Cornered, Europe faces its crisis

FRANKFURT

Plan to purchase bonds of beleaguered nations extends bank's power

BY JACK EWING
AND STEVEN ERLANGER

The European Central bank took its most ambitious step yet toward easing the euro zone crisis, assuming sweeping new powers to throw its unlimited financial clout behind an effort to protect Spain and Italy from financial collapse.

Mario Draghi, the E.C.B. president, overcame objections by Germany and won nearly unanimous support from the bank's board for a program of buying government bonds that would effectively spread responsibility for repaying national debts to the euro zone countries as a group.

The announcement is one of the biggest steps yet on the uncertain and winding road to a more federal Europe, instead of the collection of nation states that often seem to share little more than a common currency and a slumping regional economy. While many risks remain, Mr. Draghi demonstrated once again that he is Europe's most indispensable leader, perhaps the only one

JOHANNES EISELE/AFP

Mario Draghi, the E.C.B. president, persuaded national leaders to back the idea.

capable of brokering an accord among politicians whose mistrust of one another and national concerns have allowed the crisis to boil for two and a half years.

In fact, Mr. Draghi may be the most powerful central banker in the world, with authority that transcends national borders. For the bank itself, the pledge Thursday to buy bonds from sovereign states, in conjunction with a fund financed by euro zone governments, is a major evolution from its original narrow mandate to restrain inflation.

Although the bond-buying program announced Thursday should reduce the pressure on Spain and Italy, if those countries choose to seek its protection, it will not solve the deep structural problems of the euro, Europe's common currency. But it could buy time for the political leaders of the 17-nation euro zone to follow through on their past promises to back the currency with a more tightly integrated fiscal union and more disciplined oversight of national budgets.

"It takes away from the table an important risk in the short term," said Lorenzo Bini Smaghi, a former member of the E.C.B. executive board. "Now I think the ball is in the hands of the governments."

The E.C.B. will buy bonds on open markets, without setting any limits, of countries that ask for help, which Spain is expected to do. The E.C.B. said it would act only after countries agreed on conditions with the euro zone rescue fund, which will be known as the European Stability Mechanism. The E.S.M. would buy bonds directly from governments, taking responsibility for imposing the conditions, while the E.C.B. would intervene in secondary markets.

The bank and its president, Mr. Draghi, have had the quiet support of all European leaders in taking this latest bold action, aimed at keeping bond

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E.C.B. to buy troubled countries' bonds

EURO, FROM PAGE 1

speculators from driving Spain and Italy into budget-blowing borrowing costs. ''The euro is irreversible,'' he repeated several times Thursday.

Crucially, support for Mr. Draghi includes Berlin and the German chancellor, Angela Merkel. Her backing comes despite complaints from within her own coalition government — and from the head of the country's central bank, the Bundesbank, Jens Weidmann, that the bank is opening up the taps to inflation and fiscal irresponsibility and giving up an important part of its independence. Mr. Weidmann, a former Merkel aide, is thought to have been the sole dissenting vote on the E.C.B. board against the bond-buying plan, in something of a symbolic protest.

''He regards such purchases as being tantamount to financing governments by printing banknotes,'' the Bundesbank said in a statement, confirming that Mr. Weidmann had voiced his objections during a meeting of the E.C.B. Governing Council.

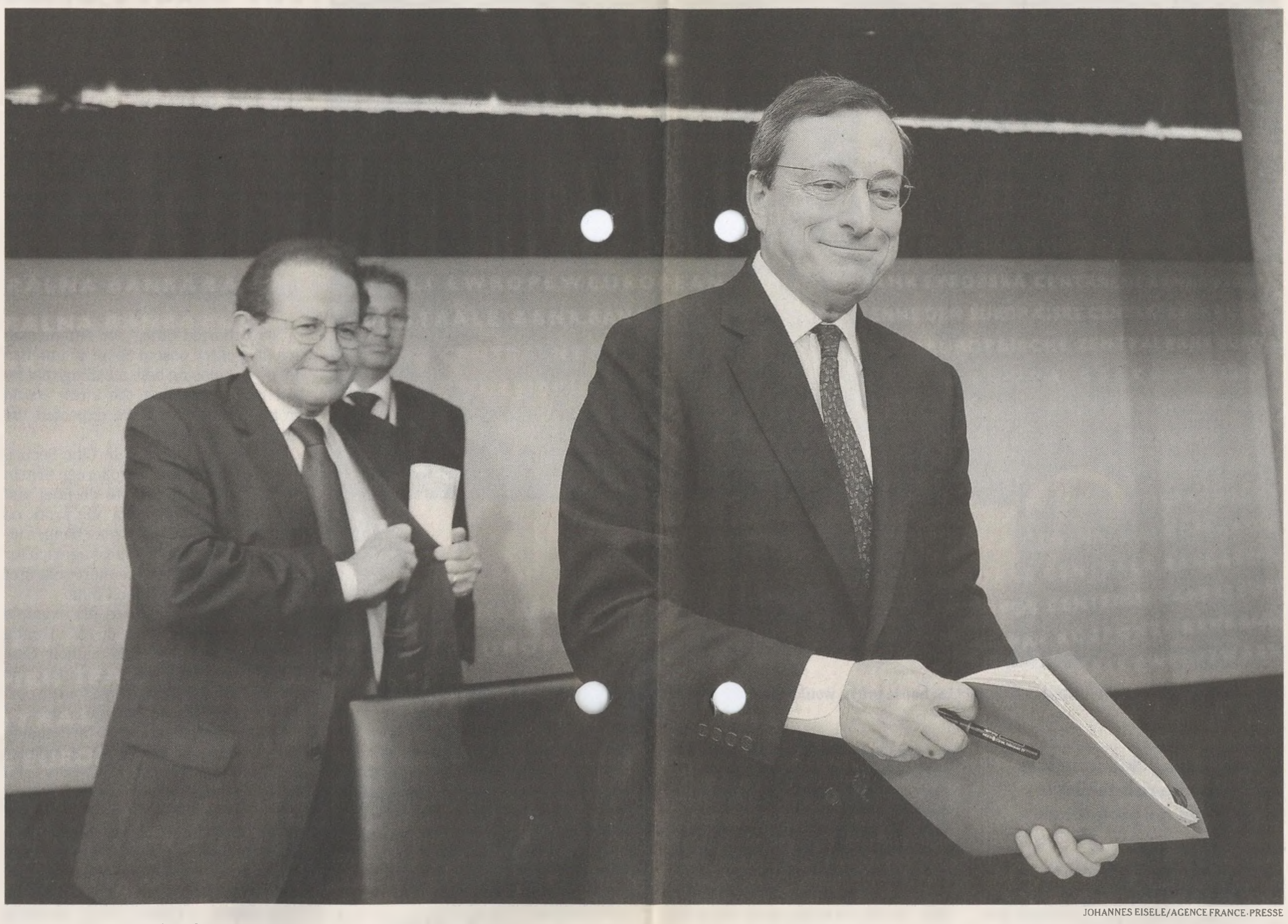
Significantly, Jörg Asmussen, Mr. Weidmann's friend from university days and the German member of the E.C.B.'s executive board, has publicly agreed with Ms. Merkel that the bank's bond buying is a necessary evil to promote stability and buy time for European leaders to act — and for Spanish and Italian leaders to continue to overhaul their economies.

