For Release Upon Delivery

"WHAT IS THE OVER-ALL PICTURE OF THE S.E.C.?"

Address of

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THE ECONOMIC CLUB OF DETROIT

Book-Cadillac Hotel

November 22, 1948

To my knowledge the only time that an S.E.C. Commissioner has addressed the Economic Club was in 1941, two weeks before Pearl Harbor, when Commissioner Ganson Purcell discussed the importance of strong capital structures to national defense and to a stable, productive economy. The S.E.C. plays so prominent a part in corporate finance, and the intervening seven years have been so significant, that I have had practically an open field from which to select a topic. But I decided against making a speech. It seemed to me that it would be more interesting just to talk to you informally, as though we were engaged in conversation, about the S.E.C. and my experiences there.

In talking to business men about the Securities and Exchange Commission (and this audience is a good cross-section of Detroit business life) I have found that the questions put to me are pretty much alike. They run something like this: -

First, just what is the S.E.C., and what does it do?

Second, how does it affect me as a director, officer or majority stockholder of a corporation?

Third, supposing our company went out to raise additional capital, what would the S.E.C. require?

Fourth, (and the inevitable question) - by the way, what's the S.E.C. going to do with the Kaiser-Frazer case?

And then, if we were to talk long enough, the question may be asked: "Why have you made certain public utility holding companies sell or dispose of so many of their holdings?" This, of course, brings up the Public Utility Holding Company Act, and its famous "death sentence."

I will try, in the time allotted, to discuss these questions as pointedly as I can.

I

I am not assuming that you know nothing of the S. E. C., but it is surprising to find so many business people, affected as they are by some phase of S. E. C. activity almost daily, who have not the proper conception of its operations.

The S. E. C. is an independent, quasi-judicial, administrative, regulatory agency, like the Interstate Commerce Commission or the Federal Power Commission. The five S. E. C. commissioners are appointed by the President. It is a bi-partisan commission: not more than three of the commissioners can belong to the same political party. The Commission has approximately 1100 employees, some 300 working in field offices outside Washington. Its annual budget is about $5.5 million. It has income from fees of approximately $1 million, so that the S. E. C. costs the taxpayers net about $4.5 million a year.

The statutes administered by the Commission prescribe disclosure requirements in the sale of new security issues; - deal with the activities of stock exchanges, stock brokers and dealers; -- provide supervision of the activities of investment advisors and investment companies; -- fix requirements for qualifying trust indentures; -- provide that the Commission perform certain advisory functions in corporate reorganizations under Chapter X; -- and give the Commission rather intensive financial jurisdiction over the affairs of public utility holding companies and their subsidiaries. All of these statutes were passed by the Congress between 1933 and 1940.

Regulation of our security markets is part of our legal tradition. Courts have for centuries been laying down standards of disclosure and corporate obligation. There is evidence that in London brokers were licensed as early as 1285. Since 1911 every state except Nevada has adopted some type of Blue Sky legislation. However, because the states cannot effectively regulate securities transactions which cross state lines, the need for federal intervention to prevent fraud became apparent as soon as we began to develop broad scale securities markets.

Several bills were introduced into Congress during the early nineteen twenties to give the Federal government some sort of regulatory power. One introduced by Representative Volstead (R., Minn.) in 1920 would have empowered the Attorney General to issue Cease and Desist orders to stop fraudulent practices in the sale of securities. Another, introduced by Representative Denison (R., Ill.) at about the same time, sought to reinforce the state Blue Sky laws by making it a federal offense to sell securities in interstate commerce in violation of local state law. A third bill, proposed by Representative Taylor (D., Colo.) shortly after the First War, would have required the public registration of all new security issues with the Secretary of the Treasury. Only one of these bills passed the House. None of them ever became law, although similar proposals were made all through the 'twenties. It was not until the depression following the market break of 1929 that Congress acted. As you and I can very vividly recall, the 1929 crash seriously undermined public confidence in our security markets. It was widely believed that this confidence had first to be restored before business conditions could possibly improve.

In April 1932, in the last year of the Hoover administration, the Senate authorized what later became known as the "Pecora Investigation" of the securities markets. Largely as a result of this Committee's work, Congress enacted the Securities Act of 1933, the Banking Act of 1933 requiring the separation of commercial and investment banking functions; and, a year later, the Securities Exchange Act of 1934.

