



Highlights of [GAO-05-617](#), a report to the Ranking Minority Member, Committee on Energy and Commerce, and the Honorable Edward J. Markey, House of Representatives

## Why GAO Did This Study

The Public Utility Holding Company Act of 1935 (PUHCA), which is administered by the Securities and Exchange Commission (SEC), subjects public utility holding companies to federal regulation. Some recent events have raised concerns about SEC's administration of the act. GAO was asked to review SEC's administration of PUHCA. GAO's objectives included determining the nature and the extent to which SEC regulates registered holding companies and the results of its regulation, the extent to which SEC reviews claims of exemption and the results of these reviews, and how SEC determines whether companies have a controlling influence over public utilities or holding companies.

## What GAO Recommends

GAO is making recommendations that could improve the effectiveness and efficiency of SEC's oversight of registered holding companies and further enhance SEC's monitoring of exempt holding companies. GAO is also making a recommendation designed to clarify when the staff may issue no-action letters to utility investors. In addition, GAO recommends that SEC conduct a study on the impact of its decisions and flexible interpretations on the statutory objectives of PUHCA. SEC agreed with some of the recommendations, but did not address others. Further, SEC did not address action plans for other recommendations as GAO believes are necessary.

[www.gao.gov/cgi-bin/getrpt?GAO-05-617](http://www.gao.gov/cgi-bin/getrpt?GAO-05-617).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne Jones at (202) 512-8678 or [jonesy@gao.gov](mailto:jonesy@gao.gov).

# PUBLIC UTILITY HOLDING COMPANY ACT

## Opportunities Exist to Strengthen SEC's Administration of the Act

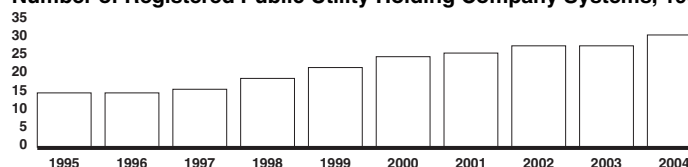
### What GAO Found

SEC regulates registered holding companies primarily by reviewing their applications for transactions and conducting periodic examinations that focus on improperly allocated costs and weak internal controls. As a result of these examinations, SEC has identified deficiencies at 20 companies since fiscal year 1999, which the agency estimates have resulted in consumer savings of over \$450 million. However, holding companies identified some PUHCA forms and regulations that are outdated, which SEC staff plans to address as time and resources become available. Some parties have also observed that SEC's interpretations of parts of the act have allowed holding companies to have complex corporate structures and exposed them to financial risks, but SEC has said that it interprets the act to respond to the demands of a changing industry. In addition, several holding companies indicated that SEC processes applications slowly, but none identified any financial consequences caused by such delays. SEC improved its timeliness in processing some applications in fiscal year 2004.

While PUHCA allows qualified holding companies to be exempt from registering under the act either by applying for an SEC order or filing an annual self-certification form, SEC has not reviewed the activities of all exempt holding companies to ensure that they continue to qualify for exemptions. However, in 2004 the staff reviewed the exemptions of all 81 holding companies that claim exemption by self-certification, which could lead to the revocation of some claimed exemptions. In addition, the staff did not evaluate the exemptions of holding companies that are exempt by SEC order as part of this review. SEC plans to take further steps to strengthen its oversight of exempt companies, including revising the self-certification form to collect more relevant information from exempt companies.

SEC has not yet deemed an investor that owns less than 10 percent of the voting securities of a public utility or holding company to be a holding company, as defined in the act. SEC has typically granted no-action relief to these investors. In considering these requests, staff must determine whether these investment structures contain consent rights that would allow an investor to exercise such a controlling influence over the management and policies of its invested entities as to necessitate regulation as a holding company under PUHCA. Over the past two decades, SEC staff has issued no-action letters to investors that have acquired an expanding list of consent rights over public utilities or other holding companies.

**Number of Registered Public Utility Holding Company Systems, 1995-2004**



Source: SEC.