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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

HOLDING COMPANY ACT
Release No. 3

SPEECH BY CHAIRMAN JAMES M. LANDIS OF THE SECURITIES AND
EXCHANGE COMMISSION TO BE DELIVERED IN WASHINGTON OVER
THE NATION-WIDE HOOK-UP OF THE COLUMBIA BROADCASTING
SYSTEM FROM 8:30 to 8:45 P.M. EASTERN STANDARD TIME
SATURDAY, SEPTEMBER 28, 1935.

Our Commission stands at the threshold of an immense undertaking. We are charged with the realization of certain objectives which will require years of patient and diligent effort. We assume our responsibilities in an atmosphere still surcharged with the passionate feelings and unreasoning fears aroused by the legislative battle that preceded the passage of the Holding Company Act. At the outset we find that the very authority entrusted to the Commission by the Congress of the United States is challenged upon constitutional grounds by the public utility industry.

Under these circumstances the discretion of silence might well be the better part of valor. But to me, silence would be a denial of a fundamental of democratic government. This legislation is yours for it concerns you as a holder of utility stocks or bonds or you as a user of light or power; its objectives to protect you as a holder of these stocks and bonds, as a user of this light and power, are your objectives; its concern is thus directly your concern; and our Commission, as the instrument for making real what is as yet only a law upon our statute books, is your trustee. You should know and must know at all times the direction of our efforts.

First, let us try to get a picture of the industry brought under control. This consists, in the main, of the great national public utility holding company systems -- these gigantic systems which cover the country and own power plants, dams, transmission lines, local operating companies, scattered from Maine to California. In many systems, dozens and even hundreds of local companies, through layers of holding corporations, are dominated by a small group of men in the top or parent holding company. An unbroken thread of control is maintained by stock ownership, interlocking directorates, and the many other means the lawyers have been able to devise to enable one company to guide the destinies of another. Into these great national systems you as a nation have poured in some twenty billions of dollars. These savings are not those of a few, but are represented by stocks and bonds held by two or three million persons. The light and the power from the operating units in these systems go into more than half the homes in our country. It becomes clear then that the protection of this great national investment and the efficient functioning of this great pool of light and power is a matter of national concern.

I should only confuse you, were I to go into the detail of the duties that the Holding Company Act thrusts upon us. But let me try to give you something of an idea of what the task of regulation and conservation means. We are primarily concerned with the holding company which is a financial device for holding the reins of control over the individual companies serving you in your own locality with power and light. You do not get your bill from a holding company - but from an operating company, probably a member of a holding company system. We begin by calling upon each holding company to register with us and thereby lay before the public a complete description of its characteristics and composition. Who owns our operating companies? What lies back of the securities of our holding companies? Where do they get their earnings? To whom do their profits go? These and many questions of a similar nature will get a fuller and more detailed answer than ever before. And it is important that answers to these questions should be made to you, who through your investment are the true owners of the systems themselves.

But this process of registration means more than merely the gathering of information. Out of registration springs the mechanism of control - a control that seeks to prevent stock-jobbing in utility securities and their issuance under circumstances where sober judgment would show the impossibility of any hope of a continuing return. But that control extends much further than to the sale of securities. It strikes at many features of management of the kind where a disregard of the public interest leads to the ruin of both enterprise and security holder.

Only yesterday a great holding company system was petitioned into receivership. The building up and conduct of that system, as told recently in its registration under the Securities Act before our Commission, dramatically illustrates the kind of corporate practices which the Holding Company Act seeks to abolish. True, the consequences of such action in the past bring their penalties today and tomorrow. These, no Congress, no legislation can avoid. But against the repetition of action of this type in the days to come, we can now be on our guard.

I need not weary you by cataloging the practices against which the Act strikes in no uncertain terms. The case against their continuance now needs no further proof. The problem today is not one of talking about these past abuses, but the simple business problem of using the powers that Congress has given us in such a way that these practices will become an incident of history and not of tragic every-day fact.

I shall, however, mention one of the great tasks that Congress has called upon us to accomplish. The Act represents a solemn judgment by the Congress that the holding company as a financial and an operating device tends to be destructive of the better values in our civilization, if the system is permitted to expand beyond the natural boundaries established by economic and geographic limitations. These boundaries Congress has not specifically defined, nor could it do so, but it has left to our Commission this standard to be applied in the light of continuing and concrete study. Furthermore, it has given us two years, at the end of which we are to have a plan, to bring about this economic and geographic integration together with the simplification of the complicated financial set-ups that in so many cases obscure the rights of holders of stocks and bonds.

These, then, in brief, are the powers and the tasks that lie ahead. The grant of these powers was intended to correct recognized and disastrous abuses -- abuses that did exist and to a degree that made of them a national scandal. It is as foolish to deny their existence as, to regard the Holding Company Act, as some of its opponents have, as an effort relentlessly to destroy the good with the bad. And there is so much good in this industry that will not only be untouched but immensely improved by the elimination of the bad. Indeed, it is easy to find numerous examples of wise, efficient and trustworthy management and of companies which truly deserve to be called public service corporations.

Against the continuation of the abuses, the President and Congress stood firm. The Commission is equally resolved, and I feel certain that the industry is similarly determined, save for those few whose removal from the scene will be as much a relief to the industry as to the public.

This great task of conservation can^{not} be worked out easily. Differences of opinion will naturally arise between us and the industry as to the ways and means of getting results. It is clear that we as an administrative body cannot become experienced in the treatment of these problems without constant consultation and conference with the industry. With power there should go humility in its exercise, willingness to understand, but firmness to achieve the avowed objectives with as little delay as possible.

It is this attitude and this atmosphere of sympathetic understanding that has dominated our early conferences with the utility industry. True, that industry has announced that as an industry it will press to determination its claim that this legislation invades its constitutional rights. We do not shrink from such a test. We will not stand in the way of any honest effort to bring about a decision of this controversy -- but it must be a controversy that is real and not a sham, and one that must not only permit but require the examination of this question upon its full merits.

This Commission has already openly stated that it is glad to recognize and respect the constitutional rights of any and every member of the industry and the public. But it is of the utmost importance to the nation at large that this issue of jurisdiction and of constitutionality should be localized. It can be fought upon its merits as well in an individual case and the issues so limited that there will be no danger of a general undermining of the confidence of the millions of investors and consumers, who are more concerned with the efficient discharge of our duties than the theoretical issue of power.

In this manner the constitutional question can be solved with negligible cost and an absence of injury to the public. By so doing the major portion of the industry could be left free to take advantage of the opportunity, which we gladly offer, to cooperate with us in fashioning the mechanics of regulation. Working together we can create machinery which, through insight, gathered by a frank and continuing exchange of experience, will become practicable, effective and wisely attuned to the difficulties of the task.

At this threshold of our life under the Holding Company Act, we can offer you no vainglorious promises of immediate achievement. We can, however, offer you a freedom from passion and prejudice, a record of a willingness to understand, and the assurance that we will work carefully with determination towards results. Fidelity to the large public interest is and must be the keynote of our being, and in pursuance of that trusteeship no member of the public need fear the sacrifice of a single dollar's worth of honest value. Without vindictiveness, with an open mind, holding fast to fundamental principles of rightness and conduct, let us reach for a businesslike solution of the common problems before us, in order to further this industry in its dynamic and expanding life, to make real the vision of public service that should be its being, and to vindicate the hopes and confidence of the millions who contribute to its growth.

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