Ms. Merkel's concern was that a bond speculators' run on Italy and Spain, the third- and fourth-largest economies in the euro zone, would overwhelm the European bailout funds. And that, she worried, would pose a fundamental crisis for the euro union, possibly sinking the currency, long before European politicians could put in place the necessary legal basis they have agreed to in principle for maintaining fiscal discipline and banking health in euro zone countries.

The financial market fears have been heightened recently by new speculation about whether Greece will be able to meet the debt obligations of its bailout program or have to leave the euro.

''What we really have here is a beginning of answering the question of how we deal with Spain and Italy,'' said Jacob Kirkegaard, a research fellow at the Peterson Institute for International Economics in Washington. ''How do we bail out these countries in a way that is sustainable as well as politically possible?''

As much as Germans may complain about the less competitive indebted countries of the south, the costs to Germany of a euro collapse would be enormous. And if Spain and Italy are shut out of the debt markets, the bailout funds are too small to bail them out. So it was crucial that E.C.B. step in to insure that those two large countries could continue to borrow at sustainable interest rates, which the E.C.B. acting as a ready lender through bond purchases could help ensure.



JOHANNES EISELE/AGENCE FRANCE-PRESSE

Mario Draghi, right, after the announcement in Frankfurt on Thursday. The agreement gives the E.C.B. greater authority to intervene in bond markets and protect Spain and Italy.

The move toward greater unity and discipline, as promised in the last European Union summit meeting in June, will take months of negotiation, subsequent approval by parliaments and possibly even a rewriting of European treaties. And that could require constitutional amendments and referendums in some states, including Germany itself.

As it is, European leaders are waiting for a ruling on Sept. 12 by the German constitutional court on whether the permanent bailout fund — the E.S.M., itself only €500 billion, $630 billion, - is acceptable under the German Basic Law. Most expect the court to go along, if reluctantly. But more sweeping ideas, like Brussels oversight over the German budget, or collective euro bonds would probably require, in Germany alone, many months of debate and a formal process of constitutional change.

Mr. Draghi is likely to continue playing a crucial role as moderator and power broker, using his own diplomatic skills and the enormous financial resources of the E.C.B.

For his part, Mr. Draghi downplayed his own role, repeating several times that the E.C.B. was simply fulfilling its mandate and rejecting a suggestion that he is pushing forward European integration.

''I would think that would be a very ambitious objective,'' he said at a press conference. Whether bond buying will have implications for ''the broader political destinies of the euro area,'' he said. ''is very much in the hand of our leaders and much less in the hands of central bankers.''

In June, the European leaders promised to create a single banking authority to oversee euro zone banks to ensure their health and also to use the bailout funds more flexibly to recapitalize troubled banks in countries like Italy and Spain, who have not requested special bailouts with tough conditions, as Greece, Ireland and Portugal were forced to do. But these measures, like the promise of euro zone countries to write debt limits into their laws, require months of political work.

Mr. Draghi did not give an exact starting date for the bond purchase program, but analysts at Barclays predicted that Spain will ask for help by the end of October. A government that requests help must agree to a ''macroeconomic adjustment program'' with the E.S.M. But the E.C.B. said this could be a so-called precautionary program, implying that it would be less onerous than the programs agreed to by countries like Portugal or Ireland.

The E.C.B. will also request help from the International Monetary Fund, which has more experience overseeing countries with debt problems. ''The I.M.F. stands ready to cooperate within our frameworks,'' Christine Lagarde, the I.M.F. president, said in a statement.

