information being provided to investors, the final line of prudential defense, is baffling.

To the extent investors failed in their own duties of stewardship, it was at least in part because the information provided them was too unreliable and the basis of preparation insufficiently understood. Current International Accounting Standards Board rules allow 22 different ways of valuing a financial asset and include seven different impairment methods. Management judgment continues to play far too big a role in the preparation of accounts. The answer must be to turn accounts into a source of more useful information, which means they must be transparent and based on verifiable information.

Judged on this basis, the latest IASB proposals to introduce an expected loss model for loan-loss provisions—backed by Lord Turner and demanded by other members of the Group of Central Bank Governors and Heads of Supervision—is a backward step. Such an approach increases the element of judgment into the accounts. Loan-loss provisions should reflect the anticipated cash flows based on observable events. For example, a mortgage could be provisioned against if homeowners were to lose their jobs, rather than a bank looking at historic unemployment data and making provisions across its loan book based on what might happen in the future. Lord Turner's approach, effectively requiring banks to make counter-cyclical provisions, will simply muddy the waters. Similarly, efforts by regulators and bankers to restrict the use of mark-to-market accounting should also be resisted. Where a bank holds a liquid asset with an observable value on its balance sheet, it should be recorded at fair value.

Of course, Lord Turner and his fellow regulators are right to worry about pro-cyclicality. But if regulators doubt bank boards and investors are capable of exercising sufficient restraint to build adequate capital buffers during the good times, then they have plenty of powers. They can force banks to hold much higher levels of capital, as the Basel committee has recently proposed. They can also make use of macroprudential tools to allow them to limit bank risk-taking in areas that look overheated. If regulators believe it necessary for banks to show clear provisions on the face of their accounts, these should be deducted below the net-income line, perhaps as a regulatory income line that can be used as the basis for distributions to shareholders and employees.

What regulators must not do is interfere with the transparency of accounts. Accounting may have contributed to the financial crisis, but only to the extent that banks were able to game inadequate accounting and capital rules to hide the risks they were running from regulators and investors.

Since much of the regulatory response to the crisis is rightly focused on creating a system in which it is safer for large institutions to fail, it is vital that investors are provided with accurate and transparent information.

It is worrying that the various global bodies charged with delivering a new regulatory framework are almost entirely comprised of policymakers and provide very little voice for standard-setters and investors. Already the debate over new accounting standards is becoming worryingly politicized.

A new financial system reliant on the judgment of a handful of panjandrums such as Lord Turner, no matter how wise and well intentioned, is likely to be no more secure than the last one.

—Simon Nixon is European editor of the Heard on the Street column.

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What's News

■ **Renewed worries** over Greece's fiscal problems weighed on the country's financial markets even as the government reaffirmed that it isn't seeking outside support to meet its borrowing needs. ECB officials urged Greece to expedite reforms. **6**

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NEWS

Apple sees new money in old media

Steve Jobs's tablet device aims to repackage TV, newspapers and magazines, just as the iPod changed music sales

By Yukari Iwatani Kane
And Ethan Smith

Associated Press

Steve Jobs, appearing at an Apple event in September, has a longstanding strategy of devising new ways to access and pay for quality content.

With the new tablet device that is debuting next week, **Apple** Inc. Chief Executive Steve Jobs is betting he can reshape businesses like textbooks, newspapers and television much the way his iPod revamped the music industry—and expand Apple's influence and revenue as a content middleman.

In developing the device, Apple focused on the role the gadget could play in homes and in classrooms, say people familiar with the situation. The company envisions that the tablet can be shared by multiple family members to read news and check email in homes, these people say.

For classrooms, Apple has been exploring electronic-textbook technology. Apple also has been looking at how content from newspapers and magazines can be presented differently on the tablet, according to the people familiar with the situation. Other people briefed on the device say the tablet will come with a virtual keyboard.

Apple has recently been in discussions with book, magazine and newspaper publishers about how they can work together. The company has talked with **New York Times** Co., **Condé Nast Publications** Inc. and HarperCollins Publishers and its owner **News Corp.**, which also owns The Wall Street Journal, over content for the tablet, say people familiar with the talks.

New York Times Chairman Arthur Sulzberger declined to comment in an interview Wednesday on its involvement in the new device except to say, "stay tuned."

Apple is also negotiating with television networks such as **CBS** Corp. and **Walt Disney** Co., which owns ABC, for a monthly TV subscription service, the Journal has reported. Apple is also working with videogame publisher **Electronic Arts** Inc. to show off the tablet's game capabilities, according to one person familiar with the matter.

Apple's strategy contrasts with how other technology companies are approaching media. Notably, **Google** Inc. offers content to consumers largely free on properties like its video-sharing site YouTube, making relatively little distinction between clips from users and those of professional media companies, although YouTube this week said it plans to experiment with movie rentals. Web sites like Twitter and Facebook also provide outlets for user-generated content.

Mr. Jobs has a longstanding strategy of devising new ways to access and pay for quality content, instead of reinventing the content. Apple's iTunes Store, for instance, became the world's largest music retailer partly by making it easy for people to buy music, most of it from major record labels, by the song instead of by the album. Its digital-media receiver Apple TV was also designed so people can buy and rent movies and television shows.

Mr. Jobs is "supportive of the old guard, and [he] looks to help them by giving them new forms of distribution," says a person who has worked with the CEO. "What drives all of these changes is technology, and Apple has an ability to influence that."

Apple's divide with Google over how it views media content also drives the wedge deeper between the two companies. Apple's iPhone, for example, currently closely integrates Google's mapping and search technology, but a person familiar with the matter said Apple was in serious discussions with **Microsoft** Corp. to incorporate its Bing search engine into the iPhone as the default search and map technologies. Microsoft declined to comment.

Details of how Apple charges for the content on its tablet couldn't be learned, but people familiar with the company's thinking say Apple could change conventional payment structures. One person familiar with the matter said the company was discussing with the New York Times how it could charge for news through iTunes. It is unclear how people will access content wirelessly off the tablet.

An Apple spokesman said the company "doesn't comment on rumors and speculation." Mr. Jobs didn't respond to a request for comment.

Mr. Jobs' effort to repackage and resell more media content isn't without obstacles. He already has faced resistance from television companies and cable-network providers over Apple's desire to license just their best content rather than all of it.

Many music executives complain that it has become a powerful gatekeeper between the labels and customers. What's more, the iTunes Store's music downloads haven't grown fast enough to offset the decline in CD sales for music companies.

On Monday, Apple sent out an invitation to a media event on Jan. 27 "to see our latest creation." The tablet, which Apple currently plans to ship in March, will have about a 10- to 11-inch touch screen, say people familiar with the situation.

Apple's tablet foray faces several obstacles. Analysts say demand will depend on its price, which some believe will be about $1,000. Apple must also convince consumers the product is worth buying in addition to an iPhone and a laptop computer. And Apple faces competition from cheaper netbooks and other devices such as **Amazon.com** Inc.'s Kindle e-book reader.

The tablet's success will depend "on how this product can fit into the user's daily life... and whether you have enough content to make it important enough to use it," said Henry Lu, senior vice president of Taiwanese computer company Micro-Star International Co., which failed at selling a tablet computer a few years ago.

In the academic arena, Apple could face hurdles wooing universities if the tablet doesn't meet their needs or isn't compatible with other computing devices that students are using.

Amazon had been hoping to target the market with its 9.7-inch screen Kindle DX e-book reader, for example, but schools said the device wasn't sufficiently interactive and lacked basics such as page numbers and color graphics.

One person familiar with the matter said Apple has put significant resources into designing and programming the device so that it is intuitive to share. This person said Apple has experimented with the ability to leave virtual sticky notes on the device and for the gadget to automatically recognize individuals via a built-in camera. It is unclear whether these features will be included at launch.

