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ADDRESS

of

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THE ADMINISTRATION
OF
THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

It is the purpose of this paper to give as clear a picture as possible of the actual problems with which the Securities and Exchange Commission is confronted in its task of administering the Public Utility Holding Company Act of 1935 and the manner in which it is dealing with these problems. With the merits of the legislation I do not propose to deal, nor can I enter into a discussion of the constitutionality of the Act, which is now being litigated.

The Public Utility Holding Company Act of 1935 became law on August 26 of that year. It constitutes Title I of the Public Utility Act of 1935. Title II consists of amendments of the Federal Water Power Act, designed primarily to expand the jurisdiction of the Federal Power Commission with respect to electric utilities selling current at wholesale in interstate commerce. My discussion will be confined to Title I, which is administered by the Securities and Exchange Commission. The statistics which I will give you are as of approximately August 15.

In general, the Holding Company Act provides for registration with the Securities and Exchange Commission of gas and electric utility holding companies. It has no reference to telephone, railroad, or industrial holding companies as such. After a holding company is registered, it is subject to a number of statutory provisions and also to general rules and regulations or specific orders of the Commission with respect to a variety of aspects of its business which I will discuss in some detail as I describe the Commission's administrative work.

The Act called for registration of holding companies not later than December 1, 1935. The Commission is, however, directed to exempt holding companies of certain specified types from the provisions of the Act. The first task with which we were faced last autumn was, therefore, setting up machinery for registration of holding companies and for the exemption of those which were entitled to it.

The statute authorizes a provisional form of registration to be effected merely by filing with the Commission a notification of registration. This need not contain the more detailed information which may be required later. The form which we adopted permitted companies to register by filing a simple statement including little more than a corporate chart, a schedule of securities outstanding, the names of officers and directors, and maps showing the territories served.

The procedure for obtaining exemptions of holding companies was made as simple as possible. The Commission is directed to exempt certain companies which are "predominantly" intrastate not receiving a "material part" of their income from extrastate subsidiaries; which are "predominantly" operating public utility companies whose operations as such do not extend beyond the State of organization and contiguous states; which are "only incidentally holding companies" being "primarily engaged or interested" in other business; which are only "temporarily" holding companies; or which have only foreign subsidiaries.

The Act provides that such exemptions shall be granted either by rules or regulations upon the Commission's own motion, or by order upon application from the company concerned. We have exempted by rule intrastate holding companies and those which qualify for exemption by reason of being predominantly operating companies. In the other cases, however, except for a temporary exemption granted at the start to all such companies coming within the statutory language, it has seemed preferable to proceed by specific orders so that each company may know exactly where it stands. Furthermore, an intrastate holding company or an operating company, which may be in doubt as to whether it comes within the appropriate exemptive rule, may obtain a determination of its status by applying for a specific exemption by order.

The information required in an application for exemption of a holding company is extremely elastic. We adopted rules specifying the information which we thought relevant in the ordinary situation, but we left it up to the applicant to omit any information which it might deem irrelevant in a particular case, reserving the right on the part of the Commission to call for any further information that might be necessary.

Several interesting problems are presented by these applications for exemption, especially in cases where a company's activities as a public utility holding company are of substantial proportions when considered separately, but small in comparison to its industrial activities. The Act provides that the Commission shall grant exemptions to companies coming within the statutory provisions "unless and except insofar as it finds the exemption detrimental to the public interest or the interest of investors and consumers." In the applications so far granted the Commission has not found it necessary to invoke this power to limit the exemption otherwise than with respect to procedural matters such as requiring periodic reports from an applicant which has been exempted on the ground that it was only temporarily a holding company. It has not yet been determined whether the Commission will impose more substantial restrictions with respect to some of the applications still pending.

In addition to exemptions of holding companies as such, the Commission has power to exclude from that category companies which, although coming within the statutory definition of a holding company, do not in fact exert the type of control which the statute contemplates. The statute defines a holding company as any company which, directly or indirectly, owns, controls, or holds with power to vote 10 per cent or more of the outstanding voting securities of a public utility company (that is, of an electric company or a company distributing gas at retail). It is provided, however, that the Commission may declare a company not to be a holding company if in fact it does not control any public utility although it holds a 10 per cent interest; and, conversely, the Commission is empowered to determine a company to be a holding company if it actually exercises control with a holding of less than 10 per cent of the voting power. The determination of what is a subsidiary company represents a parallel problem. The Act defines a subsidiary as a company of which 10 per cent or more of the outstanding voting securities are owned, controlled, or held with power to vote by the holding company in question, and provides, on the one hand, for exclusion from the category of subsidiary of any company which the Commission shall find not to be controlled in spite of a 10 per cent interest and, on the other hand, for the inclusion of companies which are actually controlled by a smaller holding.