American officials had no immediate comment on the news. But they have conducted a years-long behind-the-scenes campaign of shuttle diplomacy to urge Europe to do more, welcoming any steps forward that will calm the markets. At the end of July, for instance, The Treasury secretary, Timothy F. Geithner, traveled to the Continent to meet with Mr. Draghi and Wolfgang Schäuble, the German finance minister.

The E.C.B. will buy bonds with maturities of three years or less, a strategy that will help keep elected officials from backsliding on promises to overhaul their economies. They know they will have to face investors again in a few years.

The E.C.B. also announced it would hold interest rates at their record-low level of 0.75 percent.

The rationale for bond buying is to push down interest rates in countries like Spain for companies as well as governments. ''We need to be in the position to safeguard the monetary policy transmission mechanism in all countries of the euro area,'' Mr. Draghi said.

Steven Erlanger reported from Paris. Melissa Eddy contributed reporting from Berlin and Annie Lowrey from Washington.

Merkel gives her backing to Spain's reform drive

MADRID

Expressing her 'respect,' chancellor says pointing fingers won't end crisis

BY RAPHAEL MINDER

Even as the European Central Bank was taking further steps to help Spain and other suffering euro economies, Chancellor Angela Merkel of Germany on Thursday said she had ''full confidence'' in the Spanish government and its efforts to deal with the debt crisis.

Ms. Merkel, making a planned visit to Madrid, said Germans had ''a lot of respect for what is being done in Spain,'' and called on European leaders to close ranks as countries that share the euro attempt to emerge from the crisis.

''What we have not managed in terms of political cooperation, we need to do now,'' Ms. Merkel said at a news conference. ''To blame others won't help.''

While blame was avoided Thursday, so too was any indication by either Prime Minister Mariano Rajoy or Ms. Merkel of how Spain might use the E.C.B. decision to set up a potentially unlimited bond-buying program designed to lower borrowing costs for Spain and other ailing economies.

Still, Spain's borrowing costs fell, as economists also suggested that the E.C.B. had done enough to open the door for a new aid request by Madrid in the coming weeks, probably after more discussions about what kind of ''strict conditions'' the E.C.B. and Spain's European partners would require in return.

Jordi Fabregat, a finance professor at the Esade business school in Barcelona, described the E.C.B. announcement as ''very good news.'' He added: ''The ball is now in our court, as the government will have to ask publicly for a rescue.''

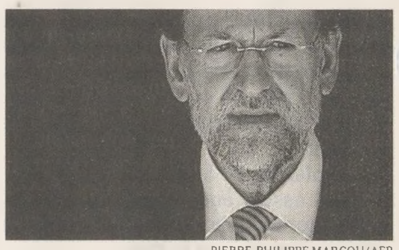
Ms. Merkel's support was sought by Mr. Rajoy as Spain struggles with record unemployment and a deepening recession that forced Mr. Rajoy to acknowledge in early August that his government was considering seeking further European financing. In June, Spain requested a European bailout for its banks of up to €100 billion, or $125 billion.

Asked whether she felt the austerity measures and other changes undertaken by Mr. Rajoy would be sufficient to lift Spain out of its economic and budgetary quagmire, the chancellor demurred.

''I am not here to say what reforms need to be made in Spain,'' she said.

Mr. Rajoy also refused to say whether a new aid request would be made soon, or whether Madrid would accept additional conditions in return for such help. Amid widespread street protests against recent budget cuts and with regional elections scheduled next month in Galicia and the Basque Country, Mr. Rajoy is reluctant to announce another austerity package.

The two European leaders held a joint news conference shortly after the Governing Council of the European Central Bank agreed on the framework for a new bond-buying program.



PIERRE-PHILIPPE MARCOU/AFP

Mr. Rajoy kept mum on new austerity.

The E.C.B., however, left the timing of such an intervention open and dependent on it receiving a help request from a government. Neither Ms. Merkel nor Mr. Rajoy offered a detailed assessment of the E.C.B.'s decision, though Ms. Merkel endorsed the bond-buying program.

''What I can say is that the European Central Bank is acting with independence and within the framework of its mandate,'' Ms. Merkel said.

Spain's borrowing costs have fallen sharply since late July, amid expectations that the E.C.B. would agree on a new bond-buying program.

On Thursday morning, before the E.C.B.'s meeting, the Spanish Treasury sold €3.5 billion in bonds, the maximum that it had targeted, at significantly lower interest rates than in recent months.

Still, investors have continued to demand a significant risk premium for holding Spanish, rather than German, debt amid concerns about Spain's ability to clean up its public finances, particularly at the regional level.

Ms. Merkel said that the regions' problems had been part of what she described as an ''intense'' discussion with Mr. Rajoy, though she once more voiced confidence that Mr. Rajoy would manage to work together with them to sort out Spain's financing problems.

In terms of policy changes, he said, ''Spain is doing what Germany did 10 years ago.'' Ms. Merkel noted that Germany also had to go through a major overhaul, including labor market and welfare overhauls.

''We know from our own experience that reforms, before they produce employment, take time,'' Ms. Merkel said.

O.E.C.D. predicts recession for Germany in 2nd half of year

GERMANY, FROM PAGE 1

The O.E.C.D., which represents the 34 most developed nations, estimated that the German economy would shrink by 0.5 percent in this year's third quarter and 0.8 percent in the fourth quarter. At least two consecutive quarters of economic contraction is the textbook definition of a recession.