Apple's content-related efforts heated up in the fall. In October, Apple sent representatives to the Frankfurt Book Fair, the industry's largest trade fair, according to one person familiar with the matter.

At the same time, Apple pitched media companies on a "best of TV" subscription service to television networks under which customers would pay a monthly fee for on-demand access to programs from a bundle of participating TV networks, giving consumers another way to readily access television content.

At a meeting in New York with one network in October, an Apple executive said the company was specifically looking to access four to six shows per channel, said one person familiar with the meeting.

Apple also has been planning a revamp of its iTunes music service by creating a Web-based version of it that could launch as soon as June, say people familiar with the matter. Tentatively called iTunes.com, the service would allow customers to buy music without going through the specialized iTunes program on computers and iPhones.

People familiar with Apple's plans say a central part of the new strategy is to populate as many Web sites as possible with "buy" buttons, integrating iTunes transactions into activities like listening to Internet radio and surfing review Web sites.

In November, Apple hired Tracy Augustine, a former executive at textbook publishers Cengage Learning Inc. and Pearson Education Inc., as the director of world-wide education. Ms. Augustine is responsible for "driving global strategy and revenue for the education online store for students," according to her LinkedIn description.

Ms. Augustine didn't respond to a request for comment.

—Geoffrey A. Fowler and Russell Adams contributed to this article.

NEWS

Volcker rules again with 'Volcker's rule'

By Neal Lipschutz

[Analysis]

At least for the day, the most powerful man in the U.S. financial industry and for equities markets is 82 years old, a man who ended his leadership of the Federal Reserve more than 20 years ago.

But Paul Volcker is back. Big time. Reportedly on the margins of the Obama administration even in his current role as an adviser, "the tall guy behind me," in the words Thursday of President Barack Obama, is back on stage figuratively and literally.

As the president announced two major initiatives that would radically change the world of America's big banks, he was flanked by Treasury Secretary Timothy Geithner and adviser Larry Summers. He also had with him two Congressional leaders, Rep. Barney Frank (D., Mass.) and Sen. Christopher Dodd (D., Conn.).

But importantly, the president had Mr. Volcker, and he had another regulatory veteran who's been a straight shooter unbound by ideological restraints or misplaced party fealty.

That's William Donaldson, former head of the Securities and Exchange Commission. President Obama thanked both Mr. Volcker and Mr. Donaldson for their counsel, which, given the nature of the Obama proposals, was "old school" in more senses than simply a reference to the vast combined financial experience of both men. Agree with it or not, the "Volcker Rule," enunciated by the president Thursday—which would keep a bank from having anything to do with investment vehicles such as hedge or private equity funds— certainly signals Mr. Volcker's return.

It is a fascinating resurrection. Mr. Volcker himself hasn't changed his thinking. What has changed is the environment. The heavy, popular furor as big bank profits and big bonuses are rolled out likely played a role in the new Obama plan. That plan includes flat-out limits on bank size and restrictions on industry consolidation.

Just last month Mr. Volcker was pushing the essence of what's now the "Volcker Rule" to a group of European bankers gathered at a Wall Street Journal conference in Horsham, England. I wrote then that he sounded like a disappointed and tough school master as he dismissed the bankers' ideas for regulatory reform as "inadequate." Now, he's given them a test.

Agence France-Presse/Getty Images

Paul Volcker looks on as Barack Obama outlines the new banking proposals.

Reuters

Morriss Marshall protests outside of Goldman Sachs's headquarters in New York on Thursday.

Goldman profit surges as pay shrinks

Continued from first page

In the year-earlier period, Goldman had a loss of $2.29 billion, or $4.97 a share, on negative revenue of $1.58 billion. The prior-year period ended on Nov. 28, before the company shifted to a different reporting calendar.

Fixed-income trading slowed in the latest quarter after extraordinary profits in the previous three quarters. Revenue from fixed income, currency and commodities was $3.97 billion, down from the $5.99 billion in the third quarter.

But investment-banking revenue moved higher, after falling almost a third in the third quarter. It rose 82% from the previous quarter to $1.64 billion. That was up 58% from a year earlier.

Revenue from principal investments, those made with the firm's own capital, fell to $6.41 billion in the fourth quarter from $10.03 billion in the third quarter. That was up from negative net revenue of $4.36 billion a year earlier.

Goldman said that for all of 2009, it had net earnings of $13.39 billion and produced a 22.5% return on average common shareholders' equity. The results propelled the bank further ahead of rivals, many of which have struggled to overcome the credit crisis. Goldman has been able to take on more risk and grab market share while competitors were licking their wounds.

Goldman had earlier tried to deflect criticism by announcing that top executives won't receive cash bonuses this year, and instead will receive stock that can't be sold for at least five years. But that policy affected only the top 30 bankers.

Goldman's chief financial officer, David Viniar, said that the firm had taken the U.K.'s bonus tax "into consideration" when making decisions on compensation. Mr. Viniar said every employee around the world will bear some of the burden of the tax, but he declined to comment on whether employees in London would take a proportionally bigger hit than those in other offices.

His comments came after a Sky News report that Goldman plans to impose a bonus cap for London staff.

The U.K.'s bonus tax will require firms to pay a one-time 50% levy on all bonuses over £25,000 ($40,700).

—Simon Kennedy contributed to this article.

Obama plans to limit size, activities of U.S. banks

Continued from first page

The U.K., whose finance-heavy economy was one of the biggest casualties of the credit crunch, has so far backed off from any separation of risk in large banks or caps in size. Instead it has aimed to discourage deposit-taking banks from taking proprietary risk by increasing the amount of regulatory capital they must hold to make trades. They also hope to lower the risks through so-called living wills, which force banks to map out how they could be broken up in the case of failure.

The White House hopes the new proposals will be taken up by the Senate Banking Committee as it moves forward with major legislation overhauling and toughening bank regulations in the wake of the financial crisis. Administration officials said they were not trying to resurrect Depression-era laws that strictly divided commercial banks from investment operations. Nor would their proposals force existing financial firms to downsize.

One prominent House Democrat, Rep. Paul Kanjorski (D., Pa.), said the proposal would give regulators another option to rein in large banks and limit systemic risk. He sought to play down market fears about the plan.

"This isn't gigantic," Mr. Kanjorski said on CNBC. "We're going to handle it right."

But the initial reaction from some Republicans has been sharply critical, with several saying the White House is trying to hammer big banks to score political points.

"This renewed focus on financial-services reform by the Obama administration is clearly a transparent attempt at faux-populism, in light of the outcome of the Massachusetts Senate race," said Rep. Scott Garrett (R., N.J.). "The American people have rejected extreme government expansion into the private sector, be it in the health care, financial services or auto industry."

The move comes in the midst of a broader swing by the Obama White House in favor of bashing Wall Street. Earlier this month, the president proposed a new fee on large banks to recoup the cost of the Wall Street bailout, even costs incurred by the rescue of the auto industry in Detroit.

A last-ditch pitch by Massachusetts Democrat Martha Coakley focused on painting her Republican opponent, Scott Brown, as weak on Wall Street regulations. That was not enough to stave off Mr. Brown's victory Tuesday in the contest for the late Ted Kennedy's Senate seat. But Democrats have made clear big bank bashing will continue.

One senior administration official said proposed new rules are designed to combat "too big to fail" institutions. They come after Wall Street firms that got special protections during the financial crisis turned massive profits on proprietary trading that was protected by the federal safety net.

"We want to move them toward their core business or serving their clients," the official said.

Such proposals were left out of the detailed regulatory overhaul put forward by the president in June. And White House aides have sent out signals that they were resisting calls for stronger action to limit the size and scope of banks.

In October on National Public Radio, Diana Farrell, a deputy National Economic Council director in charge of financial regulatory issues at the White House, said of the big banks, "We have created them, and we're sort of past that point, and I think that in some sense, the genie's out of the bottle and what we need to do is to manage them and to oversee them, as opposed to hark back to a time that we're unlikely to ever come back to or want to come back to."