Another type of exemptive power granted the Commission is that of excluding companies from the category of gas or electric utilities if they are primarily engaged in some other business and sell merely a limited amount of electric energy or gas. If such a company is not an electric or gas utility, its parent company will not be a holding company for purposes of the Act. Many industrial companies have subsidiaries which own their generating stations. Likewise it often happens that a company in a gas pipe line system will sell a small amount of gas at retail. The Commission has obviated the necessity for passing on a number of applications in such cases by rules declaring certain companies not to be electric or gas utilities if they sell less than $100,000 per year of electric energy or gas and are primarily engaged in some other business.

In all, 375 applications were received for exemption of holding companies and for orders declaring companies not to be holding companies or subsidiaries of holding companies or declaring companies not to be electric or gas utilities. The Act provides that applications for such orders shall, if filed in good faith, be automatically effective until the Commission has acted upon them. This provision enabled the Commission to take the time necessary to examine applications without subjecting the applicants in the meanwhile to regulation from which they might be entitled to immunity. Some 65 of these have been granted. 124 have been withdrawn, in most cases because the applicant was satisfied that a rule of the Commission sufficiently clarified its status or that the application was filed under a misapprehension as to the meaning of the Act. The remainder are still pending.

Sixty-five holding companies are now registered, including a number of subholding companies of registered systems. Most of the major systems have declined to register and have brought suits to test the constitutionality of the Act. The Government is also seeking an injunction against one company in proceedings which it hopes to make a test case to determine the constitutional issue. It has been announced that, pending the determination of constitutionality, the Government will not invoke criminal sanctions against those who have failed to register. There are four or five systems of substantial importance which have come under our jurisdiction. We have, therefore, obtained a fair cross-section of experience in the type of problems attendant upon administration of the Act. The cooperation which we have received from the holding companies which have registered has been an extremely important factor in enabling us to approach these problems with some understanding, and I think I may say with reasonable success. I do not wish to imply, however, that failure to register on the part of most members of the industry has meant complete absence of cooperation. From the start it has been our policy to seek the advice and assistance of representatives of the industry, regardless of whether their companies were registered or not. A number of our rules and regulations have been submitted for comment to a committee composed of executives of the major companies, and their cooperation has been extremely helpful. Furthermore, some of the unregistered holding company systems have made an effort to adjust their practices in many respects to comply with our regulations in order to give them a fair trial.

At this point I think it may be helpful to describe to you the organization of that part of the Commission's staff which is charged with the administration of the Holding Company Act. Those who give virtually full time to matters arising under the Act as distinct from the Securities Act of 1933 and the Securities Exchange Act of 1934 include some 89 members of the staff. These include some 22 on the clerical staff, recruited from the ranks of the Civil Service and about 67 financial analysts, accountants, engineers, and lawyers, chosen on a basis of experience and qualifications as experts.

Before the Act became law, the Commission had begun to make plans for handling the task of administration. The then existing personnel of the Commission was carefully examined for individuals whose experience would qualify them for the new duties which the Commission was to assume. A skeleton staff was organized from this group and promptly after passage of the Act they were transferred from other parts of the Commission to what has since become the Public Utilities Division. Most of the personnel were, however, selected from outside sources.

The engineers, financial analysts, and accountants comprising our staff of experts have had practical experience in connection with the organization, operation, construction, financing and accounting of public utility enterprises. These include men who are acquainted with the operating conditions in every part of the country. Several of them have also had experience in foreign countries. The senior members of the staff have all had positions of responsibility and many of them have had complete charge of utility operations or of the particular side of the business in which they specialize. The director of the Public Utilities Division, after an extensive experience with utility companies, served for a number of years as assistant to the treasurer in charge of the utilities investments of one of the largest life insurance companies of the United States, with investments in utilities securities running into hundreds of millions of dollars. During this time he had occasion to inspect the properties and study the operations of the larger utility operating companies of the country. Our financial men include one who was for many years financial vice-president and treasurer of a large holding company system and another who has had wide experience as an officer of a holding company system and for several years represented a group of banking houses in connection with the reorganization and simplification of corporate structures of one of the largest holding company systems. The chief engineer has had extensive experience as an operating and designing engineer for large utility companies, as a consulting engineer, and as chief engineer of one of the country's most active public service commissions. These are but a few examples.