Ms. Merkel, who faces re-election next year, has recently been supportive of the E.C.B.'s intention to intervene in the bond markets, if requested, to help reduce the borrowing costs being paid by countries like Spain and Italy. Ms. Merkel, though, has also argued that such aid needs to be accompanied by greater fiscal and political integration within the euro area, to hold member nations more jointly accountable for the fate of the monetary union.

The report by the O.E.C.D., based in Paris, also stressed the need for greater coordination at the European level to stem the crisis in the currency zone.

''With the euro area crisis still the most important risk for the global economy, further policy action is needed to instill more confidence in the monetary union,'' said the report, prepared by Pier Carlo Padoan, the O.E.C.D.'s deputy secretary general and chief economist.

Janet Henry, chief European economist at HSBC in London, said that the O.E.C.D estimates were in line with the growing body of evidence indicating that the third quarter of the year would bring the crisis to Germany's door.

''It's hard to argue strongly against this type of forecast,'' she said. ''It is increasingly clear that Germany will see a contraction in the third quarter.''

Ms. Henry said that statistics on gross domestic product alone did not always give a comprehensive indicator of economic sentiment within a country. Because Germany has the euro zone's biggest economy, many politicians and taxpayers there have continued to worry about having to pick up the tab for euro zone bailouts or bond-buying programs like the one the E.C.B. spelled out Thursday.

But now, Ms. Henry said, ''if Germany is feeling the pressure, there will be a greater willingness to support greater easing of policy.''

Joachim Fritz-Vannahme, director of the Europe program at the German research institute Bertelsmann Stiftung, said the estimates from the O.E.C.D. were consistent with other economic data emerging from Germany.

''This confirms the views of those in Germany who said that, although over the last couple of years we have had big export successes, particularly in Asia, around two-thirds of our exports are still within the European Union and most are to the euro area,'' he said. ''So when the euro zone catches a cold, Germany suffers as well.''

Mr. Fritz-Vannahme said that, politically, Ms. Merkel was still bound by many of her past policy statements, urging budgetary and monetary discipline in the euro zone. But he noted that the Merkel government, feeling the economic pinch, was now giving the E.C.B. more political leeway to intervene in the sovereign debt markets.

''There is more room for maneuver,'' said Mr. Fritz-Vannahme, who added that the hawkish president of the German central bank, Jens Weidmann, who has made clear his opposition to bond-buying by the E.C.B. was now ''isolated.'' Mr. Weidmann, a member of the E.C.B. Governing Council, is widely believed to have wielded the one dissenting vote on Thursday against the E.C.B.'s new program.

The O.E.C.D study highlighted the extent to which the economic situation was continuing to deteriorate throughout the euro zone.

Considered together, the three largest euro zone economies — Germany, France and Italy — will contract by 0.2 percent this year, the O.E.C.D. estimates. Dragging down the curve is Italy, which will be in recession for the whole of 2012, contracting by 2.4 percent, the O.E.C.D. predicts.

The O.E.C.D. also estimated that the economy of Britain, which is outside the euro zone, would shrink by 0.7 percent in the third quarter of this year. The organization, though, acknowledged that its forecast might not account for the effect of the Olympics or the likely shift of activity into the third quarter pegged to a public holiday in June to celebrate the queen's diamond jubilee.

Britain will emerge from recession with growth of 0.2 percent in the last quarter of the year, the O.E.C.D. suggested.

More broadly, the report said the Group of 7 leading industrialized nations would grow by 1.4 percent this year, the same figure as 2011, with the U.S. economy expanding by 2.3 percent.

''The loss of momentum at the G-7 level may persist through the latter half of this year, with the recession in the euro area and associated trade and confidence headwinds enduring,'' the report said.

''The United States is an exception, with comparatively stronger growth,'' reflecting ''progress in balance-sheet adjustment and improving housing market conditions,'' among other factors, it said.

Shift by E.C.B. puts pressure on Italy

ROME

Prime minister pushes discipline and reform to counter 'unjustified' rates

BY RACHEL DONADIO AND GAIA PIANIGIANI

Prime Minister Mario Monti of Italy said Thursday that Italy was working hard to avoid having to take the European Central Bank up on its offer to buy its bonds, a scenario that would come with terms that analysts said the country was loath to accept.

''Italy is moving forward with a sense of discipline and of reform which could, and I believe will not, make it necessary to request this aid,'' Mr. Monti said at a news conference in Rome prior to a meeting with the European Commission president, José Manuel Barroso.

At the same time, Mr. Monti tried to play down what such a request might mean. ''Today the word 'help' is dramatized,'' he said.

He added that the E.C.B.'s offer allowed for a range of conditions under which euro zone countries could enter the program. He suggested that countries like Italy that have ''put their houses in order'' might have some greater negotiating room.

Mr. Monti called for a more coordinated European response to the crisis, noting that in spite of the various bailout funds, and of Italy's efforts to clean house, the country was still subject to ''unjustified'' borrowing rates higher than those for Germany or France.

''Italy took it upon itself with a great sense of responsibility by its citizens not to find itself in this situation,'' he said. ''But it has long paid and is still paying an unjustified cost to finance its debt on the markets,'' he added.

In recent weeks, Mr. Monti, who took power last November after economic conditions and European pressure forced former Prime Minister Silvio Berlusconi from office, had been pushing for greater E.C.B. bond buying in order to help keep borrowing costs down, while at the same time trying to convince Italy's political class to keep cutting costs and carry out structural changes to an entrenched and costly spoils system.