White House officials said a June White Paper discussed more stringent action, and the behavior of the banks themselves pressed the president to go further. Over the fall, former Federal Reserve Chairman Paul Volcker, who head's the President's Economic Recovery Advisory Board, met several times with Mr. Obama to discuss his ideas to limit the reach of the big banks.

—Damian Paletta, Alistair MacDonald and Laurence Norman contributed to this article.

Other ways to fix markets exist beyond transparency

[Brussels Beat]

By Stephen Fidler

Efforts by the European Union to improve the way financial markets function have been driven in part by the desire for transparency to arm investors with more information about the terms at which financial assets change hands.

Transparency isn't everything, says Hugues Pirotte, a professor at the Solvay Brussels School of Economics and Management at Brussels University. It needs to be put in context of the way financial markets are governed. Nobody expects a supermarket to disclose the profit margin on each product it sells partly because people assume competition will help to keep margins reasonable.

But he adds that what is publicly reported about financial markets "is only the tip of the iceberg." Indeed, as the European Commission contemplates new rules that will force more disclosure on markets, it's not clear that its efforts so far have raised more of the iceberg above the water line. In fact, in some areas, it could be sinking deeper.

The development is illustrated in part by Thursday's disclosures by the London Stock Exchange. According to data from Thomson Reuters, reported by Dow Jones Newswires, the LSE's share of trading in the top U.K. stocks in the FTSE 100 fell to 64% in December from about 78% a year earlier.

That reflects the growth of new competition to the traditional exchanges, including from the so-called multilateral trading facilities, or MTFs. The largest of these, Chi-X, saw its share of trading the top 100 U.K. stocks rise to more than 21% from 13.2% over the period.

However, even those numbers are likely to have overestimated the LSE's true market share. That's because the biggest competitors to the established exchanges aren't so much the MTFs but broker-dealers operating "dark pools" where big trades of mostly highly liquid stocks take place over the counter.

According to data from the Federation of European Securities Exchanges covering the period from January 2008 to October 2009, the regulated stock exchanges in Europe accounted for only 53% of total trading, the MTFs 7% and the less regulated over-the-counter market 38%. The remaining 2% is accounted for by what are called systematic internalizers, investment firms trading off their own books.

This suggests that, in one area, European regulators have been successful: Their efforts have broken the old stranglehold of the established stock exchanges and created more competition. But is there more transparency? The answer to that is also clear: No.

Most of the market eventually is obliged to report trades after they take place, though the further one moves from the established stock market and the closer toward the over-the-counter area, the less timely and granular that information is.

However, outside the established exchanges, where investors can see the prices at which they can expect to trade, there is little so-called pretrade transparency. The FESE numbers suggest that market prices for major European stocks are being set based on information from just over half of all shares traded.

The relevant European law—the Markets in Financial Instruments Directive—already recognizes that maximum price transparency isn't always in the public interest. If your pension fund needs to dispose of 50 million Vodafone shares to increase its liquidity, you don't want it to be made by law to announce to the entire market that this is what it plans to do because prices will move dramatically against it. Special wavers therefore exist to allow the exchanges of big blocks of shares on regulated markets without the usual disclosures.

Some institutional investors argue that market makers shouldn't have to declare prices for which they are willing to trade corporate bonds, a market where there are hundreds of relatively small issues that are rarely traded. Forcing market makers to do this, they say, would lead to a widening of buy-sell spreads, and increase costs to customers.

The problem for regulators is to distinguish between these exceptional circumstances where greater price transparency sometimes hurts the customer, and those when hiding pricing information helps nobody but the banker selling a product.

This question of transparency will confront the European Commission in several ways, with its review of MiFID taking place toward the end of the year. Before that it will push proposals related to the markets in derivatives and on market abuse.

A forceful lobbying campaign, led by the banks, has already begun to try to rebuff any EC effort to push more derivatives trading on to exchanges and away from the more opaque over-the-counter markets, which are responsible for an estimated 80% of derivatives trading in Europe.

Banks and the treasury and corporate finance departments of some big companies argue that the over-the-counter markets better tailor products to precise customer needs than the one-size-fits-all derivative exchanges.

Yet, it is also true that the factories inside banks that are manufacturing sometimes opaque and poorly understood derivatives have been very profitable for them. No surprise then that they vigorously defend this corner.

However lawmakers decide to distinguish between transparency that serves the public good and that which doesn't, it is safe to predict that more disclosure will be forced on more participants across more European financial markets. But it will remain to be seen whether this will result in greater market transparency.

Associated Press

Sun Chairman Scott McNealy, left, and Oracle CEO Larry Ellison at a San Francisco technology conference in June.

EU approves Oracle deal

Acquisition of Sun Microsystems gets clearance without conditions

By John Miller
And Peppi Kiviniemi

BRUSSELS—The European Union's top antitrust enforcer cleared **Oracle** Corp.'s $7.4 billion takeover of **Sun Microsystems** Inc. Thursday after an investigation of almost six months.

Competition Commissioner Neelie Kroes gave the deal unconditional approval, opening the door for the technology companies to close the transaction soon. Russian and Chinese antitrust authorities are expected to approve the deal soon, Oracle said in a statement. The U.S. Department of Justice already has cleared the acquisition.

Mrs. Kroes's office was skeptical enough to open an in-depth probe into the deal, with concern surrounding the fate of MySQL, an open-source database program Sun bought for about $1 billion in 2008, and the possibility that Oracle could dismantle it to boost its own paid-for software programs.

Databases are already a highly concentrated market, with Oracle, **International Business Machines** Corp. and **Microsoft** Corp. controlling 85% of sales by revenue.

Two factors alleviated the concern of the European Commission, the EU's executive arm. First, in December, Oracle pledged to enhance development of MySQL. It even promised to publish some programming details and abstain from copyright suits against others who do.

Second, the commission concluded that in most cases Oracle's own programs aren't interchangeable with MySQL, which meant that having them under the same roof isn't a threat to consumers. "I am now satisfied that competition and innovation will be preserved on all the markets concerned," Mrs. Kroes said. "Oracle's acquisition of Sun has the potential to revitalize important assets and create new and innovative products."

Mrs. Kroes has blocked only two mergers during her five-year term, which is to end next month. The former Dutch transport minister and corporate-board member is slated to become commissioner for information technology, pending confirmation by the European Parliament. Because the EU's approval of the deal is unconditional, it remains unclear how the commission will monitor Oracle's pledges on MySOL. The commission put out only a news release, and must white out business secrets before publishing its official decision on the case in a few weeks. "We'll have to await the publication of the formal decision to see how the commission has used Oracle's pledges to MySQL customers before we can understand fully how much, if at all, Oracle will be on the hook to fulfill those promises," said David Andersen, an antitrust partner at **Berwin Leighton Paisner LLP** in Brussels.

Neelie Kroes

The deal, announced in April, comes at a good time for Sun, which has been unprofitable; its shareholders approved the takeover in June. People close to the companies said job cuts could be in the low thous

Despite technology industry skepticism about Oracle's commitment to the low-margin server business, Oracle has pledged to invest more money in it. "We're diving in with both feet," said Larry Ellison, Oracle's chief executive, at an event in October. Oracle says it will discuss its plans for Sun on Wednesday.

"It's inevitable that some Sun products will not survive the transition," says Andy Butler, an analyst at research company Gartner. "Oracle has to tread very carefully not to kill the essence of Sun."

—Ben Worthen contributed to this article.

Bloomberg News

George Papaconstantinou, Greece's finance minister, said Thursday in Athens that Greece won't need a rescue package.

Greece fails to quell fears

Markets show jitters after finance chief says nation can fix troubles

By Alkman Granitsas
And Emese Bartha

ATHENS—Renewed worries over Greece's fiscal problems weighed on the country's financial markets Thursday, even as the government reaffirmed that it isn't seeking outside support to meet its borrowing needs.