An Assistant General Counsel devotes his entire time to public utilities together with a number of other lawyers, in addition to those engaged in working on the litigation involving the constitutionality of the Act to which I have already referred.

The Finance Section of the Public Utilities Division has been organized into eight groups, to each of which are assigned a number of holding company systems. Each group includes a senior analyst, an accountant, a number of analysts, and an attorney. It is the function of

the groups to familiarize themselves as thoroughly as possible with the financial and corporate structure, operations, and many other aspects of the holding company systems assigned to them. These include holding company systems which have not registered, as well as those which have already come under the jurisdiction of the Commission. The advantage of this method of organization is that our staff is constantly becoming better equipped to handle new problems with dispatch and without having to repeat in each case the process of acquiring the necessary factual background.

The Engineering Section has been organized under the direction of a Supervising Engineer. To this Section are assigned special studies of an engineering character. The members of this specialized staff of engineers are available for consultation with all members of the Division.

Perhaps the best way to give you an idea of the actual process of administration of the Act is to describe our work in handling some of the types of cases which have come before the Commission requiring specific determination. One of the most important of these is the matter of security issues by registered holding companies and their subsidiaries.

It is unlawful for a registered holding company or subsidiary thereof to issue or sell any security unless a declaration with respect to the security has been filed with the Commission and has become effective. The Act provides that the Commission shall not permit a declaration to become effective unless the security meets certain specified standards. In this respect there is an important distinction between this Act and the other Acts which the Securities and Exchange Commission administers. In the case of the Securities Act of 1933 and the Securities Exchange Act of 1934, the Commission's essential duty is to see to it that adequate and truthful disclosure is made to investors with respect to the securities offered to them. The Commission is not authorized under those Acts to forbid the sale of securities no matter how unsound, as long as the truth is adequately revealed. In the case of the Holding Company Act, on the other hand, the Commission although it does not pass on the merits of securities as an investment, must require that securities comply with specified conditions.

The financing of holding companies in the past has involved the creation of such complicated corporate structures and of securities carrying such intricate rights and obligations that it has become increasingly difficult for the ordinary investor to be able to pass any intelligent judgment on their investment value. The hearings which were held prior to the passage of the Act indicate that it was felt that the Commission, although it could not, of course, pass on the merits of securities as investments, should be charged with the duty of prohibiting the sale of certain types of securities which were almost bound

to be misleading to the ordinary investor. Let us take as an example preferred stock or unsecured debentures of a holding company. The investor had been educated to regard a debenture or a preferred stock as a security having priority as to earnings. In the typical situation where the operating companies have bonds and preferred stock outstanding in the hands of the public, and the major part of the holding company's income is or was derived from dividends on common stock of the operating companies, little is available for payments on the debentures and preferred stock of the holding company unless a dividend is declared on the common stock of the operating companies. Thus a debenture holder of such a holding company actually is in a position junior to that of a preferred stockholder of an operating company, and a preferred stockholder of the holding company is in an even more inferior position. The Act prohibits the Commission from permitting the issuance of preferred stock or unsecured obligations by holding companies except in the case of certain refinancing, refunding, or reorganization operations or in cases where the issuance is necessary for urgent corporate purposes and a more rigid standard would impose an unreasonable financial burden upon the company.

Other requirements are that the fees, commissions, and other remuneration paid in connection with the issue or sale or distribution must be reasonable; that the security be reasonably adapted to the security structure of the company and the system and to the earning power of the issuer; and that the financing involved be necessary or appropriate to the economical and efficient operation of a business in which the company is lawfully engaged or has an interest. In general, the Commission must not permit a declaration to become effective if the terms and conditions of the issue or sale are detrimental to the public interest or the interest of investors or consumers.

A simple form has been prescribed for declarations calling for information showing compliance with the statutory standards. When a declaration is filed with the Commission it is examined by that group in the Public Utilities Division which has charge of the holding company system to which the company belongs, to determine whether the conditions I have referred to are satisfied. This question must be passed upon by financial analysts and accountants and also by the lawyer assigned to the group. Meanwhile, a date for a hearing will have been set at which any interested person may appear.

