



TODAY IN PERSONAL JOURNAL

Calorie Quiz: Doughnut vs. Bagel

PLUS New Science Behind Painkillers

THE WALL STREET JOURNAL.

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DJIA 15521.97 ▼ 36.86 0.2% NASDAQ 3599.14 ▼ 0.4% NIKKEI 13661.13 ▼ 3.3% STOXX 600 299.06 ▲ 0.1% 10-YR. TREAS. ▼ 7/32, yield 2.588% OIL \$104.55 ▼ \$0.15 GOLD \$1,328.40 ▲ \$6.70 EURO \$1.3263 YEN 97.95

What's News—

Business & Finance

Italy's central bank is quietly inspecting the finances of some of the country's top lenders, which could push some Italian banks to sell assets or take other major steps. **A1**

Sprint kept hemorrhaging customers in the second quarter and posted deeper losses as it wrapped up the shutdown of the Nextel network. **B4**

The U.S. lowered its borrowing forecast for the quarter. Some investors said fewer bond sales would likely boost prices of shorter-dated Treasuries. **C4**

Stocks slipped as investors awaited a flood of economic news slated for this week. The Dow industrials fell 36.86 points to 15521.97. **C4**

Fed Chairman Bernanke will have to testify in a deposition about the government's 2008 decision to bail out AIG, a judge ruled. **C3**

Hudson's Bay is paying \$2.4 billion to become the latest owner of Saks, a deal spurred by the luxury retailer's real-estate holdings. **B1**

Saudi Arabia's Prince Alwaleed has warned that the kingdom's economy is increasingly vulnerable to rising U.S. energy production. **A6**

Efforts to develop a better guidepost for retail investors in the muni market have been stymied by concerns about the integrity of benchmarks. **C1**

U.S. Steel reported a second-quarter loss. The steelmaker's struggles are increasing pressure on the firm's two top executives. **B3**

The Toure trial headed toward an earlier-than-expected finish, as defense lawyers said they weren't planning to call any witnesses. **C1**

The merger between Publicis and Omnicom could spark a new wave of consolidation in advertising, according to industry insiders. **B1**

Federal energy regulators offered their first formal allegations that traders at J.P. Morgan Chase manipulated electricity markets. **C3**

BMW unveiled its i3 electric car, saying auto makers will have to sell plenty of such vehicles by 2025 to meet emissions regulations. **B1**

The board of Health Management Associates was expected to meet to consider a proposed takeover offer from Community Health Systems. **B4**

Some big Wall Street firms are backing an upstart trading platform that is pitching itself as an antidote to predatory high-frequency trading. **C1**

CF Industries' shares rose nearly 12% after activist hedge fund Third Point pushed the fertilizer supplier to increase its dividend. **B3**

CBS's Moonves said the broadcaster is experimenting with new business models for serialized dramas. **B4**

World-Wide

Mideast talks resumed after nearly three years. The first round of meetings between Israelis and Palestinians was expected to look at the timing and location of future negotiations, rather than at such contentious issues as borders, security and the status of refugees. The two sides have committed to direct peace talks for at least nine months. **A8**

The White House named Martin Indyk, a former U.S. ambassador to Israel, as a special envoy to the talks.

The pope said he wouldn't "judge" gay priests, marking a shift in tone at its highest ranks of how the church regards homosexuality. **A1**

Egypt's military rulers agreed to let the EU's top foreign diplomat meet with Morsi, as concern grew over the ousted president's welfare. **A6**

A medical panel for the first time backed annual CT scans to detect lung cancer in current and ex-smokers. **A2**

The Pentagon is paying inflated prices to buy Russian helicopters for Afghanistan, an advocacy group said. **A4**

Kerry is expected to travel to Pakistan this week in his first visit since the Sharif government took power. **A8**

Armed militants stormed a jail in northwest Pakistan housing terrorists, appearing to free dozens of prisoners. **A9**

A wave of blasts ripped through Iraq, killing at least 58 people and pushing the July death toll toward 700. **A6**

The Senate confirmed Comey as FBI chief after Sen. Paul removed a procedural hurdle to the nomination. **A4**

A top Japanese diplomat traveled to China for talks as Tokyo and Beijing inch toward repairing relations. **A11**

Japan's nuclear watchdog said it will step up oversight of the Fukushima cleanup. **A11**

Italy's Supreme Court is expected to decide today whether to uphold Berlusconi's tax-fraud conviction. **A10**

Colombian rebels said they plan to free a Canadian geologist after his gold-mining firm agreed to scrap a project. **A10**

Tunisia's premier defied calls to quit but promised to hold elections in December. **A10**

Mexican forces captured three suspects in the killing of a navy vice admiral. **A12**

Jewelry stolen from a hotel in Cannes was valued at \$136 million, making it France's biggest robbery ever. **A10**

The FAA is urging all pilots of foreign airlines to use landing aids as they approach San Francisco's airport. **A2**

The military judge in the Bradley Manning case said she will announce a verdict today.

Paterno believed Penn State mishandled the Sandusky child-sex-abuse probe, an ex-assistant football coach testified. **A3**

Volatile African Nation Hopes for a Peaceful Election



SHOW OF HANDS: Supporters of Zimbabwean opposition leader Morgan Tsvangirai rallied in Harare on Monday ahead of Wednesday's election in which he is seeking to unseat longtime President Robert Mugabe. **A9**

Pope Marks a Shift in Tone With Defense of Gay Priests

BY STACY MEICHTRY

ROME—When Pope Francis said he wouldn't judge gay priests, he opened the door to a new era of reconciliation within the Roman Catholic Church, which has struggled for decades to confront the presence of homosexuality in its ministry.