Speaking to journalists, Finance Minister George Papaconstantinou said again that the country is capable of fixing its finances and restoring the confidence of investors, adding that reports of a European Union loan package were unfounded. "We are not expecting anyone to come to our aid," he said. "Greece has neither asked for, nor is it expecting, anything of the sort."

But markets were unconvinced. The Athens stock exchange fell 0.8% to 2013.90 Thursday, recovering from a more than 3% decline that pushed it below the psychological support level of 2000, while prices for Greek government bonds were lower for much of the day.

Analysts said the government is moving too slowly to address Greece's fiscal problems and investors are showing their disbelief by selling down Greek stocks and bonds. "We are being penalized for each and every day we don't do anything about our problems," said Nicholas Douzinas, head of foreign markets at Intersec Securities in Athens.

On Thursday, the government released new details on plans to raise money in global capital markets with a February roadshow in the U.S. and Asia.

Spyros Papanicolaou, director-general of the Public Debt Management Agency, reaffirmed that Greece aims to market new debt denominated in dollars, euros and possibly yen for foreign investors. He said Athens aims to sell at least $1.5 billion to $2 billion in bonds.

The issue's real importance will be the price Greece will have to pay. The country has seen its borrowing costs rise sharply even as it scrambles to cover an estimated €54 billion ($76.16 billion) borrowing program this year.

Greece's finances have been under close scrutiny by the European Union, financial markets and credit-rating agencies since it revealed late last year that its budget deficit would hit 12.7% of gross domestic product, well above the EU's 3% limit.

European Central Bank officials Thursday urged Greece to expedite reforms as debt jitters appeared to spread. "We're starting to see some unease in bond markets," ECB council member José Manuel González-Páramo said at a Madrid conference.

Another ECB council member, Axel Weber, speaking in Berlin, said Greece has a fiscal sustainability issue that needs to be addressed head-on by the Greek government. "The issue is not just to have a good plan; plans are good, but actions count louder than words," he said. "So actions are being called for."

"The issue is that the market hates uncertainty," said a bond trader at a Greek bank. "And as long as the market sees that you are not ready to test the market with a new issue, that creates uncertainty."

The euro remained under pressure Thursday as investors worried about further fallout in other European debt markets.

The yield spread between 10-year Greek government bonds and euro-zone benchmark German bunds was around 2.90 percentage points late Thursday, narrowing from a 3.05-point spread in the morning and down from Wednesday's close at 2.94 percentage points.

These spread levels, which show changes in investors' risk assessment, mean that buyers demand a yield around three percentage points higher for holding a Greek government bond than a German equivalent. Bonds from Portugal and Spain, which are hit the most by the spillover from Greece because of the fiscal challenges those countries face, also saw their 10-year spreads widen Thursday.

The focus on Portugal intensified Wednesday, when the International Monetary Fund said that without major reforms, the outlook for the Portuguese economy is "bleak," and called on the government to cut public-sector wages and welfare payments as a first step toward reducing its debt.

The IMF's judgment on Portugal echoed that of ratings firm Moody's Investors Service Inc., which warned last week that like Greece, Portugal's economy could face a "slow death" economically as a result of its low competitiveness and high budget deficits.

A large part of the market excludes the possibility of Greece's default, "if only because it would be too painful and seriously threaten EMU [European Monetary Union] and the European recovery," Calyon economists said in a note.

"The real issue is whether investors have fundamentally lost faith in Greek sovereign debt. The simple answer is yes," said Simon Derrick, a currencies analyst at Bank of New York Mellon in London.

Outflows from Greek debt were similar to those seen from U.K. debt immediately before the U.K. pulled out of the European Exchange Rate Mechanism—the precursor to the euro—in 1992.

U.K.'s Forecast Brightens

By Laurence Norman
And Ilona Billington

LONDON — Britain's economic outlook brightened, as mortgage lending and the manufacturing sector rose above expectations, and public-sector borrowing wasn't as bad as most analysts thought.

The deepest recession in decades has crimped government tax receipts and pushed public spending higher over the last 18 months, and Bank of England Governor Mervyn King recently warned the government to get its accounts in order. The data showed government revenue fell by the smallest amount since September 2008, in a sign the public finances may be steadying.

The Office for National Statistics said public-sector net borrowing was £15.7 billion in December, less than the £18.4 billion expected by economists surveyed by Dow Jones Newswires. The public sector net borrowing was £13.8 billion in December 2008. Gross mortgage lending rose in December to the highest level since July.

Poland seems satisfied with barely any bailouts

By Marynia Kruk

Source: Central Statistical Office of Poland

WARSAW—Governments across Europe are having to weigh their finances against demand from voters and companies for government help through the downturn. But not in Poland, where the government has offered relatively little help but hasn't suffered a political backlash.

That is a testament both to Poland's relative economic strength during the downturn and a cultural shift as a more business-friendly generation comes of age.

Poland's government hasn't ratcheted up spending significantly amid the downturn, according to Eurostat. As a percentage of gross domestic product, government spending was at 43% in the second quarter of 2009, slightly higher than a decade low of 40.1% in the fourth quarter of 2007, but lower than 50.1% in Hungary, 58.7% in Greece and 55% in Finland. Since the second quarter, the latest Eurostat data available, Poland's ratio may have edged down as economic growth has picked up.

The main prop Poland has put under the economy—an anticrisis package passed in August—has been so restrictive that only 70 companies have applied for the loan guarantees the new law allows state-owned bank BGK to provide, according to Labor Ministry spokeswoman Bozena Diaby. Companies must show they have suffered a sharp drop in revenue and Bank BGK said it had granted only nine such guarantees, for four million zlotys ($1.4 million), and was analyzing 20 more applications.

And that package is also the only offer of help Poland has made to **General Motors**' subsidiary Adam Opel GmbH, which has one of Opel's newest car-making plants at Gliwice. By contrast, Germany, Spain, Belgium and the United Kingdom have made bailout offers tailor-made to support GM's embattled operations on the Continent.

"I would be more than shocked if it did [offer a bailout contribution to Opel]," said Leszek Lerch, automotive industry group director at Ernst & Young in Katowice in southern Poland. "People would start to ask: Why are we aiding the automotive industry and not Polish construction or food producers?" Poland also didn't try to boost consumer demand by offering incentives to scrap cars and buy newer models, as many other European countries have done, although Mr. Lerch points out that Germany's car-scrapping program boosted demand for cars made in the Gliwice factory.

Over the crisis, the ruling center-right, probusiness Civic Platform party has nevertheless risen in the polls. It would receive 50% of the votes in a hypothetical election from 1,000 Poles polled in December by GfK Polonia, a market research agency. That is up from the 41.5% of the vote Civic Platform won in 2007 parliamentary elections, after which it formed a coalition with the Polish Peasants Party, which won 8.9% and has moved from the left toward the center since the early 1990s, but continues to champion the interests of Polish farmers.

Those poll figures in part reflect the relative strength of Poland's economy. While unemployment has been steadily edging up month by month to 11.9% in December, according to preliminary Labor Ministry forecasts, it is nowhere near the 17%-20% range where it stubbornly stayed from 2000 to early 2005.

But the ruling party's resilience also marks a generational shift first marked in the 2007 parliamentary elections, which saw the reversal of two parties that had until then successfully tapped discontent with postcommunist transformation, questioning past privatizations and demanding wealth redistribution.

"These two parties, the League of Polish Families and Self Defense, have effectively disappeared," said Stanislaw Gomulka, chief economist at the Business Center Club, a lobbying group representing Polish entrepreneurs and privately held businesses, and a former adviser to Poland's Finance Ministry. The League of Polish Families and Self Defense failed to cross the 5% threshold required to get seats in parliament.

