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It is a great pleasure to be here with you at Harvard. This is one of the few occasions on which I have had the pleasure of returning to my native New England. I am here to discuss some of the problems of the public utility industry and to describe for you the effort which the Securities and Exchange Commission and the responsible leaders of the industry are making to restore sanity and soundness to the industry. This effort, as you know, has been fraught with dispute and attended on occasion by bitterness, and it is for that reason that I am particularly glad to discuss it here in New England where the conservative tradition is well understood and where the advocacy of old-fashioned honesty is not regarded as radicalism. I speak for no one but myself. I express no views but my own.

The principle that to gauge the future we must study the past applies with particular force to the public utility industry. At the Securities and Exchange Commission the problems of public utility companies come before us daily and in a great many cases the difficulty with which we must deal is the tangible heritage of an abusive practice of ten or fifteen years ago.

A major defect of the public utility holding company systems was their tendency toward over-expansion and overcentralization. This tendency became most pronounced during the period between 1920 and 1930. These years were characterized by extreme and often disastrous competition of holding companies to acquire additional properties. Holding company representatives and promoters combed the United States in search of municipal and private utility companies which could be purchased outright or tied up with an option. Ambitious promoters put through many consolidations of small, locally owned systems into larger operating companies. There appeared to be no limit to the prices which could be paid for new properties or the extent to which anticipated profits could be capitalized. This point of view stimulated, and in turn was stimulated by, the great speculative frenzy which swept the country during the late 1920's. Many of the holding companies were increasingly impressed with the ease of floating new securities through investment bankers, who were eager for commissions and profits on securities which could be sold to a public hungry for investment outlets and speculative opportunities. One holding company was piled upon another. So-called investment trusts and companies were erected above the holding companies, equities were divided and redivided and subdivided over and over again; and at the bottom of this vast pyramid, depended upon to support themselves and everything above them, were the only companies which owned any physical properties or had any real earning power, the local operating electric and gas utility companies. In certain cases there were as many as eight subholding companies interposed between the operating companies at the bottom and the holding company or investment company at the top.

While these practices were not universal there were few that did not embrace the opportunity to extend their spheres of influence with the money so readily provided by the public.

One of the major evils of the scramble for bigger systems and greater "empires" was the tendency to acquire new companies at figures far beyond

reasonable values. Even as late as 1931, Samuel Insull caused the Midland United Company to acquire control of the Gary Heat, Light & Water Company from the United States Steel Corporation at a price of approximately \$23,000,000. At the time of purchase, the tangible fixed capital of the operating company was stated at about \$7,500,000. Is it any wonder that the Midland United system became bankrupt and is still in the process of reorganization in the federal courts?

Another instance was the purchase of the common stock of Eastern New Jersey Power Company, now Jersey Central Power & Light Company, by National Public Service Corporation, an Insull holding company, from Utilities Power & Light Corporation. The price paid, \$15,620,100, included a profit of \$8,698,848 to Utilities Power & Light Corporation, although the profit was never realized in full. The buyer, National Public Service Corporation, subsequently became bankrupt and the seller, Utilities Power & Light Corporation, is in the process of reorganization in the federal courts.

You are undoubtedly familiar with other similar instances. There were many of them. They not only led to overcapitalized systems but they resulted in the illogical expansion of many holding companies. To prevent their recurrence in the utility industry of the future, the Public Utility Holding Company Act established in Section 10 certain standards covering the acquisition of securities and assets by registered holding companies. Among other things, the price paid must be reasonable. It must bear a fair relation to the money invested in, or the earning capacity of, the utility assets to be acquired. To prevent illogical acquisitions in the future, it must be shown that the acquisition will serve the public interest by tending towards the economical and efficient development of an integrated public utility system.

In view of the abuses which developed under the holding company system with its scattered properties, its absentee-management, and its pyramided control, the integration requirements of the Holding Company Act appear reasonable indeed. As you know, Section 11 (b) (1) of the Holding Company Act requires each holding company to confine its operations to one integrated public utility system. The Commission, however, is required to allow the retention of additional integrated systems, provided these additional systems can meet what are known as the ABC standards of Section 11. These standards are that--

(A) Each of such additional systems cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control by such holding company of such system;

(B) All of such additional systems are located in one state, or in adjoining states, or in a contiguous foreign country; and

(C) The continued combination of such systems under the control of such holding company is not so large (considering the state of the art and the area or region affected) as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation.