''The paradox is that it asked for one thing that now it must do everything to avoid using,'' said Tito Boeri, an economist at Bocconi University in Milan.

Unlike in Spain, where Prime Minister Mariano Rajoy won a solid majority in national elections, Italy's political landscape is far more complex. Mr. Monti's mandate expires next spring, and it remains unclear what party or coalition could win an election, let alone govern in a trying period of economic instability.

''The critical issue here is the Italian political instability that lies ahead with next year's elections,'' said Pierpaolo Benigno, a professor of economics at LUISS Guido Carli University in Rome. ''The government could decide to join the program in order to ensure stability in the future, to tie the next government's hands.''

U.K. holds interest rate steady as G.D.P. forecast to fall further

LONDON

BY STEPHEN CASTLE

The Bank of England held back Thursday from taking fresh measures to stimulate the stagnant British economy, sticking with record-low interest rates and its current program of asset purchases.

The bank's Monetary Policy Committee kept rates at 0.5 percent and did not increase its asset-buying program, worth £375 billion, or $598 billion. The program, known as quantitative easing, aims to increase the money supply to encourage spending and borrowing.

In July, the bank announced an additional £50 billion of asset purchases that is still under way, and some analysts expect a further expansion in November.

But for now the bank appeared to conclude that there were sufficient indicators of recovery to refrain from new efforts to stimulate economic growth and help end Britain's double-dip recession.

It also appears to be awaiting clearer indications of the effects of a program designed to ease the flow of credit through the British economy. In July, the Bank of England and Britain's Treasury started the program, called the Funding for Lending Scheme, which aims to increase lending to businesses and households by allowing banks and building societies, or mortgage savings banks, to borrow from the central bank for up to four years.

On Thursday, the Organization for Economic Cooperation and Development estimated that the British economy would shrink 0.7 percent in the third quarter of this year but acknowledged that its forecast might not account for the effect of the Olympic Games in London or the likely shift of activity into the third quarter because of a public holiday in June to celebrate the diamond jubilee of Queen Elizabeth II.

Britain could emerge from recession with growth of 0.2 percent in the last quarter of the year, the O.E.C.D. said.

Hedge fund ads pose tricky questions

Window on Wall Street

JESSE EISINGER
PROPUBLICA

NEW YORK Fresh from having declined to constrain money market funds, the U.S. Securities and Exchange Commission has moved to loosen marketing constraints on hedge funds.

Two weeks ago, the agency threw up its hands and said it would not be able to defend millions of investors from money market funds that do things like invest in questionable European bank bonds, yet proclaim themselves to be perfectly safe.

Instead, the S.E.C. — as mandated by Congress through the misnamed and harmful JOBS Act, for Jumpstart our Business Startups — proposed rules last week to lift advertising restrictions for hedge funds and other kinds of private investment offerings. The rules have not been completed, but we can look forward to an ad featuring a wizened couple overlooking a sunset, holding hands and talking about how they just invested money with the next George Soros.

The old rules for hedge funds make little sense. Surely, hedge funds should be able to promote themselves to investors with data about their returns and methods. But there is a problem: The S.E.C. does not have any new resources and has not established any policies to police these promotions.

The lifting of advertising restrictions comes as some professional investors and academics raise doubts that the industry can continue to produce outsize investment returns — if, in fact, it ever did. As they get bigger, hedge funds struggle to get good results. As investments have become increasingly correlated and interrelated, it becomes harder to execute safer and unique strategies.

In a perfect world, hedge fund advertising would improve the world of investing. Hedge funds, after all, are wildly misunderstood. A good hedge fund seeks steady returns in good markets and bad. Many of the best-managed funds are not actually trying to beat the market in its best years. And many of the good funds seek uncorrelated results, so that the returns do not move in lock step with the stock market.

And, honestly, few things could be worse than mutual funds, which in aggregate underperform the stock market and charge too much to do it.

The problem is that the way this loosening looks on paper and the way it will play out in the real world are a bit different.

If Groucho Marx were alive today, he would say that he never wanted to invest in a hedge fund that would have him as a limited partner. One does not see Le Bernardin or Château Lafite filling the airwaves during National Football League games. The ban on law firm advertising was lifted in the 1970s. Today, Jacoby & Meyers advertises on television; Sullivan & Cromwell does not. Drug ads have wrought a parade of patients demanding new (high-margin) medicines from their doctors that often offer few benefits over the old (off-patent) ones.

EDUARDO MUNOZ/REUTERS

John Paulson, who made billions betting that U.S. house prices would drop, is now trying to explain to his clients what has gone wrong.

Distinguishing skill from luck and excessive risk-taking is tough, even for professionals.

Even professionals have a problem in evaluating hedge fund performance, because distinguishing skill from luck and excessive risk-taking is extremely difficult. For instance, funds often do not even let their own employees know how much leverage they are taking.

Take the case of John Paulson, who is famous for having shorted the U.S. housing bubble, making billions. The result is that many, surely including Mr. Paulson, were convinced of his brilliance.

Before his world-renowned score, he was a grinder, eking out decent returns with a relatively small fund. Afterward, his fund grew exponentially to tens of billions under management.

Then his returns nose-dived. His main fund plunged 36 percent last year and has dropped an additional 13 percent this year, according to The Wall Street Journal.