The main opposition party, Law and Justice, which ruled Poland in a coalition with those two parties going into the 2007 election, has criticized ruling Civic Platform for its lack of policy reaction to the global crisis and rising unemployment in Poland, but without gaining traction in the polls.

"The number of university graduates has risen sharply," said Piotr Maciej Kaczynski, research fellow at the Center for European Policy Studies, a Brussels-based think tank. "And it was students and university graduates who ensured victory for the center-right, probusiness Civic Platform [in parliamentary elections in 2007]."

Increasing numbers of Poles have been gaining business experience, many of them overseas, forming a middle class whose ranks are growing and which is feeling more secure.

"For those under 40, who are reaping the benefits of the country's transition to a market economy, liberalism is the new reality," said Stanislaw Gomulka, a professor at Pedagogical University of Krakow. "They aren't hoping for the return of the welfare state."

Most Polish voters think companies should be allowed to fail, said Janusz Maksymiuk, a former Polish member of parliament for the Self Defense party.

"Miners and doctors don't see a need to subsidize shipyards, for example, while people are seeing that taking initiative is more important than waiting for government aid," Mr. Maksymiuk said. "I guess taking things into your own hands is a natural human trait," he said, adding that Self Defense still supports government intervention in the banking sector as well as caps of executive compensation.

U.S. NEWS

Court frees firms' political spending

Justices strike down rules limiting corporate funding of campaign ads, calling them a violation of free speech

By Jess Bravin

WASHINGTON—A divided Supreme Court struck down limits on corporate political spending, overturning two precedents in a ruling likely to affect campaigning for congressional elections in November.

"The government may regulate corporate political speech through disclaimer and disclosure requirements, but it may not suppress that speech altogether," Justice Anthony Kennedy wrote for the five-justice majority.

The McCain-Feingold campaign-finance law aimed to rein in independent campaign spending by corporations and unions—advertisements the corporations or unions buy on their own to advocate for or against a candidate.

McCain-Feingold required that they channel their campaign spending by creating a special fund. Advocates argued the law was a valid way to prevent special-interest funds from distorting elections.

But Justice Kennedy wrote that the effort to divide corporate political spending into legal and illegal forms chilled political speech and amounted to censorship.

In his dissent, Justice John Paul Stevens called the majority opinion "a rejection of the common sense of the American people, who have ... fought against the distinctive corrupting potential of corporate electioneering since the days of Theodore Roosevelt."

The case before the court, Citizens United v. Federal Election Commission, originated in a 2008 movie critical of then-presidential candidate Hillary Clinton. Citizens United, a conservative advocacy group, wanted to promote the film, but the election commission called it an "electioneering communication" subject to McCain-Feingold restrictions because the group accepted business contributions.

Many nonprofit advocacy groups that have corporate form are also affected by Thursday's ruling, as well as labor unions and for-profit corporations.

A lawyer for Citizens United, Theodore Olson, said, "The vast majority of corporations are either nonprofit advocacy groups—like Citizens United—or small businesses." The ruling, he said, "enables individuals of limited means to band together to counterbalance the political speech of the super-rich."

President Barack Obama called the decision a victory for big oil, Wall Street and other interests, and said he would work with lawmakers to craft a "forceful response."

In a statement Thursday, Mr. Obama said: "The Supreme Court has given a green light to a new stampede of special interest money in our politics. This ruling gives the special interests and their lobbyists even more power in Washington, while undermining the influence of average Americans who make small contributions to support their preferred candidates."

Associated Press

Officials of Common Cause, a group that backs strong campaign-finance rules, speak Thursday at the Supreme Court.

On Capitol Hill, Democrats called for legislation to reinstate the ban on direct campaign spending by corporations, or at least to modify it in a way that would better withstand a constitutional challenge.

The case scrambled the ideological deck. The U.S. Chamber of Commerce and the AFL-CIO both urged the court to strike down the provision, as did the American Civil Liberties Union and the National Rifle Association. Sen. McCain and the Democratic National Committee both argued for the law's constitutionality.

—Martin Vaughan and Henry J. Pulizzi contributed to this article.

Ruling opens the door to more political sway

By Brody Mullins

WASHINGTON—Outside political organizations will play a larger role in the 2010 midterm congressional elections after a decision by the U.S. Supreme Court Thursday to strike down elements of the McCain-Feingold campaign-finance law.

"There will be a lot more groups advocating for and against candidates," said Cleta Mitchell, a lawyer with **Foley & Lardner** who advises outside political organizations. "It rips the duct tape off the mouths of the American people."

The Supreme Court decision stripped away rules that limited the ability of corporations, unions and other organizations to fund and organize their own political campaigns for or against candidates. The court also struck down a part of the McCain-Feingold campaign-finance law that prevented any independent political group from running advertisements within 30 days of a primary election or 60 days before a general election.

Together, the decisions make it easier for corporations, labor unions and other entities to mount political campaigns for and against candidates for Congress and the White House.

The Supreme Court decision is the latest in a string of judicial rulings that have chipped away at federal limits on the political activity of outside groups in elections. Last year, a federal court overturned rules imposed by the Federal Election Commission that made it more difficult for outside political groups to raise money for political advertisements.

"Taken together, the recent federal court decisions demonstrate that the government cannot regulate individuals, corporations and other entities that wish to speak out about candidates in the upcoming midterm elections," said William McGinley, a campaign-finance lawyer with **Patton Boggs** LLP.

At issue are limits on how companies, unions and others can influence elections. The 2002 McCain-Feingold campaign-finance law barred corporations, labor unions and individuals from making unlimited political donations to the Republican National Committee, Democratic National Committee and other political parties.

The law led to an increase in the number and power of outside political groups beginning during the 2004 presidential election.

Reaction to the court's decision split largely along ideological lines Thursday.

Groups aligned with unions and liberal causes worried that the decision would open up a flood of corporate money to conservative candidates. Groups aligned with conservative causes and business interests applauded the ruling as restoring free-speech rights. Independent groups across the political spectrum will use the ruling to drum up more contributions for their election efforts.

Sen. Charles Schumer (D., N.Y.) said in a statement he will introduce legislation to "minimize the impacts" of the court's decision, which he called "worse than we had feared."

Democrats in disarray

After Senate loss, centrists urge caution, but liberals press ahead

By Neil King Jr.
And Peter Wallsten

The loss of a vital Senate seat in Massachusetts set off a wave of infighting among Democrats, with liberals urging the party to redouble its legislative efforts and centrists advising caution in the face of voter anger.

House campaign committee chairman Chris Van Hollen and other top lawmakers called for a renewed focus on job creation and less emphasis on Democrats' health-care overhaul. Louisiana Sen. Mary Landrieu, a reluctant supporter of the bill, said Wednesday that the "loss in Massachusetts should serve as a wake-up call to the wing of the Democratic Party that wants the federal government to overreach and overspend."

But leaders of labor unions and other groups on the left are trying to persuade lawmakers that they should be emboldened by the Massachusetts result, not scared by it.

MoveOn.org, the liberal advocacy groups with a five-million-member email list, circulated a poll taken late Tuesday of 1,000 Obama voters in Massachusetts, showing even those who backed Mr. Brown supported the health-care plan.

The group also circulated a petition bashing Democrats for misplaced priorities and pledged to send plastic pitchforks to Congress and the White House as a form of populist protest. "Now, finally, Democrats know they need to change course to win back voters' confidence," MoveOn's leadership wrote in an email. "The question is, will they learn exactly the wrong lesson?"

Republican Scott Brown's victory in Tuesday's Massachusetts special election deprived Democrats of a 60-vote filibuster-proof Senate majority.

The White House scrambled to defend its core agenda, insisting it would move ahead on its signature health-care overhaul, albeit substantially pared.