Any company which can satisfy these conditions has a legal right to retain more than one integrated public utility system; otherwise not. If the company has more than one such system, the burden seems to rest upon the company to demonstrate that it can meet the ABC standards quoted above.

This determination is not a matter of mere discretion, nor is it one of Commission policy. The Supreme Court has said that administrative agencies like the SEC can have no policy but the policy of the law. The application of that policy to specific cases, in accordance with the standards prescribed by the law, is one of the administrative tasks of the Commission.

Determination of the effect of Section 11 (b) (1) upon a specific company is as much a question of fact as it is a question of law. Section 11 provides that there must be a public hearing on the ABC questions. Without a hearing and evidence the Commission has no legal right to determine that a company has or has not complied with Section 11. But that question can be brought before the Commission in either of two ways. The company may file a voluntary plan under Section 11 (e) of the Act, or the Commission may institute a proceeding under Section 11 (b) (1). In either event, it becomes the Commission's duty to decide first whether the company has more than one integrated system and, if so, whether the company has shown its legal right to retain them by meeting the ABC standards.

The most notorious of all holding company abuses was the write-up. In its most direct form the write-up consisted of marking up the figures at which assets were carried on books of account to higher figures, however arrived at. The same result was achieved in a less evident manner by causing one company to convey its assets to an affiliated company at a price in excess of the figure at which they were recorded by the selling company. Again, a merger or a consolidation of two or more companies under common control was sometimes utilized to accomplish a similar increase in the book value of the assets of the new company. The write-up also took other forms, but these were the most common.

The methods used to explain the amount of a write-up varied. Some of them were claimed to be based on appraisals. The appraisal was frequently made by a closely affiliated interest or by an officer of the company. In other cases the value was fixed arbitrarily by a vote of the directors. Very few of them were subject to any check by governmental authority. The appraisal, when made, was often based solely on an estimate of what it would cost to reproduce the property. Many intangibles, items such as lawyers' fees, costs of engineering supervision, interest during construction, goodwill or going-concern value, were frequently included in this estimate. The fact that these appraisals were often made by officers of the company or by affiliated companies and that they were seldom subject to official scrutiny cannot be overemphasized. In one system for many years the appraisals were made by an apparently independent engineer who, it developed upon production of bank records under subpoena, deposited all of his fees in a bank account on which he could not draw. It was found that these fees were the property of one of the men who controlled the system. The engineer was on a salary paid by that man. On the basis of appraisals made by this "independent" engineer the book values of properties on this system were written up many millions. The effect of legal concepts in connection with reproduction cost new for balance-sheet purposes may be

seen in this same system, where the overhead allowances made by this same engineer in his appraisals were discarded and the higher ones which had been recommended by a special master in a gas-rate case were substituted. The system was not involved in that case and the allowances had been approved, not by an appellate court, but by a United States district court in a decision which has been infrequently followed. This change alone added many millions to the appraisal.

Varying dispositions were made of write-ups. In some systems they were credited to a surplus account against which dividends subsequently paid were charged, thus resulting, in some instances, in the payment of dividends out of unrealized appreciation. In other systems they were credited to a capital surplus account against which losses were charged, thus relieving the income accounts of the company. Very often unamortized debt discount was charged against a capital surplus so created, thus increasing the reported earnings of the company in future years.

There were instances where the write-up was used as a basis for additional security issues. Securities were thereby issued against "water". In a very few instances these securities were sold directly to the public, but in most cases they were delivered to a holding company which issued and sold its securities against them, so that indirectly many securities that were based on inflation or write-ups were sold to the public.

The Federal Trade Commission investigation found that the ledger values for the capital assets of the holding and operating companies examined included a substantial amount of write-ups. The examination covered 13 top holding companies, 42 subholding companies, and 91 operating subsidiaries. The 91 operating companies had capital assets of \$8,306,893,000 which included write-ups of \$599,329,000 or 22.1%. This percentage, computed on the basis of the assets as of the dates of examination of each company, would have been materially larger if computed on the basis of the assets at the time such write-ups occurred. The Federal Trade Commission also found evidence of further write-ups in the amount of \$264,000,000 for other operating subsidiaries, as disclosed in connection with the examination of the holding companies concerned.