In general, the Securities Act makes it illegal to sell securities unless they are registered with the S. E. C. The registration statement must contain the facts an investor would reasonably want to know about the investment. Further, buyers must actually be given a prospectus containing the information in the registration statement.

The well-known Tucker case is a graphic picture of the registration process. It is an example of a dramatic new enterprise asking for public financing. Because of the amount of comment on it, I choose the Tucker case for discussion here.

In May 1947 the Tucker Corporation offered publicly $20 million of capital stock. The registration statement was preceded by an enormous publicity campaign. National periodicals, news reels, news items, etc., described and pictured the proposed automobile. The company used full page advertisements in newspapers throughout the country to arouse public interest. Frankly, here was a product that was "sold" before it was either produced or financed.

In a routine scrutiny of the Tucker registration statement, the Commission's staff of examiners found several apparently serious deficiencies. A private investigation was ordered. It confirmed the deficiencies, and on June 11 proceedings were instituted to prevent the registration statement from becoming effective. This procedure had the effect of an injunction and prevented the security from being sold. Then the fireworks really began. The Commission was besieged with a flood of postcards, letters, calls and threats. Some calls came from rather high levels. In the usual case, deficiencies found in the review of a registration statement are called informally to the attention of the company and correction is made. But here the Commission had cause to believe that the statement was seriously misleading and believed that the public might continue to rely on these misrepresentations and on the prior publicity unless equal publicity were given to the corrections. For that reason, the stop order procedure established in the statute was followed.

The Tucker Corporation admitted the existence of material omissions and mis-statements and set about correcting them. When the statement was amended and appeared to present a full and true picture of the enterprise in the light of all facts then known to the Commission, the stop order proceedings were dismissed. At the same time, the Commission released a detailed statement about the major items of information which had either been omitted or mis-stated in the original filing and in the accompanying publicity. Prospective purchasers of the stock were urged to read the opinion and to examine the prospectus carefully.

Please understand that the Commission, throughout these proceedings, was not in any sense attempting to approve or disapprove the securities. Congress never intended the Commission to have such authority. The policy of the law is to have the facts told and to leave the rest to the investor's judgment. Every prospectus is required to carry on its face a legend explaining that to the investor.

Whether or not the registration statement is now a complete and reliable document can be known only when <u>all</u> the facts are available. But here are some examples of the information which the Commission required the Tucker Corporation to reveal:. Across the front of the prospectus appears the legend "These securities are offered as a speculation." The first page describes transactions between the promoters and the company and explains how the promoters got their stock and what they paid for it. The car is fully described. Its unconventional nature is revealed, as is the fact that tests on the pilot model "have not been completed" and "may necessitate material changes in engineering design," which would delay quantity production. There is reference to the fact that "difficulties may be encountered in obtaining some equipment, materials and parts"; and other "risks and difficulties" which the company faced are described.

We do not know how many people studied the Commission's report and the propsectus, and changed their minds about the stock. We do feel that every safeguard available was set up to see to it that the facts as then known were told. It is interesting to note that the American public invested in the securities of the Tucker Corporation, through regular investment channels, some $17 million; that, in addition the corporation has obtained about $7 million from the sale of dealer and distributor franchises.

The company has since filed a required annual report with the Commission. Upon examination, the Commission thought it necessary to conduct a confidential investigation to determine its accuracy, as well as that of the registration statement. Every effort was made to avoid adverse publicity to the venture. The company contended that the request for access to its records was unreasonable, and the Commission authorized its staff to seek enforcement of a subpoena in the federal court in Chicago. You are all familiar with the publicity resulting from the claim of the Tucker Corporation that the examination of their records made it necessary to shut down their production line. I need not remind you, as business people, that a company's books are regularly made available to company auditors. It is hardly possible that production could have been retarded by our examination.

The court enforced the subpoena and the records were made available. Our work in this matter is still going on.

Formal proceedings like those in the Tucker case are not the rule in registration procedure. They are, in fact, the rare exception. The great mass of registration statements present very few significant problems, and those that do arise can usually be handled by informal conference and correspondence.

II.

The S. E. C. decides hundreds of matters each year -- conducts scores of investigations, but in its fourteen years wide attention has been attracted to only a few landmark cases. Out of each case has come some improvement in standards of investor protection.