On Thursday, House Speaker Nancy Pelosi (D., Calif.) said the House was unlikely to pass Senate health-care legislation without changes, but she appeared to leave open the possibility of passing the bill with some modifications. Ms. Pelosi said that "in its present form, without any change, I don't think it's possible to pass the Senate bill in the House."

—Jonathan Weisman and Patrick Yoest contributed to this article.

Vulnerable Democrats

In the Senate

Blanche Lincoln | Arkansas

The two-term incumbent has a moderate voting record and helped sink a major union-organizing bill favored by liberals earlier this year by withdrawing her support.

First elected: 1998
Second term
Vote in last election
Lincoln 55.8%
Opponent 44.2%

Cook race rating
Solid/likely D | Lean D | Tossup | Lean R | Solid/likely R
July 2009 → Now

Michael Bennet | Colorado

Sen. Bennet was appointed to the seat in 2009 and has never before run for any elected office, but his campaign organization and fund-raising are in good shape.

Appointed: 2009
First term
Vote in last election
Ken Salazar (D) 51.3%
Pete Coors (R) 46.5%

Cook race rating
Solid/likely D | Lean D | Tossup | Lean R | Solid/likely R
July 2009 → Now

Harry Reid | Nevada

Majority Leader Reid is tied to the fate of health-care legislation more than any other senator, but his campaign is well funded and Republicans don't have a big name to challenge him.

First elected: 1986
Fourth term
Vote in last election
Reid 61.1%
Opponent 35.1%

Cook race rating
Solid/likely D | Lean D | Tossup | Lean R | Solid/likely R
July 2009 → Now

Arlen Specter | Pennsylvania

The centrist switched parties to avoid a primary challenge that he looked certain to lose. Now he's locked in a bitter campaign with a Democratic challenger, Rep. Joe Sestak.

First elected: 1980
Fifth term
Vote in last election
Specter 52.6%
Opponent 42.0%

Cook race rating
Solid/likely D | Lean D | Tossup | Lean R | Solid/likely R
July 2009 → Now

Sources: Cook Political Report (race ratings); Congressional Quarterly (election results)
Photos: Getty Images (Senate); GPO Access (House)

Clinton in '94 gives Obama one path to follow in defeat

[CAPITAL JOURNAL]

By Gerald F. Seib

What would Bill Clinton do?

That may seem like an odd question to raise right now, but it's one President Barack Obama may want to ask himself in the wake of his party's Massachusetts Senate defeat and the swirling political winds that loss has kicked up in the past few days.

More specifically, the question is whether this president can learn anything from the way President Clinton recovered from a much bigger electoral disaster for Democrats in 1994, setting himself up for a big comeback reelection win two years later. In the president's early reactions to Massachusetts, there are at least a couple of hints that he might take a cue from the previous Democratic president—as well as some conflicting indications he might ultimately choose to walk a different path.

Granted, the two situations are significantly different. Mr. Clinton and his Democratic Party had their rude awakening after they lost control of both houses of Congress in the 1994 midterm elections, a much bigger deal than losing a single Senate seat. Mr. Clinton was then compelled to lead a party that had fallen into the minority on the other end of Pennsylvania Avenue, rather than one that had simply lost its supermajority in a Senate it still firmly controls.

Still, in both cases—1994 and today—a political statement made by voters seemed to invite a rethink of strategy and tactics. The biggest difference may be one that works to Mr. Obama's advantage: Mr. Clinton made his adjustments after full disaster had struck, while the current president may have an opportunity for a mid-course correction before any real calamity can hit him and Democrats in this November's election.

The conventional wisdom says Mr. Clinton responded to that 1994 debacle by moving to the political center. In the parlance of the time, he began to "triangulate," or to take stands that positioned him between liberals of his own party and conservatives of the Republican Party.

That's certainly true, but a bit of an oversimplification. Mr. Clinton didn't simply reposition himself, but also shifted his priorities.

Famously, of course, he left behind efforts to overhaul health care. Then, in 1995, Mr. Clinton went against his party's orthodoxy by embracing a plan to balance the federal budget. And in 1996, he moved against Democratic orthodoxy again, by embracing a plan for wholesale changes to the welfare system.

He hardly turned his back on his own party in the process, though. Instead, he embraced more-conservative goals, while sometimes rejecting Republican tactics for achieving them. Thus, though he agreed on a plan to balance the budget, he confronted the GOP from the left on the specifics of spending bills designed to get that done. He vetoed a series of appropriations bills in 1995, ultimately leading to a temporary shutdown of much of the federal government that fall—which turned into a political disaster for Republicans, who absorbed most of the blame for letting it happen.

He also vetoed two versions of a welfare overhaul before finally signing a third in late 1996. Changing welfare was politically popular and, again, Mr. Clinton was the most obvious political beneficiary of the exercise.

In sum, Mr. Clinton engaged the opposition in a substantive way, while also reserving the right to battle with them over specifics. That repositioned the Clinton White House politically, of course, but it also had the effect of compelling the Republicans to take a full share of responsibility. By engaging Republicans, in effect, Mr. Clinton forced them to take a stake in failure as well as success.

Mr. Clinton also took smaller, symbolic steps to appeal to the political middle, on items that weren't at the top of anybody's priority list. He pushed for greater tax breaks for college tuition, for instance, and for a plan to help parents block offensive television programming.

So how much of this script could Mr. Obama follow? In his initial response to the Massachusetts loss, there was a hint of a move to the political center, particularly in Mr. Obama's suggestion that he reposition himself on overhauling the health-care system.

In his first comments, Mr. Obama said Democrats in Congress shouldn't jam through a health-care bill before Scott Brown, the new Republican senator from Massachusetts, can take his seat, and he seemed open to reshaping the bill to lure Republican support.

Similarly, the White House's emerging new focus on attacking the budget deficit will reposition Mr. Obama toward the middle on an issue that has great appeal there right now. And signs that the White House may focus more on education is thematically similar to the post-1994 rejiggering of the Clinton agenda.

On other hand, the White House's move to double down on more regulation of big banks presages a much harder populist line, which is less in keeping with the Clinton reaction. And obviously, Mr. Obama simply can't move too far away from his party's congressional wing, which today, unlike in 1995 and 1996, still runs both the House and Senate.

It also will be harder to make Republicans take a full share of responsibility when they are still in the minority. A reasonable guess is that Mr. Obama will reposition himself, though not as drastically as did his Democratic predecessor.

In Senate, 59 votes can still deliver

By Naftali Bendavid
And Corey Boles

WASHINGTON—Democrats won't have 60 votes in the Senate anymore, but they will have 59, which is a wider majority than presidents from Ronald Reagan to George W. Bush needed to win significant legislative victories.

Although Senate rules require 60 votes to overcome a filibuster, only once in the past 40 years, until last year, has one party held that number of seats, when Democrats controlled that many in the post-Watergate period. Recent presidents managed to pass sweeping bills with smaller majorities or even when their party was in the minority.

Mr. Reagan, for example, pushed through a major revision of the tax code in 1986 by working with then-Sen. Bill Bradley (D., N.J.). President Bill Clinton enacted a big crime bill in 1994 and a welfare overhaul two years later. Mr. Bush pushed through tax cuts and his No Child Left Behind law. President Barack Obama won a $787 billion stimulus bill early last year when Democrats held 58 seats.

Democrats had long planned to focus this year largely on jobs and deficit reduction after passing their health-care overhaul. The Senate plans to consider a jobs bill in the next few weeks. And Democrats still plan to pursue a relatively modest energy bill that would, among other things, require utilities to obtain 15% of their electricity supply through renewable resources by 2021.

These initiatives generally will require at least one Republican vote to pass. But straight party-line votes are a relatively recent phenomenon in the Senate, historians say; inter-party coalitions were long the norm.

Sen. Joseph Lieberman (I., Conn.), who usually votes with the Democrats, said the election loss shouldn't shift priorities. "It doesn't mean that we're not going to do climate change or financial regulatory reform; it speaks to how we're going to do it," Mr. Lieberman said.