The introduction of write-ups into balance sheets through the use of reproduction appraisals was based upon a misconception of *Smyth v. Ames*, decided by the Supreme Court of the United States in 1898. That was a rate case in which it was held that a rate imposed on a railroad which prevented it from making a fair return on the present value of its property was confiscatory. The Court said:

"We hold, however, that the basis of all calculations as to the reasonableness of rates to be charged by a corporation maintaining a highway under legislative sanction must be the fair value of the property being used by it for the convenience of the public. And in order to ascertain that value the original cost of construction, the amount expended in permanent improvements, the amount and market value of its bonds and stock, *the present as compared with the original cost of construction*, the probable earning capacity of the property under particular rates prescribed by statute, and the sum

required to meet operating expenses, are all matters for consideration, and are to be given such weight as may be just and right in each case. We do not say that there may not be other matters to be regarded in estimating the value of the property. What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience." (*Italics added*)

And from one clause in the Court's dictum--"the present as compared with the original cost of construction"--has sprung the "reproduction cost new minus depreciation" theory of fair value. That one short phrase has profoundly influenced the economic life, perhaps the history, of this nation.

I know of nothing in law or accounting that justifies the recording of estimates of reproducing property new on books of account. *Smyth v. Ames* does not justify it: first, because that case dealt only with rate-making and the confiscation issue, and, second, because even under that decision an estimate of reproduction cost was only one of several elements to be considered. A rate base, under certain decisions of the Supreme Court, is required to reflect the present fair value of public utility properties for rate-making purposes. And since such value has no immutable character these decisions also recognize that altered circumstances, such as a change in the general price level of commodities, may necessitate a change in the base. The rate base, and consequently the rates, can be adjusted to changing conditions. But once securities are issued and sold on the basis of an estimate of the cost of reproduction (especially if as here the estimate is made in a time of high prices) the loss must be absorbed by the investors, and the loss cannot be avoided merely by restating the value of the properties. Such a restatement is usually made in the process of a painful reorganization, and in the meantime many of the investors have been compelled to dispose of their securities and suffer severe losses

The view that *Smyth v. Ames* in some way justifies the recording of reproduction estimates on books of account and the issuance of securities of an equivalent amount is based upon a distortion and misapplication of that famous decision and has done incalculable injury to the public and to the utility industry.

I am glad to report that some companies have embarked upon a comprehensive program of reorganizing their capital structures. For example, one of the largest holding companies has begun to work out a program for restating its capital account and that of various subsidiaries. The program is based upon studies of the companies in the system with the following objectives: (1) To obtain as accurate a figure as possible of original cost of all property; (2) to identify and to obtain facts about every transaction which resulted in a debatable bookkeeping entry; and (3) to analyze the surplus accounts. Several of the companies in the system have filed applications with us to obtain approval, on the basis of the facts so ascertained, of a restatement of capital and creation of a special capital surplus. These special capital surpluses, in addition to surpluses as of December 31, 1937, may be used to absorb all debatable items which any of the companies find necessary to remove from their accounts,

or to write their properties down to original cost, should that become necessary. In this way, it is reasonable to hope, the capital structure of companies in the system will be adjusted so that they can economically finance their requirements and confidently face the future.

Some of the utility holding companies indulged in unsound accounting. Such conduct may not have been characteristic, but it was sufficiently widespread to be an important problem. In part, many of these practices resulted from attempts to make up for the consequences of bad fortune or of reckless or improvident management.

Where utility holding companies were heavily overcapitalized, there often resulted very strong pressure to find the income necessary to pay interest or dividends on an excessive amount of securities. Moreover, such companies were pressed to maintain their financial standing and prestige and were eager to make a good showing as to net income and to pay dividends in order to sustain or improve their credit.

One of the principal means of meeting this situation was to make inadequate provisions for depreciation. A similar practice, often employed not only by operating companies, but also by holding companies, where bond issues had been made at a discount, was to neglect the proper annual amortization charge. The payment of dividends from capital surplus or from an entirely fictitious surplus was sometimes resorted to. Another device was to take up on the books of the holding company the earned surpluses of subsidiary companies without any disbursement of them by those companies and to charge holding company dividend payments against such a surplus. Another was to create profits, and "create" is the very word for it, by transfers from one subsidiary to another.

Another great problem of the past in the utility industry, and one with which the Holding Company Act deals vigorously, was the siphoning off of profits through service, management and construction contracts. In general, these contracts provided that the holding or a wholly owned subsidiary company, would, for a fee, manage or supervise the management and construction work of the other companies, usually operating utility companies in the same system. It became a feature of the holding-company system, even though not all the holding companies made a practice of it. In a

few instances, however, there were indications that a holding company system was promoted principally to create a source for these fees. There were many instances where the operating company paid for services far more than they were worth. In two systems the operating companies paid fees to a service company controlled by such systems and this company hired the service from an outside concern for a lesser amount and pocketed the difference.