The first was the famous Whitney case in 1938, involving one of the leading financial figures of the day. George Whitney was a power in the financial world. Brother of a Morgan partner, he had at one time or another held every position of importance that the New York Stock Exchange offered, including that of President. Yet his firm became insolvent and the S.E.C.'s investigation revealed that for years he had been misappropriating customers' securities and trust funds, and applying the proceeds to personal ventures. Later that year the McKesson-Robbins case provided an outstanding example of ingenious deceit in "blowing up" the corporation's assets through fic-titious transactions which the company's auditors failed to detect. For over a decade the four Coster brothers, using different names and professing no relationship, worked together in the company. They purported to operate a foreign crude drug business as a department of the company. They, and they only, knew that this department was non-existent, despite the fact that the company's accounts were audited periodically by very reputable public accountants, and the company's securities were listed on the Exchange and registered with the S. E. C. This mythical business attained reported sales of over $18 million a year and a gross profit of $1,800,000. Its fictitious assets were carried on the balance sheet at approximately $20 million. Not until the bubble burst and the accounts were re-audited was the magnitude of the fraud revealed and the manner of its perpetration.

The Whitney case broke just at the time the S. E. C. and the New York Stock Exchange were working under the Securities Exchange Act of 1934 to transform the Exchange from a "private club" to the semi-public institution its function requires it to be. It brought about a prompt correction of certain Exchange practices. The McKesson-Robbins investigation high-lighted deficiencies in then current auditing practices which did not require auditors to make physical verification of inventories or to confirm re-ceivables. Many improvements in auditing procedure date from this case.

In Detroit, it is difficult to avoid questions about the Kaiser-Frazer case. Certain aspects of that case are in controversy and it would not be proper for me to comment upon them. I do not have and do not intend to express any views about any issues raised in these controversies. I am going to talk only about some of the details that are matters of public record.

Last January, Kaiser-Frazer Corporation undertook to sell 1,500,000 shares of its common stock. The underwriters were to be Otis and Company, First California Corporation, and Allen & Company. The company had made two offerings previously through the same underwriters, in September 1945 and January 1946, and had sold altogether 3,500,000 shares for about $54,000,000. After some initial delay requested because of market conditions, the registration statement for the present issue became effective as of 5:30 P. M., E. S. T., on February 3, 1948.

All of that day, the company had undertaken to stabilize the market at the opening price of $13.50 a share. It was decided that the new stock would be offered at $13.00 a share. In stabilizing, the company bought 186,200 shares, an unusually high figure as we shall see, so that it had to pay $2,513,700 in cash, plus brokerage commissions, before its new issue was even marketed. As a result of this unexpected market development, the underwriters insisted that their tentative commitment be reduced before they would go ahead with the distribution. The commitment was reduced from 1,500,000 shares firm at $11.50 per share to 900,000 firm at that price, with an option on the additional 600,000 shares at $11.60, or a step-up of 10 cents per share in the price to the underwriters. On the following day, the market was generally bad and the issue was not well received. By 1 P.M. the underwriters had ceased their stabilization (after purchasing about 40,000 shares), withdrawn the issue and had terminated the selling group agreement.

Subsequently, on February 9, 1948, the closing date - that is, the date when a deal is completed, with the underwriters turning over the money and the corporation in turn transferring the stock certificates to the underwriters -- two of the underwriters refused to complete the closing. They claimed that in the interval since the offering date an important lawsuit had been brought against the company (the so-called Masterson suit filed that very morning in Wayne County) and that by the terms of the underwriting agreement, the underwriters were relieved of their obligation. They were relying on one of the "out-clauses", which, in one form or another, are part of practically every underwriting agreement. They are designed to protect the parties to the underwriting agreement against unforeseen and substantial changes in circumstances between the time the agreement is entered into and the time of closing.

Back on February 3rd, the day the whole thing started, the Commission began a private inquiry into the offering when it noticed the unusual market activity in the stock. Subsequently the hearing was made public and its scope enlarged because it appeared that the problems involved might be of great public interest and might require changes in our rules or procedures, or perhaps new legislation.