Haiti addresses care for survivors

Government plans to move 20,000 homeless people to a tent village; some banks are set to reopen Saturday

By José de Córdoba
and Betsy McKay

PORT-AU-PRINCE, Haiti—Haiti's government, even as it buries the dead from last week's earthquake in mass graves, is turning its attention to the longer-term challenges of caring for the survivors, giving shelter to an estimated one million homeless people, and rebuilding countless demolished homes and businesses.

In the coming days, the government hopes to move 20,000 newly homeless residents of the capital to a new tent village just north of the city, government officials said.

"We're moving them to another site and setting up tents," said Marie-Laurence Jocelyn Lassegue, Haiti's minister of communications.

For now, more than 300,000 people are living in 280 "spontaneous settlements" in open spaces across the capital, ranging from public parks to gasoline stations, according to information received by the Pan American Health Organization, the regional arm of the World Health Organization.

The government plan could give somewhat-more-permanent shelter to those people, and make it easier to deliver aid supplies by grouping survivors in a few locations.

The challenges for the local government and the international community still seemed overwhelming some nine days after the magnitude-7.0 quake flattened parts of the capital, killing 200,000 people, according to government estimates.

Haitian officials said they have buried an estimated 75,000 people, most of them in mass graves in a sparsely populated area north of the capital called Titanyen.

In a bid to try to regain some sense of normalcy, Haitian banks that weren't destroyed will reopen on Saturday in the capital, officials said. Many Haitians depend on remittances sent from relatives abroad, and the bank closings have shut off their supply of money.

Typhoid, diarrheal diseases, and malnutrition are among the health risks likely to emerge as displaced Haitians remain without clean water or sanitation and masses resettle, an official with the Pan American Health Organization said.

PAHO, the regional office of the World Health Organization, has been monitoring for but hasn't yet seen any major outbreaks of infectious disease in the aftermath of the earthquake.

"Right now, we're totally focused on finding and treating and supporting the survivors there on the ground, but in the weeks and months to come we will need to be very proactive on emerging risks," Jon Andrus, PAHO's deputy director, said in Washington on Thursday

Some rescue teams began to fly home on Thursday, and the Haitian government was expected to call off the rescues soon to allow bulldozers to begin clearing the rubble from roads and ease the movement of aid.

After a string of remarkable rescues that included a 15-day-old baby that survived a week and a 5-year-old boy that survived eight days, it seemed highly unlikely that anyone else would be pulled alive from the rubble.

Trying to distribute aid and keep the peace are more than 13,000 U.S. military personnel in Haiti and some 20 ships offshore.

Meanwhile the Dominican Republic is sending 150 troops to help secure a critical land route used to deliver supplies to tens of thousands of survivors, the Associated Press reported the United Nations as announcing Thursday.

Haiti's neighbor offered to station the troops along the main road leading from the capital to the Dominican border and Haiti accepted, U.N. spokesman Martin Nesirky said, after initially refusing the overture.

The 150-member contingent will work alongside the U.N. mission's Peruvian troops, already stationed at the border, and will serve under the mission commander, Mr. Nesirky said.

While more aid was getting through, it still wasn't enough for hundreds of thousands of people. The AP reported that there are 1,400 aid flights on a waiting list to land at Port-au-Prince's airport, which can handle only about 120 to 140 flights a day, according to Gen. Douglas Fraser, of the U.S. Southern Command.

While there have been sporadic reports of looting in the days that followed the quake, Haitians by and large have been remarkably patient in waiting for aid.

That patience, however, was wearing thin. In the southern coastal city of Jacmel, groups of men set up four "food roadblocks" around the city, blocking the streets with burning tires and asking people in passing cars for food.

A lack of food has caused problems in Haiti before. In 2008, there were deadly riots after the prices of staples like rice skyrocketed amid a global boom in commodity prices.

The World Bank said Thursday it was waiving Haiti's debt payments for the next five years and would study the possibility of canceling the debt altogether. Haiti's debt to the lender is only about $38 million. Last week, the lender said it would provide $100 million in emergency aid as well.

Continuous aftershocks have also kept nerves on edge. A magnitude-4.9 quake on Thursday prompted rescue crews to briefly abandon work on ruined buildings.

In Carrefour, just west of the capital and closer to the original epicenter of last week's temblor, people left their houses in a hurry once the shaking began. Natou Fignole, 25 years old, was sleeping when the aftershock hit. "I thought I was going to die," he said.

The need for things like medicines is overwhelming—and claiming lives by the day. At any given moment, thousands of injured, some grievously, wait outside virtually any hospital or clinic, pleading for treatment.

Outside the capital's main hospital on Wednesday, armed guards in military tanks kept out mobs of people. Inside the gates, dozens of patients recovering from surgery lay on beds outside under makeshift tents. Many had amputations. Two newborn babies cried in a bed. The smell of infection hung in the air, and visitors wore masks to keep out the smell and dust.

Agence France-Presse/Getty Images

Haitian children arrive at Amsterdam's Eindhoven Airport Thursday.

Pitching in

The United Nations is seeking $575 million in aid for Haiti from the international community. A breakdown of how the U.N. anticipates aid will be allocated:

	Percentage of the sector's need that has been met	Total needed for the sector
Food	25%	$246.0 million
Health	15	82.3
Water and sanitation	9	58.8
Coordination and support services	18	46.1
Economic recovery and infrastructure	0	41.2
Shelter and nonfood items	34	38.3
Education	0	23.1
Agriculture	5	23.0
Protection, human rights and rule of law	0	16.2
Donations collected but yet to be earmarked for a specific sector		49.7

Notes: Amount raised as of Wednesday; doesn't include pledged donations not yet received.
Source: U.N. Office for the Coordination of Humanitarian Affairs

U.S. seeks Saudi help to stabilize Yemen

By Jay Solomon

WASHINGTON—The Obama administration is urging a major role for Saudi Arabia in an emerging international effort to stabilize Yemen, said U.S. and European officials involved in the diplomacy.

In doing so, the White House risks relying on an ally whose interests in Yemen and the Arabian Peninsula don't always align with Washington's.

One difference has already arisen: While Riyadh continues a military campaign against insurgents based inside Yemen's northern border with Saudi Arabia, the U.S. on Wednesday called for political dialogue in the conflict with the rebel group, the Houthis. The U.S. coordinates closely with Saudi Arabia in combating Iranian influence across the Middle East, but U.S. officials say they've received no intelligence to back Riyadh's claims that Iran is arming and funding the Houthi.

At the same time, Yemen's government is conducting military operations against the Houthis, in coordination with Saudi Arabia.

"We believe there is no solely military solution," said Jeffrey Feltman, the State Department's assistant secretary for Near East affairs, in Senate testimony Wednesday. "We'd like to see a cease-fire."

Yemen is the poorest country in the Arab world and suffers from dwindling oil and water resources. Its government faces insurgencies in the north and south, and the al Qaeda faction based in the country is a threat within Yemen and abroad. The country has a rapidly growing population and an unemployment rate as high as 35%—economic factors that feed discontent and local support for insurgent groups.

The separatist conflicts are sapping the San'a government's already limited resources. "This Houthi war is accelerating the economic collapse of Yemen," said Christopher Boucek, a Middle East analyst at Washington's Carnegie Endowment for International Peace.

Officials from the U.S. and Saudi Arabia plan to attend an international conference on Yemen on Jan. 27 in London. The meeting will also include representative from the United Nations, European Union and other Arab states, such as the United Arab Emirates and Qatar.

In the coming weeks, Washington is seeking to formalize and streamline international assistance to President Ali Abdullah Saleh's government as a means to cut corruption and financial leakage in Yemen. But Saudi officials say they believe religious foundations and tribal institutions often provide the most effective channels for getting aid to Yemen's 23 million people.