After the Federal Trade Commission's investigation brought some of these facts to light, certain large holding-company systems, sensing earlier than others the trend of public opinion, created servicing companies mutually owned by the operating companies.

Some of these management companies performed useful services for the operating companies. However, they were managing their own properties and making a good profit so doing. The large profits obtained through service contracts would not have aroused widespread criticism had such contracts been made between strangers in interest rather than between companies under common control. This common control from which arose many of the other abuses, already pointed out, inevitably gave rise to the suspicion that service contracts, dictated as they were by the holding companies, were forced upon the controlled subsidiary companies making it especially difficult to decide such questions as the worth of the service to the operating company, and the real need of the operating company for outside management. Not all such fees were exorbitant or unearned. However, the unearned fee was a fraud on the senior security holders and a betrayal of the true principles of rate regulation.

Since the service fee was included by the operating company in its operating expenses and was deducted from income before computing the fair rate of return permitted by law, the management contract became in some instances a holding company device for taking from the operating company a special profit. This was patently unfair to the holders of senior securities and to the rate payers. In many systems operating companies were not at liberty to hire the supervision of their new construction from companies outside the holding company system of which they were a part. The fee charged for the supervision of construction usually included a profit to the company receiving it. The importance of this fee is emphasized by the fact that it was capitalized on the books of the operating companies, i.e., added to the fixed property account where it might figure in the rate base.

Extortionate servicing charges have unquestionably been a drain on the electric power industry of the country. The Holding Company Act undertakes to preserve what is good and erase what is bad in the servicing system. Holding companies are prohibited from selling service to other companies in the same system. Both subsidiary and mutual service companies must render service at cost and must meet the standards set under the Act. The services they render must benefit the companies receiving them; the cost of services must be equitably allocated among the companies served; direct charges must be made as far as costs can be identified and related to specific transactions and indirect charges must be apportioned on an equitable basis; and the services must be economically and efficiently performed at a saving to the serviced companies. To meet these requirements, certain large systems have employed independent public accounting firms to devise satisfactory accounting systems. The Act and our rules have brought about a

substantial overhauling of servicing operations. One major service company found it desirable to make plans for curtailing its staff and restricting the specific services to be rendered, eliminating deadwood and in two months cutting the annual cost of the servicing company over \$400,000.

One of the characteristic abuses in the holding company field was excessive pyramiding of corporate structures. These were cases wherein 6, and even 8, layers of companies were erected between the operating utility and the top holding company or other controlling organization. This meant, in the first place, that if the operating subsidiaries were earning a good return on the investment in their securities, the rate of return on equity securities in the top company sky-rocketed, and secondly that a relatively small investment in the top company could effect control of a huge utility system.

The other side of this picture frequently came to light, however, when the operating companies failed, or could not be forced, to yield the anticipated return on the investments in them and in the numerous securities piled above. Minor fluctuations in the revenues of the underlying utility companies brought about cataclysmic gyrations in the income accounts of the holding company hierarchies. With the depression many of these highly attenuated structures were swept away, although even today their scattered remnants constitute part of several large and many smaller systems.

Back in 1927 purchasers of holding company securities could see only one fact, that a small rise in operating revenues resulted in an accentuated increase in the profits accruing to the common stockholders of the holding companies. Your own Professor William Z. Ripley at Harvard was one of the few who appreciated the much overlooked fact that what goes up at an accentuated rate comes down at an even more accentuated rate. In his book, "Main Street and Wall Street", published in 1927, he explained how a small drop in the income of an operating company becomes a major one for the holding company. But he might just as well have added in the manner of his well-known namesake, "Believe it or not", for many investors apparently did not believe it.

What is the status today of those pyramided, or thin-equity, systems which have weathered the storm? Their present condition is sufficiently widespread to constitute one of the major problems under the Holding Company Act of 1935.