As you know, Kaiser-Frazer Corporation instituted civil action against the underwriters for millions of dollars, alleging that they sought to evade their unprofitable contract by inspiring the Masterson suit. While inquiring into that phase of the transaction, the Commission came across the names of two Cleveland lawyers who appeared to have some connection with the law suit. They would not identify their client until Judge Lederle, in the Federal court here, required them to do so. They then disclosed their client as the controlling stockholder of one of the underwriters, and stated they had been retained in connection with the filing of a law suit. However, they declined to supply any further information on the ground of attorney-client privilege. We asked the Federal District Court in the District of Columbia to require them to answer, on the ground that the attorney-client privilege may be pierced where there is prima facie evidence of fraud. The court ruled that the questions need not be answered in the investigatory proceeding because, on the basis of the record before the court, no prima facie showing of fraud had been made. Meanwhile, the Commission instituted broker-dealer disciplinary proceedings against the two underwriters. An application by Otis & Company to enjoin the proceedings as to it was denied by the federal district court. A stay has been granted pending appeal.

The problems raised by the company's stabilization purchases are most important. Although stabilization is an artifical force preventing the free operation of the market, the Exchange Act does not flatly prohibit stabilization but gives the Commission the power to promulgate rules and regulations for its control. There are many who are of the view that stabilization, being a form of market manipulation, should be prohibited entirely. On the other hand, it is generally recognized that orderly marketing of securities may require some stabilization at the crucial point when a new issue goes on the market, in order to prevent some unexpected and perhaps inspired burst of trading from upsetting the carefully calculated pricing of the new issue.

Aside from a special rule limited to offerings at the market, the Commission has not heretofore issued any regulations against stabilization. It does require disclosure when stabilization is taking place and its extent; and it may not be used to raise the current market price of stock being sold. Whether stabilization is for the account of the issuer or the underwriter, the effect on the market is the same. The important thing is simply that the market know that an artificial price floor exists. However, it is not common for the issuer to stabilize except in situations involving competitive bidding in utility issues, where the issuer frequently stabilizes for part of the bidding period.

The Kaiser-Frazer stabilization is also marked by the abnormal quantity of stock purchased. A typical experience of stabilization by a company is the recent offering by Standard Gas and Electric Company of 250,000 shares of common stock of its subsidiary, Oklahoma Gas and Electric Company. The company bought only 25 shares. In the recent distribution by American Light & Traction Company of its Detroit Edison holdings, the first block of 450,000 shares sold last January required stabilization purchases of 1400 shares. The sale of 450,000 shares in April, of 190,000 in September and of 192,000 last week required no purchases at all.

The experience in the Kaiser-Frazer case has done much to challenge the present stabilization procedure. The problem is now receiving close attention, and the Commission would welcome comments from any of you on the subject.

III

The Securities Exchange Act of 1934 has, as one of its purposes, the prevention of speculation by corporate insiders on the basis of inside information. The restrictions imposed on officers, directors and 10% equity holders prevent them from doing things other security holders can do freely. Let me explain these restrictions briefly, for they have particular pertinence to most of you.

The first set of restrictions applies only to securities listed on a recognized exchange. Any change in the holdings of an insider must be reported to the Commission. Any profits which he realizes from the purchase and sale, or the sale and purchase, of an equity security within six months are recoverable by the corporation. This restriction on insider trading is a prophylactic rule; if the period is 6 months and 1 day, the profit is his; if it is one day less, it is recoverable by the corporation. The S.E.C. is not a necessary party in litigation to recover profits, nor does the Commission have any power to order payment. Short of voluntary settlement, profit may be recovered only through private litigation, either in a suit by the corporation or a derivative action by a stockholder. You might ask, "How would such a transaction on the part of an officer or director be brought to light?" Ownership reports are public, and reports such as registration statements and proxy statements filed with the Commission contain disclosure of the liability. In this manner it is made known to stockholders.

The second set of restrictions arises from the registration requirements of the Securities Act and applies to all securities, listed or unlisted, subject to certain exemptions which I will not take time to spell out. A controlling stockholder may make occasional sales of small amounts of his stock through ordinary brokerage channels, but when he tries to make what is called a "distribution," through brokerage or other outside distribution channels, he becomes an "issuer" under the Act and the security must be registered, unless some exemption is available. Furthermore, a broker who handles the selling in such a situation becomes an underwriter under the Act and he too violates the law if the security is not freshly registered. A distribution may take place whether the shares are sold in a block or are dribbled out from time to time as part of a plan.