The U.S. and Saudi Arabia traditionally have pursued divergent strategies in providing assistance to developing nations like Yemen. U.S. and Saudi officials say they'll need to better coordinate their strategies in the months ahead.

"Yemen has to be dealt with in its own way," said a Saudi official. "It's very tribal...and people need to realize this is how it operates."

Ahead of the London meeting, Mr. Obama's national security adviser, retired Gen. Jim Jones, visited Saudi Arabia last week and met King Abdullah, as well as Crown Prince Sultan, who oversees Yemen policy for the Saudi government, according to U.S. and Saudi officials. Mr. Jones also saw Saudi Arabia's top counterterrorism official, Deputy Interior Minister Prince Mohammed bin Nayef, who in August narrowly escaped an assassination attempt. U.S. officials say they believe Prince Nayef was targeted by the same al Qaeda affiliate, al Qaeda in the Arabian Peninsula, that allegedly sought to bring down a U.S. airliner on Christmas Day.

Riyadh is by far Yemen's largest aid donor and has significant influence over President Saleh. Saudi Arabia is also seen as having extensive intelligence on Islamic militants operating inside Yemen. Al Qaeda's Yemeni cell is headed by a number of Saudi nationals and shares strong tribal ties to Saudi Arabia.

"The Saudis had their own epiphany in 2003 [about al Qaeda]. They have done an extraordinary job of rolling that back," said Daniel Benjamin, the State Departments' counterterrorism coordinator, in Senate testimony Wednesday.

U.S. military officials responsible for Yemen have requested a doubling of counterterrorism funding for this year, from $67 million to more than $200 million, including funding for new Yemeni arms purchases. U.S. and European officials hope Saudi Arabia and the other Arab states will also play a bigger role in strengthening Yemen's security services.

U.S. and European officials said the international community in the past has failed to push President Saleh hard enough to pursue economic and political reforms in exchange for financial assistance.

At the London conference, they're hoping the international community can agree to a more coordinated approach on aid and economic reform.

Arab governments are specifically being asked to consider ways to allow in more Yemeni laborers and to play a bigger role in vocational training for Yemenis.

The final appeal in 'milkshake murder'

By Jonathan Cheng

HONG KONG—A lawyer for Nancy Kissel, an American expatriate sentenced to life in prison for murdering her investment banker husband, made a final appeal for her freedom Thursday in a Hong Kong courtroom.

A decision is expected in a few weeks. In the event that her conviction is overturned, the prosecution said it would seek a retrial.

Ms. Kissel, a Michigan native, gained international notoriety after admitting to killing her husband, a senior banker with Merrill Lynch, in 2003. She has been in jail since her conviction in September 2005 after a widely publicized three-month trial that dominated conversation in Hong Kong's expatriate circles.

Prosecutors say Ms. Kissel served her husband, Robert Kissel, a drug-laced strawberry milkshake on the night of Nov. 2, 2003, before bludgeoning him to death with a statuette and rolling him up in a carpet. Ms. Kissel, now 45 years old, says she can't remember what happened—only that she may have killed her husband to protect herself after he came at her with a baseball bat during a domestic dispute.

Days after the murder, Hong Kong police found Mr. Kissel wrapped in the carpet and kept in a storeroom at the Kissels' luxury apartment complex.

During the original trial, Ms. Kissel's lawyers pushed for an acquittal, arguing that she acted in self-defense. Ms. Kissel described her husband as a violent cocaine user who forced her to perform abusive sexual acts that took a heavy toll on her psychological health. Ms. Kissel admitted to an affair in the months before the murder with a Vermont TV repairman.

An earlier appeal by Ms. Kissel was rejected in October 2008. The current appeal is her last legal recourse. Ms. Kissel's lawyer, Gerard McCoy, spent much of his time during the seven-day hearing in Hong Kong's Court of Final Appeal arguing that prosecutors improperly used "impugned evidence" and that the judge in the original trial misdirected the jury on several key points.

Mr. McCoy argued that prosecutors relied on hearsay evidence to suggest that Mr. Kissel suspected his wife had been trying to kill him for some time—evidence that Mr. McCoy argues shouldn't have been allowed during the proceedings.

Public prosecutor Kevin Zervos, arguing the appeal in court Thursday, called Ms. Kissel's depiction of her husband "character assassination," and said Ms. Kissel "sought refuge in a claim of memory loss" about the events on the night.

The trial has spawned two books and a 2008 Lifetime TV movie starring John Stamos as Mr. Kissel's brother, Andrew—who, in a separate incident, was murdered a year later in Greenwich, Conn., while under house arrest in relation to a number of fraud cases.

The murder's chief attraction was the peek it offered into the lives of the city's expatriate elite. Nancy and Robert married in 1989, and moved to Hong Kong in 1998 so Robert could take a job with Goldman Sachs Group Inc. He jumped to Merrill Lynch, where he became managing director and head of the investment bank's Global Principal Investments unit in Asia-Pacific. The couple moved in high circles, appearing at a banquet for former U.S. President George H.W. Bush just before Mr. Kissel's death.

Agence France-Presse

In this photo taken during her murder trial in August 2005, Nancy Kissel, left, is shown leaving Hong Kong's High Court with her mother.

The Nancy Kissel story

2003

Nov. 2: Robert Kissel, managing director and head of Merrill Lynch's Global Principal Investments unit in the Asian-Pacific region, is last seen alive.

Nov. 8: Nancy Kissel is charged with his murder.

2005

June 7: Nancy Kissel's murder trial begins, with prosecutors alleging that she bludgeoned her husband to death with a blunt instrument after serving him a drug-laced milkshake.

Aug. 4: Nancy Kissel admits killing her husband, but says she can't remember the details.

Sept. 1: A Hong Kong jury unanimously finds Nancy Kissel guilty of murder, and she is sentenced to life imprisonment.

2006

April 3: Robert's older brother Andrew Kissel is stabbed to death in his Connecticut home.

2008

Oct. 6: Hong Kong's Court of Appeal rejects Nancy Kissel's bid to quash her murder conviction.

2010

Jan. 12: Nancy Kissel's case comes before Hong Kong's highest court, the Court of Final Appeal.

Source: WSJ reporting

Gates courts and reassures in Pakistan

By Yochi J. Dreazen

ISLAMABAD—U.S. Defense Secretary Robert Gates made an unannounced trip to Pakistan to reassure Islamabad about U.S. aims in the region and pay public tribute to what American officials describe as a renewed Pakistani willingness to use force against the country's Islamist extremists.

But Pakistan said it was in no rush to heed U.S. calls for a fresh military offensive into the insurgent stronghold of North Waziristan, offering a reminder of the gulf that continues to divide Washington and Islamabad.

Mr. Gates, making his first trip here in more than three years, met with top Pakistani officials including the country's president, Asif Ali Zardari, and the heads of its military and intelligence services, Gen. Ashfaq Kayani and Lt. Gen. Ahmed Shuja Pasha.

Senior U.S. officials believe Pakistan's powerful Inter-Services Intelligence agency funnels aid to the Taliban in Afghanistan, a charge Islamabad has long denied.

The U.S. defense chief also gave interviews to a pair of Pakistani television journalists and will address a large audience of Pakistani military personnel on Friday.

The intensive public outreach is designed to allay Pakistani fears about the Obama administration's long-term commitment to the region and the possibility of the intensifying war in Afghanistan spurring new attacks inside Pakistan.

Speaking to reporters en route to Islamabad, Mr. Gates praised Pakistan for conducting a large-scale offensive in South Waziristan, a longtime militant stronghold bordering Afghanistan, and causing insurgents "to flee their safe havens" there.

The defense chief said he was heartened by reports that Pakistan was considering a similar push later this year into North Waziristan, a haven for militants who cross into Afghanistan to attack U.S. forces there.