Last week, after Citigroup's private bank pulled out of his fund, Mr. Paulson convened a conference call with Bank of America investment advisers and their clients to explain what was going so horribly wrong with his funds.

It turns out that Mr. Paulson was like the Old Man in the Hemingway novel: He happened to be the guy, through some skill and some luck, to land the biggest fish in the world. How much of each did he have? No one can know.

Another lesson from Mr. Paulson's experience is that even if a fund manager is smart, people who put their money into them are dumb. Citigroup and Bank of America look as if they were typical. Average investors chase performance, putting in money after the great years. Then they panic, pulling their money out at the bottom.

Look for this to be replicated frequently when hedge funds start advertising. Simon Lack, in his book "The Hedge Fund Mirage: The Illusion of Big Money and Why It's too Good to Be True," argues that hedge funds have been great for hedge fund managers and not so great for their investors. The managers get huge fees. Investors would have been better off investing in U.S. Treasury securities, he says.

The hedge fund trade group says that Mr. Lack has it all wrong. Their logic, however, has not been persuasive. Felix Salmon, a blogger for Reuters, wrote that the hedge fund group's complaints had "convinced me of the deep truth of Lack's book in a way that the book itself never could."

The S.E.C. is also lifting rules on other kinds of securities offerings from small companies. Many of these will require less disclosure and will be particularly ripe for fraud.

The S.E.C. declares in a fact sheet that it will keep the rules about who can invest. Yet the victims of the largest Ponzi scheme in history, run by Bernard L. Madoff, were accredited investors. The agency does not plan to mandate any new process to ensure that investors are accredited, or whether their investments are appropriate for them.

So the best case from the agency's move is a bunch of Paulsons, while the worst case is a bunch of Madoffs.

Jesse Eisinger is a reporter for ProPublica, an independent, nonprofit newsroom that produces investigative journalism in the public interest.

ONLINE: DEALBOOK
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Gains, and regulatory risk, for short-sellers in China

SHANGHAI

BY SAMUEL SHEN AND PETE SWEENEY
REUTERS

Shortly before the Shanghai stock market closed Aug. 13, Huang Sheng, the first celebrity short-seller in China, declared victory over Citic Securities after the company's shares dropped 9 percent in a day of rough trading.

NEWS ANALYSIS

"I've shorted Citic," Mr. Huang said in a blog entry posted about 40 minutes before the closing bell, meaning that he had made bets that the stock would drop. He added that he expected the stock to fall further.

He was right. Shares in Citic Securities, the biggest listed brokerage firm in China, have continued to decline, and Mr. Huang has earned a tidy profit on his short position, thanks to changes introduced less than two years ago that for the first time allowed the short-selling of shares listed in mainland China.

Investors who followed his example made money, too. On the day Mr. Huang published his post, 2.25 million Citic shares were sold short — almost the maximum amount available for the purpose under Chinese securities rules.

The prognostications of Mr. Huang, 33, who has said he has an economics degree from Peking University and many years of experience in banking and private equity, have attracted plenty of attention. His microblog, on a platform that resembles Twitter, boasts 233,823 followers — almost as many as a microblog run by the largest Chinese mutual fund — and he is often quoted in the mainland news media.

Mr. Huang's strategy was pioneered by Western short-sellers. Companies like Muddy Waters — a name referring to a Chinese proverb about taking advantage of murky situations — published allegations about accounting irregularities at U.S.-listed Chinese firms that caused multiple forced delistings, setting off a run of shareholder lawsuits and investigations by regulators.

By borrowing stock in such companies and selling the shares at a high price and then later returning shares bought at a lower price, the short-sellers made millions of dollars.

Mr. Huang is trying to implement a milder version of that strategy in mainland China, but he faces far more formidable obstacles than in other markets.

"I don't think that the regulatory system in China is ready for Muddy Waters kind of short-sellers," said Paul Gillis, a professor at the Guanghua School of Management at Peking University. "I think there's going to be a knee-jerk reaction by regulators to defend the company."

While short-selling remains legal in China, regulators have recently begun zeroing in on "rumor-mongering" about listed companies.

Regulators said such rumors had played a role in the plunge in shares of Citic Securities on Aug. 13. Mr. Huang was not the only blogger saying the company was overvalued on that day. Another said Citic had lost 2.9 billion renminbi, or about $460 million at current exchange rates, overseas; another, that the company's boss was the focus of a criminal investigation; yet another, that huge layoffs were imminent.

The China Securities Regulatory Commission said Tuesday that it would punish three investors for concocting the rumors but made no mention of Mr. Huang or short-selling. Mr. Huang said he had not been investigated by the regulator.

Like short-sellers elsewhere, Mr. Huang said that he was providing the market with a cleaning service.

"The water in China's stock market is muddy indeed," he said. "There are too many cases of fraud and deceit in Chinese-listed companies. Short-sellers can help supervise and punish them."

China began allowing short-selling in late 2011. But trading activity is restricted to the shares of fewer than 300 of the nearly 2,500 companies listed on the mainland, and the number of shares available for lending to short-sellers is further limited.

"The water in China's stock market is muddy indeed. There are too many cases of fraud and deceit."

The state-owned and politically connected nature of many listed Chinese companies makes them dangerous targets. Some Western short-sellers, who have claimed to have rooted through trash cans and counted trucks leaving factories to find cases of accounting fraud, have said that managers at companies they have looked into have tried to intimidate them.

Mr. Huang said that his comments on listed firms had been based on publicly available information to which he had applied his professional analysis.