If any further information is required in order to enable the Commission to pass on the questions presented to it, the company is requested to file amendments to the declaration or to furnish supplementary information informally. If there is any serious doubt in the minds of the Commission's staff as to whether the issue is of the character which the Commission should permit, conferences between representatives of the company and members of the Commission's staff may result in revision removing such doubts before the matter goes to a hearing. Hearings are usually before a Trial Examiner, and the attorney assigned to the group ordinarily acts as attorney for the Commission at the hearing.

After the hearing, and after the filing of the Trial Examiner's Report, if any, the group assigned to the case prepares a legal and financial report which is based on the material contained in the declaration and the evidence adduced at the hearing. This report is for the convenience of the Commission and is submitted to it along with the record in the case. The Commission then makes its findings of fact based on the record in the case and issues an appropriate order disposing of the matter.

The Commission has passed upon approximately eight declarations with respect to security issues, involving some $76,000,000 of securities. In most cases declarations were permitted to become effective without calling for any changes in the proposed financing. This has not always been the case, however. In one instance involving an increase in a company's debt where the Commission felt that the ratio of debt to fixed property was rather high, the company was required to add to the trust indentures securing its obligations certain covenants which gave added protection to the securities to be issued.

There are certain security issues which are exempt from the requirement of filing a declaration. Some of these, such as specified types of short-term paper, are exempted automatically by the statute. In other cases, exemption is to be obtained by rule or regulation or by order of the Commission. So far, exemptions of this kind have all been by order. These include issues by operating public utility companies which have been expressly approved by a State Commission. Owing to the variety of State laws and of practices of State commissions with respect to approving security issues, there are some times difficult questions of interpretation as to whether the action of a particular State Commission constitutes approval of the issuance within the meaning of the Federal statute. The Commission has granted seventeen applications for such exemptions.

Acquisitions by registered holding companies or their subsidiaries of securities, utility assets, or any other interest in any other business also come under the scrutiny of the Commission. Since the Act requires holding company systems to be reduced to integrated systems within a specified period, as I shall explain later, it was naturally thought desirable that the Commission have power to control the growth of systems in the meanwhile. Also the Commission can prevent the pyramiding of control through many layers of holding company systems, which was one of the evils principally complained of with respect to holding companies.

An application for approval of an acquisition is filed with the Commission on a prescribed form and the procedure in passing on it is closely parallel to that which I have outlined in connection with security issues. Among the standards by which the Commission must be guided in approving acquisitions, is a requirement that no acquisition shall be approved unless the Commission finds that it will serve the public interest by tending towards the economical and efficient development of an integrated public utility system. The Commission must also deny an application if it will tend toward interlocking relations or concentrated control of public utility companies in a manner detrimental to the public interest or the interest of investors or consumers; if the consideration to be paid is not reasonable; or if the acquisition will unduly complicate the capital structure of the system; or if it will otherwise be detrimental to the public interest or the interest of investors or consumers or the proper functioning of the system.

In determining whether these conditions are satisfied, an examination is made not only by financial experts and lawyers as in the case of security issues, but also by members of the Commission's engineering staff. Nineteen applications with respect to such acquisitions have been granted. In all these cases the Commission was able to approve the application without substantial modification.

The exemptive power of the Commission with respect to acquisitions is somewhat different from that in the case of security issues. Certain acquisitions expressly approved by State commissions are automatically exempted by the statute, as are also acquisitions of government or municipal bonds. In addition, the Commission is given a general power to exempt by rules and regulations acquisitions of securities for investment of current funds or acquisitions made in the ordinary course of business of the acquiring company. Acting under this authority, the Commission has adopted rules providing a number of exemptions. These include purchases of certain readily marketable securities generally considered appropriate for investment of current funds and also certain short-term paper, acquisitions which may be necessary to comply with conversion rights or sinking fund obligations and similar obligations, acquisitions from wholly-owned subsidiaries, the receipt of stock dividends, the buying of limited amounts of securities issued by the acquiring company or its subsidiaries, and a number of other transactions where the Commission felt that the public interest would not require the imposition of the standards specified in the Act. Thus the Commission is in a position to examine very carefully acquisitions which may involve the growth or complication of a holding company system, but most acquisitions of a routine nature have been exempted.

Supervision over the reorganization of holding companies presents one of the most important duties of the Commission. There has been so much discussion of the reorganization section of the Act, which has been termed a "death sentence", that I think it may be well for me to take time to remind you of its provisions. Although, as regards its most important aspects, this section has not yet become effective, the policy expressed by it is one which the Commission must constantly have in mind in passing on any transactions involving further growth of the existing systems.