This latter situation was presented to the Commission in the recent Ira Haupt case. The stock involved was Park & Tilford. Some of you may recall that during the war-time liquor shortage several distilleries announced that they proposed to pay their stockholders dividends in kind. This announcement generally drove the market price of their stock away up. When Park & Tilford made such an announcement, its stock rose 13 1/4 points in two days. In all, the stock rose from 57 5/8 to 98 1/4 over a period of 6 months. The company's dominant stockholder took the occasion of this rise to sell a substantial part of his holdings. He did not, however, sell in a block. Instead, he gave his broker a series of sell orders at the market extending over several months. Subsequently, the S.E.C. instituted disciplinary action against the broker. The evidence showed that the broker was aware of the controlling stockholder's plan to distribute the large block even though he received his orders to sell as individual transactions. The Commission found that the security should have been registered, and held that the broker, as an underwriter, was therefore subject to disciplinary action for selling the unregistered security.

In recent years there has been much discussion of "professional" management -- that is, managers without substantial stake in the enterprise. Just how far has the trend toward professional management and away from ownership management developed? To see where we stand today I had the staff get me some figures on corporations headquartered here in the Detroit area. We selected 60 listed corporations -- large, intermediate, and small -- from the big board, the curb, and here on the Detroit Stock Exchange. The sampling was not scientific, but the results, while hardly conclusive, are interesting. These 60 corporations have a total of 135,097,368 voting shares outstanding, held by 1,001,319 stockholders, -- an average of 138 shares per stockholder. Directors own only 2.26% of the total voting stock outstanding. Directors and officers grouped together own 4.13%. Of a total of 717 officers and directors, only 615 hold any stock at all, and many of these have only nominal holdings. Of course, without a broader study and a comparison with figures for prior years these data do not illustrate any trends, but they do show that management holdings are not extensive. I, for one, believe in the old-fashioned idea that a manager with a stake in the business is more likely to be prudent and vigorous; and I think we face a need to approach the problems of regulation with that in mind. It is no service to the investor to limit our thinking about "investor protection" to a narrow set of concepts relating to possible management advantage, without recognizing that a prudent and vigorous management is the best investor protection.

I could go on discussing the many phases of stockholder-management relations which are affected by the Securities Acts -- the proxy rules are an example -- but time does not permit.

IV

Americans admire and distrust bigness. We are proud of the magnitude of our achievements, but we disapprove of too much government and we declare business monopoly illegal. The growth of industrial enterprise following the Civil War was paralleled by a developing public sentiment against too much bigness in business. The Sherman Act, the period of the muck-rakers, and later the other anti-trust laws were products of this public abhorrence of bigness. There may be a vast disagreement about the remedial instruments chosen, but we all understand why such legislation was passed.

Originally, the electric and gas operating companies in this country were local businesses, locally operated and locally financed. Their steady growth, constant earnings, and need for capital to expand made them particularly susceptible to the current of consolidation which flowed through all business following the turn of the century. The process was rapidly accentuated after the First World War when the giant utility combines began their phenomenal growth. Where this consolidation brought together integrated properties, it was of definite economic benefit. However, as early as 1924 the Senate expressed concern over the development and activities of the so-called "power trusts", and in 1928 it authorized the Federal Trade Commission to make an investigation of the public utility holding companies and their operations. This study lasted for seven years and has been referred to as "the most thorough-going investigation of an American industry that has ever appeared." From that study, conducted under Republican leadership, came the Public

Utility Holding Company Act. The legislation was vigorously opposed by the entire industry. Many of you will recall the campaign waged against its passage. Consumers and security-holders were urged to "write their Congressmen," and a literal avalanche of mail and telegrams inundated the Capitol. The lobbying was so blatant that it became the subject of a special Senate inquiry. The Holding Company Act was one of the most controversial pieces of legislation ever enacted in this country.

Typical of the holding company systems which Congress directed to be broken up, was the United Light and Power Company. I choose this one because of its local flavor. It was of medium size, as holding companies go, not in the class of such giants of the industry as The United Corporation or Electric Bond & Share, yet the consolidated assets of the system, per books, aggregated nearly $600,000,000. The system consisted of several subholding systems comprising some 75 companies of various kinds, with as many as five tiers of companies. These subsidiaries operated in 12 states. The common stocks of the parent company were junior to $430,000,000 of outstanding senior securities. This leverage produced wide fluctuations in the company's income, for earnings had to pass through nine strata of publicly held senior securities before becoming available to United Light and Power's common stock. A block anywhere along the line could put the parent's securities in default. By 1939 United Light and Power's preferred stock was about $28,000,000 in arrears on dividends. It was a situation duplicated throughout the industry.