Mr. Gillis of Peking University said that wider changes would have to precede, not follow, the expansion of short-selling in China.

"If you have a market that is not transparent and the auditors are not effective and the regulators are not effective, you create a target-rich environment for short-sellers," he said, "and they will ultimately destroy the entire marketplace."

A.I.G. to shed $2 billion stake in Asian unit

LONDON

BY MARK SCOTT

American International Group said Thursday that it planned to sell a $2 billion stake in its Asian insurance unit as part of a plan to repurchase $5 billion worth of its own stock from the U.S. government.

The plan is the latest effort by A.I.G. to shed assets and repay the government after the insurance giant received a $182 billion bailout in 2008.

A.I.G. has been progressively selling its stake in its Asian insurance business, A.I.A. Group, since listing the company on the Hong Kong stock exchange in an offering that raised $17.8 billion.

Under the terms of the deal announced, A.I.G. will offer investors 600 million shares in A.I.A. at 25.75 Hong Kong dollars to 26.75 dollars, or $3.32 to $3.45, according to the term sheet obtained by DealBook.

On the low end, the price represents a 2.1 percent discount to A.I.A.'s closing price in Hong Kong on Thursday; on the high end, it represents a 1.7 percent premium. The deal will leave A.I.G. with a stake of about 13 percent stake in A.I.A.

Earlier this year, A.I.G. sold a $6 billion stake in A.I.A., which is the region's third-largest insurer.

A.I.G. said Thursday that it planned to buy as much as $5 billion of its own stock, the third repurchase of its shares this year. A.I.G. added that it would use the proceeds of the A.I.A. share sale, in part, to repurchase its shares.

The U.S. Treasury Department has been selling off its stake in A.I.G. Last month, officials said they would sell about $5 billion worth of A.I.G. stock to reduce the government's holding to around 53 percent, from 92 percent when the firm was first bailed out.

The government's links with A.I.G. now lie primarily with the Treasury Department's shares in the insurer. The holdings could prove profitable. The stock is currently trading at almost $35, ahead of the government's break-even price of $29.

Since receiving a government bailout, A.I.G. has recovered by reinventing itself as a smaller company that largely shies away from the types of complex investments that nearly led to its downfall.

Nomura spells out cuts planned for Europe and Americas

TOKYO

BY HIROKO TABUCHI

Nomura, the scandal-hit Japanese investment bank, detailed sweeping restructuring plans Thursday that would pare back its business to a shadow of the global ambitions it held after acquiring parts of Lehman Brothers in 2008.

Most of the $1 billion in cuts, initially announced last week, will be made abroad and are driven by a grim outlook for the global economy, Koji Nagai, Nomura's new chief executive, told analysts and investors at the firm's headquarters in Tokyo.

The firm did not say how many jobs would be eliminated.

Taking the brunt of the cutbacks will be Nomura's operations in Europe, which will account for 45 percent of the savings, and the Americas, which will account for 21 percent, the firm said.

Though Mr. Nagai declined to say how many jobs would be cut, the company said it would shave $450 million from personnel expenses. Other cuts would come from savings made by optimizing spending on information technology, according to the bank.

"We will take stock of the company from the roots upward and rebuild," Mr. Nagai said.

It has been a swift and striking fall for Nomura. It snapped up the Asian and European operations of Lehman Brothers, the failed U.S. brokerage firm, in 2008 for a nominal sum and set out to build a global investment franchise.

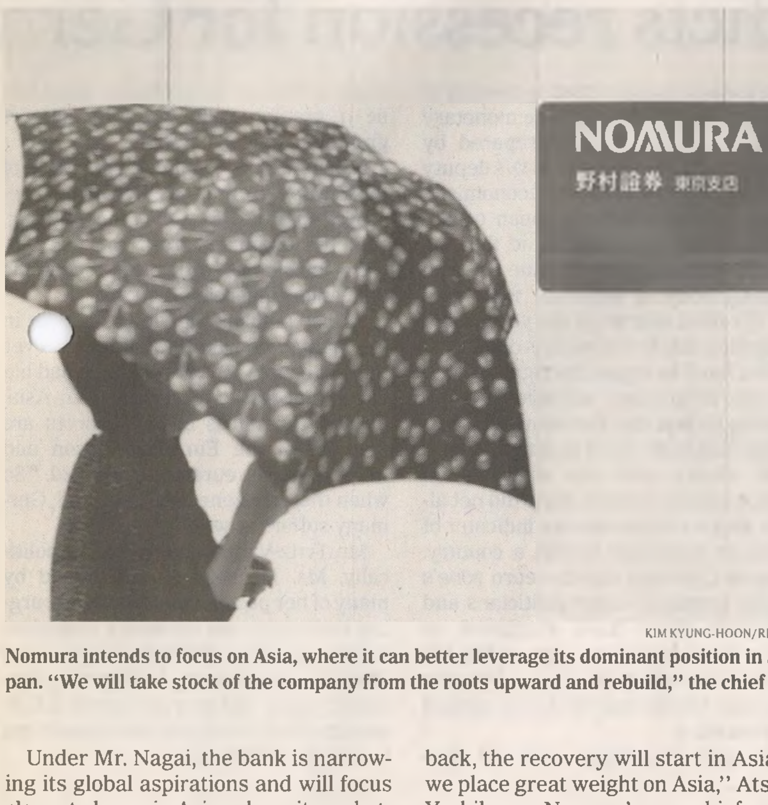
But the deal saddled Nomura with huge personnel costs, and the daunting task of marrying two very different corporate cultures undermined efforts to capitalize on Lehman's talent pool.