The Commission is directed, as soon as practicable after January 1, 1938, to require every registered holding company to take such action as the Commission shall find necessary to limit the operations of its system to those of a single integrated public utility system and to such other businesses as are reasonably incidentally or economically necessary or appropriate to the operation thereof. The Commission is, however, authorized to permit one holding company to control more than one integrated system if it shall find that each such additional system cannot be operated independently without the loss of substantial economies, that all of such additional systems are located in a single state or in adjoining territory, and that the continued combination of such systems under the control of the one holding company is not so large as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation.

In addition to confining the operations of a utility system in a geographical sense, the Commission must also, as soon as practicable after January 1, 1938, cause the companies under its jurisdiction to bring about a simplification of holding company structures so as to eliminate unnecessary complications or unfair distributions of voting power. This must include elimination of holding companies beyond the second degree.

Companies desiring to effect voluntary reorganizations, instead of waiting for the Commission to bring action, may invoke the aid of the Commission before 1938 in carrying out reorganizations designed to satisfy the statutory requirements.

Although mandatory integration and simplification of systems do not come until 1938, the Utilities Division is preparing itself for the tremendous task which will face the Commission at that time (and may well face it before then in cases involving voluntary plans) by studying some of our registered systems with a view to determining how the integration which the statute calls for might best be achieved. This, of course, requires very careful study of many engineering problems and it is a work which will of necessity be slow.

In addition to reorganizations designed to bring about the integration and simplification required by the statute, the Commission also has jurisdiction generally over reorganizations of registered holding companies and their subsidiaries. No reorganization plan for such a company in a Federal court in which a receiver or trustee has been appointed can become effective unless approved by the Commission. It is also provided that no one may solicit proxies or assents with respect to reorganization plans for such companies unless the plan has been submitted to the Commission and the solicitation is accompanied or preceded by a copy of the report on the plan which shall be made by the Commission. The Commission has taken the view that these provisions do not apply to cases where the receiver or trustee was appointed prior to December 1, 1935, the date for registration, or where the solicitation in question was commenced in good faith prior to that date. We have not as yet, therefore, had occasion to pass upon any reorganization plans as such.

Orders of the Commission compelling the simplification of corporate structures or the integration of systems, or approving or disapproving plans of reorganization, are enforcible only in courts of equity. This gives the company full opportunity to protest the action of the Commission without incurring any risk of penal sanctions. In general, it should be noted that the Act provides for court review of any order of the Commission at the instance of any person aggrieved thereby.

Another important field of holding company activities which it is the duty of the Commission to regulate, is that of service, sales, and construction contracts. One of the principal grounds of criticism of holding companies has, of course, been the fees and other charges which holding companies or their wholly owned subsidiary service companies have exacted from the operating companies for management and other services, for construction work, or for goods sold. In a number of cases, economies have resulted from unified management, but the operating companies have not always benefited. Furthermore, it was felt that it was unfair to consumers to have included in the expenses of operation, which were a factor in determining rates, payments which were actually made to the interests in control of the operating company. The Act outlaws, subject to a limited exemptive power in the Commission, the performance of service, sales, or construction contracts by registered holding companies for their public-utility subsidiaries. Such transactions, when performed by subsidiary companies for associate companies in the same system must be in accordance with rules, regulations, or orders of the Commission designed to insure their efficient and economical performance at cost fairly and equitably allocated. Provision is made for the organization of mutual service companies which must be approved by the Commission.

The Commission's staff devoted many months of intensive study to the preparation of rules on this subject which would set up effective machinery for bringing about the objectives of the Act. These rules, as has been the case with a number of other rules of the Commission, were submitted in tentative form to representatives of the industry, and a careful effort was made to make them essentially workable. Many details, such as the best procedure for fairly allocating cost, were of necessity left open to further elaboration in the light of administrative experience.

The Commission set August 1 as the date by which mutual service companies must be approved, and subsidiary service companies not owned on a mutual basis by the companies served must obtain a finding by the Commission that their organization is such as reasonably to assure the achievement of the statutory standards. Ten of these applications or declarations have been favorably acted upon. Temporary extensions of time have been given in the case of other holding company systems in order to permit the necessary corporate readjustments.