The Federal Trade Commission study had revealed that in 1932 three-fourths of the entire privately owned electric utility industry in this country was controlled by 13 large holding company groups. Three of those groups alone controlled 40% of the nation's private power, and there were interlocking relationships even among them. Control was centralized in the hands of a few individuals through various corporate devices such as pyramiding of companies and the issuance of vast quantities of non-voting securities to the public. With that control came the power to dispense to a select few extremely lucrative contracts for engineering, banking and legal services. The unsound capital structures which were produced and the large amounts of write-ups carried in the accounts of both the operating and the holding companies made their securities easy victims of the first change in economic weather. The utility securities were among the greatest sufferers when the market broke in 1929. The Congress found that the concentration of this vast political and economic power in the hands of a few individuals and the manner in which this power was being used were contrary to the public interest. The remedy it chose to correct these "evils" was Section 11 of the Holding Company Act, the so-called "death sentence."

Congress recognized that in certain limited situations the holding company device served a constructive function in gathering into integrated systems groups of operating companies which had grown up in local isolation. This benefit the Act seeks to preserve by restricting holding companies to the ownership of integrated utility systems and related businesses. On the other hand, scattered, unrelated properties were required to be divested and holding companies serving no useful function were to be liquidated and dissolved. In addition, the non-utility businesses into which many systems wandered -- such as amusement parks, oil wells, hotels, and the like, -- had to be divested. These are the so-called "integration" provisions of Section 11 (b) (1).

The Congress further provided that the grotesquely pyramided capital structures were to be simplified, and voting power was to be redistributed so as to eliminate the unfair control exercised through a disproportionately small investment. These are the "simplification" provisions of Section 11 (b) (2).

The Holding Company Act is a "specialized anti-trust law." It differs from previous legislation in the definiteness of its standards and in its machinery for enforcement. In place of the general "rule of reason" used in the anti-trust laws, the Holding Company Act contains definite, precise tests; and enforcement, which is the specific assignment of the S.E.C. as an expert agency rather than an additional task for the usual law enforcing agencies, is accomplished through actual plans of reorganization and divestment, instead of through orders to cease existing practices. Furthermore, Congress was careful to protect the rights of security holders by providing that adjustments had to be "fair and equitable," a standard given content through use in corporate reorganizations under the Bankruptcy Act, and by providing for full rights of judicial review.

A further innovation for this type of legislation was that in addition to providing for compulsory enforcement by Commission action, means were also set up to enable the companies to bring themselves into compliance on their own initiative through voluntary plans. This was done, in the words of one of the bill's sponsors, in the belief that "the legal and economic imagination which put these holding-company combinations together will devise means of taking them apart." Very early in the administration of the Act, the Commission faced the important policy decision of which of the two routes to follow. It made what I consider the wise choice of relying primarily on the companies to submit voluntary plans. As a result, the compulsory provisions have remained as the ultimate sanction against hesitant managements. It was foreseen that the holding companies would be most reluctant to make use of the voluntary procedures provided for them. The President, in submitting the initial bill to Congress, made a very pointed observation. He stated:

> "..... if the disappearance of the holding company excrescence is to be realistically expected at the end of a given period there must be a constant pressure on the managers of holding company enterprises, persistent from the very beginning of that period, to insure a continual process of whittling down complicated capital structures and of disassociating operating properties not related to each other geographically or economically."

Thirteen years have elapsed since the Act went into effect. The job of Section 11 is well on its way to accomplishment, although several systems remain with difficult problems yet to be resolved. Since 1935, 470 companies, with aggregate assets of $11.3 billion, have been divested, some in sales to other holding company systems. A total of 1,431 companies have been released completely from S.E.C. jurisdiction by sale, dissolution, merger, etc. There are now 46 holding company systems having total assets of about $15 billion subject to the Holding Company Act. As the Section 11 program is completed, many of these will also pass from our jurisdiction. But there will remain an as yet undetermined number of integrated holding company systems subject to S.E.C. regulation.

