SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

December 21, 1981

The Honorable Alfonse M. D'Amato
Chairman, Subcommittee on Securities
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Re: Proposals to Amend the Public Utility Holding Company Act of 1935 (S. 1869, S. 1870, and S. 1871)

Dear Chairman D'Amato:

In response to a request from your staff, I am writing to advise you of the Commission's general views relating to the above three bills. These bills would substantially reduce regulation under the Public Utility Holding Company Act of 1935. The Commission, however, unanimously believes that Congress should instead repeal the Act. Based on the information available to the Commission and its experience under the Act, we believe that this statute has served its basic purpose and that continued federal regulation of utility holding companies is unnecessary and inappropriate.

The Securities and Exchange Commission has administered the 1935 Act for nearly forty-seven years. There is a consensus - shared by the Commission - that the Commission's task of reorganizing the Nation's gas and electric utility holding company systems was completed twenty years ago. The Commission's administration of the Act in more recent years has primarily involved review of registered holding company financings, mergers, and acquisitions and the consideration of requests for exemptions from the Act. These remaining Commission responsibilities are intended to prevent recurrence of the abuses which led to the original passage of the Act. The Commission believes, however, that these abuses are unlikely to recur in light of the extensive changes since 1935 in the public utility and investment banking industries, the accounting profession, state utility regulation, expansion of the disclosure requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934, and the development of more efficient and well-informed securities markets. If the 1935 Act is repealed, all publicly-owned utility holding company systems will, of course, continue to be subject to the financial disclosure requirements and other provisions of the federal securities laws.

Moreover, certain features of the 1935 Act set it apart from the other statutes which the Commission administers. The federal securities laws focus primarily on disclosures to investors and on the integrity of the securities markets. In contrast, acquisitions, financings, and other actions by registered public utility holding company systems require prior Commission approval under the 1935 Act. The Commission must base its approval or disapproval of these transactions on its determination of their economic merits. Thus, unlike the other statutes it administers, the 1935 Act involves the Commission very deeply in the substance of fundamental management decisions.

Only twelve active holding company systems remain subject to direct regulation under the 1935 Act. The Act, however, continues to have significant influence on the financing and diversification decisions of a much larger portion of the industry. Approximately eighty holding company systems operate under various exemptions from the Act, and many utilities may be reluctant to form holding companies because they would then have to register under the Act or qualify for an exemption. Furthermore, in this time of energy shortages and the recognized need to develop new energy resources, the Act may deter non-utilities from participating in cogeneration projects or other such activities because of the consequences of becoming subject to the Act.

The Commission finds it difficult to support any of the three legislative proposals presently before Congress because each primarily addresses only those aspects of the Act that affect one segment of the industry. Each would have the practical effect of virtually repealing the Act as it affects that particular industry segment. Taken together, the three proposals approach total repeal and would leave the Commission with responsibility for administering only the very limited surviving provisions of the Act with no clear regulatory purpose. None of the three proposals takes the further step of addressing the basic rationale for continued regulation under the Act.

For these reasons, it is appropriate and timely for Congress to revisit the 1935 Act. Congress should not, however, limit its evaluation to the merits of these specific proposals, but should also reexamine the underlying premises of the Act to determine the extent to which those premises have continuing viability today.

Because of the importance I attach to eliminating unnecessary regulatory burdens, I wanted to inform you promptly of the Commission's general position on the pending bills. The Commission will submit a detailed, formal statement of views at an appropriate time. In the interim, if members of your staff would like additional information, they should contact our General Counsel, Edward F. Greene, or Elinor Gammon in the Office of the General Counsel.

Sincerely yours,

John S.R. Shad

cc: The Honorable Jake Garn
The Honorable J. Bennett Johnston
The Honorable John D. Dingell
The Honorable Timothy E. Wirth
The Honorable Richard L. Ottinger
The Honorable Tom Corcoran
The Honorable Harrison A. Williams
The Honorable Paul S. Sarbanes
The Honorable James T. Broyhill
The Honorable James M. Collins