In the case of some other activities of holding company systems, the statute, instead of imposing rigid standards which might involve considerable difficulty as applied to a comparatively novel field of regulation, authorizes the Commission, by such rules, regulations or orders as it deems necessary, to eliminate certain specific abuses which have been deemed to

characterize the activities of holding companies in the past. In most such cases where its jurisdiction is essentially discretionary, the Commission has not yet taken action. Some such regulations have, however, already been imposed. For example, in connection with our rules exempting certain acquisitions of securities issued by other companies from the requirement of Commission approval, we found it expedient to impose some corresponding limitations on the buying in of securities issued by the acquiring company. The Commission also has rule-making powers which have not yet been invoked with respect to such matters as intercorporate loans, the payment of dividends, the solicitation of proxies, and intercorporate transactions in general.

One important provision of the Act, not effective until August 26 (a year after the date of enactment), is that which prohibits members of holding company systems to have officers or directors who are also officers or directors of banks or other financial institutions. The Commission is given authority to make exceptions to this prohibition by rules and regulations. Rules granting certain exemptions were adopted after very careful preparation following extended conferences and correspondence both with members of the industry and with representatives of the many financial interests affected.

Our aim in drafting these rules followed closely the general policy of the Commission in administering the Act: on the one hand, to give full effect to the Congressional intent of preventing the repetition of the abuses which led to the passage of this legislation, and, on the other hand, to make the administration of the Act as workable as possible without imposing restrictions of a kind which bear no relation to the purposes to be achieved. Although it must be recognized that there are certain limits to the discretionary power which may be delegated to an administrative body from the point of view of both policy and law, I think that all who have had experience with the work of the Commission in administering the Act, as well as its administration of the Securities Act of 1933 and the Securities Exchange Act of 1934, have realized that, unless reasonably flexible powers were delegated to the Commission, regulation would be so rigid as to lead to frustration.

The principal purpose of the prohibition of interlocking control with financial institutions was clearly to prevent them from dominating holding company systems. Exemptions were granted in certain cases where the likelihood of such control appeared remote or where it seemed that a financial institution had an interest in a company which it might legitimately desire to protect by having representation in the management. For instance (subject to certain limitations), operating companies may have local bankers as officers or directors; savings banks are excluded from the scope of the prohibition; investment bankers are permitted to be on utility boards provided that their firms do not do any financing for the companies in question; and a bank to which a company is in default on a loan of substantial size, or which has an interest of a specified amount in the securities of a company acquired in liquidation of a debt or held while the company is in financial difficulties, may be represented in the management, provided such representation would not be in conflict with the bank's obligations as a corporate trustee. These are only a few of the exemptions granted.

One of the most difficult and at the same time one of the most important tasks of the Commission, is with respect to accounting. The accounting problems encountered in establishing classifications for independent operating companies are intricate enough; they become even more complex when intercorporate transactions are involved, and the accounting of holding companies presents many additional problems. The Commission is given broad power by rules, regulations, and orders to regulate the accounting of registered holding companies and their subsidiaries.

We have adopted classifications of accounts for holding companies and for service companies which are members of holding company systems. While the classification of accounts for holding companies has been adopted, it has not yet been made public because of delay in obtaining printed copies. In both cases the Commission has required uniformity of accounts with respect to matters which it deems important in connection with the administration of the Act, but has left to the judgment of the companies or of the State commissions minor details as to subdivision of accounts.

As far as the accounting of operating companies is concerned, the Commission has definitely adopted a policy of not interfering with the regulations of State commissions. Only if it should develop that accounting practices sanctioned by State commissions intimately affect the problems of holding company finance and are clearly inconsistent with important policies which it is the Commission's duty to carry out, would there be any exception to this policy. In general, the aim is to make regulation of accounting as simple as possible.

There are a few general policies of the Commission in its administration of the Act which I wish to emphasize in closing. In the first place, the Commission does not regard its task in administering the Act as that of driving an entering wedge for public ownership of utilities. In the second place, we have no concern with the matter of rates as such, although it is our hope that the administration of the Act will aid the State commissions in obtaining such information as they may need as a basis for intelligent regulation of rates. We hope in every way to strengthen the hands of the State Commissions rather than to deprive them of their powers.

Federal regulation of public utility activities must still be regarded as in the experimental stage. Fortunately, the Act provides extensive flexibility of procedure so that the Commission may gradually develop substance of regulation in the light of actual experience. The constitutionality of the Act has still, of course, to be determined, but I think most people agree that the problem is one with which the Federal Government will have to deal in one way or another. Meanwhile, both the industry and the Commission are acquiring useful experience in many aspects of our fundamental problem, which is defined by the Act as the protection of the public interest and the interest of investors and consumers.