Many top Lehman executives left Nomura, and the firm moved to cut costs and end the hemorrhaging of money in its wholesale operations, which include equities, fixed income and investment banking.

Nomura's foreign operations have lost money for nine consecutive quarters.

Earlier this week, one of the last Lehman executives that remained at Nomura, William Vereker, a top deal maker, stepped down as joint head of investment banking, He is widely expected to leave the company soon.

Compounding the problems, an insider trading scandal in Japan this year led Nomura to replace its chief executive, Kenichi Watanabe — who handled the bank's takeover of Lehman and had pushed for global expansion — with Mr. Nagai, who was the head of the Japanese securities unit.



KIM KYUNG-HOON/REUTERS

Nomura intends to focus on Asia, where it can better leverage its dominant position in Japan. "We will take stock of the company from the roots upward and rebuild," the chief said.

Under Mr. Nagai, the bank is narrowing its global aspirations and will focus closer to home in Asia, where it can better leverage its dominant position in Japan, senior executives said.

"When the global economy comes back, the recovery will start in Asia. So we place great weight on Asia," Atsushi Yoshikawa, Nomura's new chief operations officer, said. "But we have no plans to make aggressive investments like the kind we've made in America over the past three years. We intend to make good with what we have."

The latest cutbacks will come on top of a $1.2 billion cost-saving effort Nomura struggled through last year that targeted its equities, fixed-income and investment banking operations. That round of cuts eliminated 1,000 jobs.

As part of the fresh cutbacks, Mr. Yoshikawa said, Nomura will bolster the profitability of its wholesale banking business and look to fixed income to drive growth. It will also streamline its investment banking operations and focus on sectors where the firm has some traction, like finance and consumer banking.

The company plans to scrutinize sectors or businesses that perform poorly for two years in a row. Instinet, the electronic brokerage unit Nomura bought in 2006, will handle most equities trading outside Japan.

Nomura said it would wrap up the latest restructuring effort by the end of March 2014. The bank wants to have pretax profit of ¥250 billion, or $3.17 billion, for the financial year that ends in March 2016, of which ¥75 billion would come from its domestic wholesale division and ¥50 billion from wholesale operations overseas.

Hisako Ueno contributed reporting.

Hoping to revive its global reach, Qantas teams up with Emirates

HONG KONG

BY BETTINA WASSENER

Qantas Airways of Australia said Thursday that it had ended a long-running partnership with British Airways and was instead teaming up with Emirates of Dubai on European routes in an effort to turn around its beleaguered international operations.

One of the oldest and most established players in the Asia-Pacific region, Qantas is doing well in Australia itself, where it has a sizable share of the market. Its international network, by contrast, has continued to lose money despite a string of efforts to revamp the operations.

The 10-year partnership announced Thursday will give passengers on Qantas access to more than 70 Emirates destinations in Europe, as well as in Africa and the Middle East, starting in April.

Emirates, in turn, will gain connections to more than 50 destinations on Qantas's domestic network.

Qantas is hoping that by working with, rather than against, its former competitor, and shifting its hub for European flights to Dubai from Singapore, it will be able to attract more travelers onto European flights.

"With European services transiting through Dubai, Qantas's Asian services will no longer be a subsidiary of the 'Kangaroo Route,'" said Alan Joyce, chief executive of Qantas, referring to the connection between Britain and Australia. Instead, he added in a statement, "they will be dedicated to connecting Australians with our region, and Asian visitors to Australia."

"This is the most significant partnership the Qantas Group has ever formed with another airline," Mr. Joyce said.

The new alliance includes network collaboration and coordinated pricing, sales and scheduling, and thus goes beyond the kind of code-sharing agreements that are common in the industry.

"It will help Qantas's footprint in Europe but has little direct impact on Qantas's loss-making position in Asia."

"It's positive for both carriers," said Russell Shaw, an analyst at Macquarie in Sydney. "It will help improve profitability on Qantas's international routes."

Qantas's share price jumped after the news was announced, ending the day 6.7 percent higher.

But analysts also cautioned that the deal was not a cure-all for Qantas, whose international business lost about 450 million Australian dollars, or $461 million, in the year that ended in June, according to figures released last month.

The airline's costs are high compared with those of many of its rivals, analysts say, while competition on international routes has intensified as Asian and Middle Eastern carriers — including Emirates, now one of the biggest airlines in the world by passenger volume — have raced to grab slices of the rapidly growing Asian market.

"The partnership is an improvement but no silver bullet to Qantas's ails," analysts at the Center for Asia Pacific Aviation, a consulting firm in Sydney, wrote in an online commentary.

"It will help Qantas's footprint in Europe but has little direct impact on Qantas's loss-making position in Asia," they said, adding that the accord did not further Qantas's reach into more Asian cities aside from the Malaysian capital, Kuala Lumpur. For that, the analysts noted, more partnerships and other strategic options are necessary.

Other efforts by Qantas to resuscitate its international business have included starting a low-cost carrier in Japan, in partnership with Japan Airlines, which took to the skies this year.

Qantas's low-cost brand Jetstar is also teaming up with China Eastern Airlines, one of the biggest carriers in China, to form a budget airline based in Hong Kong. That venture, which was announced in March, is awaiting regulatory approval.