The pontiff was traveling aboard a turbulent overnight flight to Rome from his first overseas trip—a journey marked by his plain-spoken appeals to Catholics to regroup the church in grass-roots ministry—when he broached the delicate issue of how the Catholic hierarchy should respond to clerics who are gay, though not sexually active. In doing so, he departed from the posture that has shaped papal thinking on gay priests.

"Who am I to judge a gay person of goodwill who seeks the Lord?" the pontiff told a news conference in response to a question. "You can't marginalize these people."

Pope Francis reaffirmed church teaching by referring to homosexual acts as a sin. But he wielded his formidable bully pulpit to shift the tone of how the

church regards homosexual orientation at its highest ranks.

The pope returned to the Vatican from a weeklong visit to Brazil, where he was given a rock-star reception as an estimated three million people flocked to a Sunday Mass on Rio de Janeiro's Copacabana beach.

Analysts said that show of support is likely to strengthen his hand as he confronts myriad challenges, including alleged corruption at the Vatican bank and

the sexual-abuse crisis.

The pontiff said women couldn't be ordained as priests, because the issue had been definitively settled by Pope John Paul II. However, he said he wanted to develop a "theology of the woman," in order to expand and deepen their involvement in the life of the church.

Never before had a pope spoken out in defense of gay priests in the Catholic ministry, said

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'Who am I to judge a gay person of goodwill who seeks the Lord?' Pope Francis told a news conference aboard a flight to Rome.

U.S. Funds Buy No Love at Afghan College

BY NATHAN HODGE AND HABIB KHAN TOTAKHIL

JALALABAD, Afghanistan—Nangarhar University is a symbol of American largess: U.S. taxpayers foot the bill for dormitories, classrooms and computer labs.

Increasingly dominating the campus of Afghanistan's second largest university, however, are Islamist activists who openly sympathize with the Taliban.

"The Taliban are the people who are defending this country," said Hamad, a leader of the self-appointed Nangarhar University student council that organizes regular demonstrations against the U.S. and President Hamid Karzai's government. "The foreign troops are invaders."

The council is described by other students

as a well-organized group that can muster hundreds of protesters on a moment's notice. Afghan and U.S. officials are taking note: Nangarhar University student demonstrations, which routinely block the main highway connecting Kabul to Jalalabad and the Pakistani border, feature the white flag of the Taliban and the green flag of Hezbe-Islami, the movement of anti-U.S. warlord Gulbuddin Hekmatyar.

The students sometimes also fly the black banner used by al Qaeda. Afghanistan's national flag, explains Hamad, a 24-year-old Islamic-studies student from the northern province of Baghlan who didn't want to have his full name used, "has not maintained its integrity."

The student militancy sweeping Afghan

campuses ahead of the U.S.-led coalition's withdrawal next year isn't limited to Nangarhar. In late May, hundreds of students rallied outside the Afghan capital's prestigious Kabul University to protest against legislation that criminalizes violence against women. "That demonstration really made me worried, that's where you can see the radicalization of the youth," said Najla Ayubi, a women's rights activist and former judge.

This rise of extremism among Afghan students—some of the biggest direct beneficiaries of U.S. assistance—underscores the lack of goodwill that more than a decade of American taxpayer money has bought here. It also harks back to a potent precedent in

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Vital Signs

Pending Home Sales Index



Note: Seasonally adjusted at an annual rate. Source: National Association of Realtors

Home sales remain near postcrash highs. The National Association of Realtors' Pending Home Sales Index fell slightly in June, which the group warned could be a sign that higher mortgage rates are taking a toll on the housing market. But the index, which measures deals expected to close in coming months, remained well above its April level and was up 9% from a year earlier.

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Heard the One About the CDO That Actually Wasn't? Don't Ask

The Quest to Explain Securities at Root Of Financial Crisis; Synthetic 'Gibberish'

BY REED ALBERGOTTI

On a scorching summer day in lower Manhattan, a group of visitors from places like Belgium, Turkey and the U.S. eyed an unusual tourist attraction: a collateralized debt obligation.

This intimate encounter with some confusing but important financial wizardry was part of the walking tour of the 2008 global crisis. It cost the tourists \$50 in nonsynthetic cash.

"Where else in the world can you actually touch a toxic as-

set?" asked Andrew Luan, former Deutsche Bank AG trader and founder of "The Wall Street Experience" tour company.

A CDO is a security backed by a pool of bonds. If that isn't complicated enough, some of the most toxic financial products were actually "synthetic" CDOs, in which Wall Street concocted securities that behaved like bonds. When the housing market collapsed, so did real and synthetic CDOs, pressuring markets around the world.

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Italy Inspects Finances Of Deteriorating Banks

BY GIOVANNI LEGORANO AND DAVID ENRICH

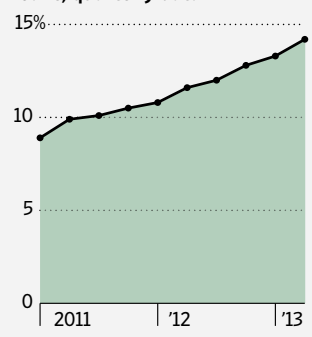
ROME—The Bank of Italy is quietly inspecting the finances of some of the country's top lenders, which could push some Italian banks to sell assets or take other major steps, according to a central-bank document reviewed by The Wall Street Journal.

The central bank's examinations, which were previously undisclosed, come against a backdrop of increasing worry among regulators, investors and bank executives about the health of some of the country's lenders amid a rise in souring loans.

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Troubling Rise

Italian banks' nonperforming loans as a percentage of total loans, quarterly data



Source: Bank of Italy The Wall Street Journal