I have here some figures on several companies which control an important part of the electric utility assets of the country. The first has a consolidated capitalization, including surplus, of \$730,000,000. Its common stock and surplus together represent 11.7% of the total capitalization. Yet when the arrearages of \$38,300,000 on the outstanding preferred stocks are deducted, the common and surplus represent only 6.4% of the consolidated capitalization. The second system has a consolidated capitalization of \$573,000,000, of which the common stock and surplus represent 16%. When adjusted for arrearages of \$58,000,000 on preferred stocks, the common and surplus represent only 5.9% of the over-all capitalization. The third company has a consolidated capitalization of \$615,000,000, of which 4% is represented by common stock and surplus. After deducting arrearages of \$33,000,000 on preferred stocks, the common and surplus represent less than

nothing - actually a minus figure of 1.4%. The fourth system shows a consolidated capitalization of \$461,000,000. In this case the common stock and surplus amount to only 9/10 of 1% of the total capitalization. When the arrearages of \$24,300,000 on preferred stocks are deducted, nothing but a minus quantity (4.4%) is left for the common stock which controls this large system.

Should the analysis be pursued further, adjusting the assets of the companies for write-ups, squeezing the inflation out of carrying values for various properties and securities, the controlling equity would be even thinner if, indeed, an equity would remain at all. Another indication of the lack of equity is the fact that not one of these common stocks has paid a dividend in the last 6 years.

One point I want to emphasize is that while the equity represented by these stocks is exceedingly slim, the holders thereof continue to manage and control the properties which equitably belong to others.

Despite the "morning after" effects of preferred arrears, of dehydration and of shrunken values, pyramided structures still remain, suspended only by the silver cord of voting power.

It is here that the Holding Company Act will have an important influence. Under the great-grandfather clause, section 11 (b) (2), the S.E.C. must require that each registered holding company, and each subsidiary company thereof, take such steps as the Commission shall find necessary to ensure that the corporate structure or continued existence of any company in the holding-company system does not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of such holding-company system. We are further obliged to require that holding company structures shall be no more than three layers high, and we are told that we are not to require any change in the corporate structure or existence of any company which is not a holding company, or whose principal business is that of a public-utility company, *except* for the purpose of fairly and equitably distributing voting power.

This subsection is designed to cope with the evils of excessively pyramided and complicated corporate structures and undue concentration of voting control in holding company systems. When the statute was enacted, the corporate and financial structures of some holding companies were so complicated that they were beyond the comprehension of the layman and in certain instances the expert.

Although many systems are voluntarily undertaking to eliminate unnecessary intermediate and underlying companies, relatively little progress has been made in clearing up arrearages of preferred stock dividends or in rectifying inequalities in the distribution of voting control.

Drastic financial reorganization of some holding companies which are burdened with huge preferred stock dividend arrearages is inevitable. The complete figures for January 1, 1939 are being compiled by the Commission's staff, but as of January 1, 1938, out of 158 holding companies having outstanding preferred stocks with a par or liquidating value of

\$2,413,255,000, there were 48 companies with outstanding preferred stocks (in the hands of the public) amounting to \$1,330,816,000 which were in arrears as to dividends to the extent of \$336,657,000. A year ago, therefore, the arrearages represented an average accumulation of 25.3% of the par or liquidating value of the stocks, or more than 4 years' dividends. Furthermore, over half of the outstanding preferred stocks of these holding companies have accumulated arrearages.

Turning to the operating subsidiaries of registered holding companies we found that there were 224 companies with preferred stocks in the hands of the public amounting to \$1,447,460,000. Of these, 70 companies had accumulated arrearages of \$95,745,000 on their outstanding preferred stocks in the amount of \$442,976,000. Thus over 30% of the preferred stocks of the operating companies was in arrears to the extent of 21.8%, or nearly three years' dividends.

Among the larger companies which have arrears on their preferred stocks are the American Power & Light Company and Electric Power & Light Corporation in the Electric Bond & Share System, Associated Gas & Electric Company, Commonwealth & Southern Corporation, Cities Service Power & Light Company, The United Light & Power Company, New England Public Service Company, New England Power Association, and The Standard Gas & Electric Company. As an example of the magnitude of this problem of preferred stock dividend arrears in some systems, I give you the figures as of January 1, 1939, for the Electric Bond & Share Company group, excluding the American & Foreign Power Co. This group of companies, comprising the American Power & Light Company, Electric Power & Light Corporation and National Power & Light Company and their respective subsidiaries, constitutes one of our largest holding company systems. As of December 31, 1938, their preferred dividend accumulations aggregated \$95,158,000 or 23.5% of the par or stated value of the stocks which were in arrears. Substantially all of the arrearages are in the American Power & Light and the Electric Power & Light systems. Electric Bond & Share Company, itself, and National Power & Light Corporation have no arrearages. The Bond & Share group have preferred stocks outstanding in the amount of \$747,344,000. Of this total, the vast amount of \$403,739,000 (or 54% of the whole) had accumulated unpaid dividends. Approximately two-thirds of the aggregate arrearages are applicable to the preferred stocks of two of the subholding companies, and one-third is applicable to the preferred stocks of their subsidiaries.