The benefits of the integration requirements of Section 11 may be illustrated by the situation here in Detroit. In 1903 the North American Company was instrumental in organizing the Detroit Edison Company out of the two principal electric utility companies then serving the Detroit area. It retained for itself about 14% of Detroit Edison's voting securities, and from then on dominated the management of the company.

In about 1925, the United Light and Power system, which already controlled the gas company in this locality, began to buy into Detroit Edison. From 1925 to 1931, the two holding companies vied with each other in purchasing the stock, until North American had over 23% of the stock, at an average recorded book cost of $24.38 a share, and United Light and Power had over 20%, at an average recorded book cost of $35.87 a share. United Light and Power, however, never obtained representation on the board until North American, under the compulsions of Section 11, divested its interest through dividend distribution to its stockholders in 1943. United Light and Power's Detroit Edison investment was held by a subholding company in its system, the American Light & Traction. United Light and Power, as you know, has been dissolved, and United Light & Railways, which survived it, is currently disposing of its ownership of American Light & Traction. Just last Tuesday American Light sold publicly the last of its holdings of Detroit Edison. Thus, as a result of the Holding Company Act, the Detroit Edison Company is now owned directly by the public and not by two absentee holding companies. Obviously, a large strong operating utility like Detroit Edison, regarded in the industry as one of the outstanding companies, has no need of a holding company parent.

Meanwhile, American Light & Traction, which also controls Michigan Consolidated Gas Company here in Detroit, is engaged in integrating its remaining gas companies into a cohesive system. This it is doing under a plan which the S. E. C. approved last December 30. When the program is finished American Light & Traction will continue as an independent holding company. Its subsidiaries will be Michigan Consolidated, Milwaukee Gas Light Company, and Michigan-Wisconsin Pipeline Company. Michigan-Wisconsin will operate the natural gas transmission line now being built from Texas. The pipe line will enable the two gas companies to operate together as an integrated system and will provide them with the additional natural gas needed so badly by this community and the State of Wisconsin. The resources and credit of American are being used to finance the pipe line project. In this case, the holding company can perform a positive function, and it will therefore be permitted to continue.

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At the Commission we have a daily calendar prepared by the Secretary which lists the matters to be brought before the Commission that day. The back calendars read like a catalogue of the problems of Twentieth Century American business. Subjects range from the petty peculations of an obscure broker in Mississippi to intricate corporate reorganizations. There is hardly a corporate question that does not in one form or another come across the Commission table, be it the bitter warfare of a proxy contest, the controversy in accounting circles over appropriate methods of reflecting current replacement costs in the income statement and balance sheet, or the manner in which the International Bank is to raise its capital for international reconstruction.

These are the problems which form the fiber of our economic life. They are the problems of corporations -- their conduct and their welfare. Dr. Nicholas Murray Butler once referred to the limited liability corporation as "The greatest single discovery of modern times." That statement was made before the discovery of atomic fission, but no one will question the leading part which the modern corporation has played in the development of this country and in the attainment of the bountiful standard of living which is ours. As I see it, it is the function of the S. E. C. to guide the financial practices of these corporations and those who deal in their securities. Its object is to maintain public confidence in these institutions. Its purpose is to facilitate the application of the nation's savings to the sustenance and growth of our economic life.

The S. E. C. has become a familiar and accepted landmark on our financial scene. It probably has ceased to be a subject of controversy. But in a free and democratic society there must be constant re-appraisal of the operations of government and fair criticism of its functions. There has always been criticism of some of the requirements of the laws administered by the S. E. C. Experience has demonstrated the advisability of making minor changes in the 1933 and 1934 Acts, but I doubt whether there is a thinking member of the investment fraternity who today would demand repeal of these laws or modification of their fundamental features.

I have always welcomed the inquiries people put to me about the S. E. C. They are my sounding board. Through them I am able to appraise the activities of the S. E. C. and the performance of my public duty.

It has been a real and personal pleasure to appear before you today. I hope I have been able to make your hour interesting. I am glad I came - - I am also happy that Chairman Hanrahan came along, that he might be exposed to this Detroit atmosphere and enthusiasm.

In closing, may I thank President Crow and his speaker's committee for inviting me. I salute you all as friends, and appreciate so much your good attention.

I thank you.