As long as such accumulations of arrearages remain uncorrected it is idle to talk about an equity capital market in the public utility industry. Even the refunding of bonds by such a company is extremely difficult if not impossible. When many of the major holding companies are in drastic need of reorganization, they obviously are in no condition to raise equity capital for their operating subsidiaries. No sane investor will subscribe for an issue of common or even preferred stock in a company whose preferred dividends are heavily in arrears.

The early recapitalization of these companies is also imperative from the standpoint of the security holders who for a long time either have received no dividend at all or only an intermittently paid dividend.

If such a recapitalization program will permit the resumption of the flow of earnings from the utility industry to investors, it will go far to revive public confidence in the securities of utility-holding companies.

Financial reorganization of companies with unsound structures will require recognition by all interests of sound asset values and reasonable earnings. When accomplished, it will serve the threefold purpose of protecting present security holders, opening the way for resumption of dividends, and facilitating new financing for construction.

If I have dwelt at length upon the excesses of the past, it has been to describe the task before us in working toward the financial rehabilitation of the utility industry. It has not been due to a desire to minimize the truly marvelous accomplishments of the industry along physical and engineering lines. If there were time I would dwell on them at greater length. I would especially mention the great contributions to progress in the industry made by such firms as General Electric & Westinghouse, but our particular job is to correct the financial abuses which have existed -- consequently that is what I have to talk about.

For the future, the Holding Company Act means the end of corporate pyramiding in the electric and gas utility field with its attendant obfuscation, speculation and unhealthy methods of control. It means, I hope, the end of improper accounting methods. It means no more write-ups and no more counterfeiting of values and earnings for stock-jobbing purposes. It means an end of the exploitation and victimization of operating companies. There will be no more private systems of inflation for the benefit of a self-appointed few. There will be no more upstream loans from operating companies to support their anaemic parents. There will be no more extortionate service charges, representing, in effect, special dividends disguised as operating expenses. There should be no more milking of operating subsidiaries through inadequate provision for depreciation. There should be no more tricky securities. Voting power will be more equitably distributed. In reorganizations, the Act means that there will be no more blackmailing of senior security holders by the junior interests who may own nothing but a power to vote. It means that Government will have the right to say something as to the direction of the growth of national utility systems made up of corporations which are said to be devoted to the public service, which occupy public streets and highways and dam interstate and international rivers usually without paying for the privilege, which through delegation to them of a portion of the state's sovereignty are permitted to condemn private property, and which owe their very existence to the indulgence of government.

On the other hand, the Holding Company Act does not mean a death sentence for the utility industry or for the utility holding company. Nor does it mean that Insull Utility Investments, Inc. can be raised from the dead or that value can be breathed into securities which it was unfair to issue in the first place. It does not mean that there is to be a dictatorship over the utility industry. It does not mean the nationalization of the utility industry. Whether you would oppose nationalization of electric power or whether you would favor it, you will not find it in the Holding Company Act, or in its administration.

The Act does mean lawful regulation in the interest of investors, consumers and the public, and a return to old-fashioned American conservatism and fair dealing from which we strayed in the roaring twenties. It recognizes and does not impede the earning of proper profits.

The Securities and Exchange Commission will do its best to administer the Act reasonably and vigorously, fairly and firmly, without prejudice and without favor. Our staff is composed of men with broad experience in finance, in the law and in the utility business and they are well qualified to do the job.

If I may, I would like to avail myself of this opportunity to take vigorous exception to some reports which I have seen and heard in recent weeks. It has been said that there is a drastic difference of opinion and attitude among the members of the Commission on the Holding Company Act and particularly on Section 11. There is no such division or difference of opinion. The members of the Commission see eye to eye on these questions. I know of no disposition on the part of any member of the Commission to ignore his duty under the Act or to exceed it.

It is our objective to put into practice the ideals of the Holding Company Act. If these ideals are attained, this great industry will place itself on permanently firm economic foundations and will see its own development bring increasing benefit both to itself and the investing and consuming public.

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