

February 14, 1938

Hon. James Roosevelt
Secretary to the President
The White House
Washington, D.C.

Dear Mr. Roosevelt:

You recently forwarded to me a letter from Mr. Gray Mason attached to which was a letter which Mr. Mason in turn had received from a New York banker friend and client.

Mr. Mason offer the suggestion that it might be advisable for the policy formulators of the Administration to explain publicly, in simple language, just how the "death sentence" will affect the small investors of public utility holding company securities so as to clear up much of the existing confusion in the minds of such investors. That is not any small order because every system has problems peculiar to that particular system, and each and every case will have to be treated by this Commission in the light of conditions as they exist with respect to that system. However, I do think it is possible, and perhaps essential, that we initiate some sort of educational campaign so that the small investors may know that the enforcement of the "death sentence" does not, of itself, mean the loss of their investments.

From the various letters we receive with respect to the Administration's public utility holding company program, I gather that there appears to be considerable confusion in the minds of the small investors generally as to whether the current program is directed against operating utility companies or utility holding companies. We have tried to meet this problem by explaining that the Securities and Exchange Commission is just as sympathetic toward the operating utility company and its problems as it is critical of the abuses of which certain of the holding companies were guilty.

Again we received a great many communications asking us just what the holder of securities in a public utility holding company will receive if that company is put out of business by application of the "death sentence." In those cases we have, of necessity, been required to say that we could give no definite answer until all the facts were laid before us but that generally, if the outstanding securities of any holding company are of value, the holder of such securities will perhaps receive, in lieu thereof, a direct interest in the companies subsidiary to the holding company.

The unfortunate fact is that many outstanding securities issued by holding companies had no real value at the time they were issued originally. Under those circumstances you can well appreciate that the holder of such securities may never receive anything. He may believe that his investment was ruined as a result of the enforcement of the Public Utility Holding Company Act, whereas the truth is that the security sold him was based upon a write up or other species of that private system of inflation which some of those in control of holding companies inaugurated for their own benefit. Whenever the outstanding securities of a holding company have real value the holders of such securities will suffer no loss, as a result of the enforcement of the Act, but, if such securities are utterly worthless, I do not know how we can create values behind them. We certainly cannot raise Insull Utility Investments, Inc., from the dead nor resuscitate the corpse of Mr. Forshay's company, even with Mr. Forshay out of jail. Therefore, one very important decision to be made before embarking upon a program of education is just how, and in what manner, the small investor shall be told how he was "taken for a ride" in the first place. That must be given serious consideration because the holding companies are informing their investors that if the securities prove worthless, and if there is no market for them, it is all because of the President's war upon utilities. This much is certain, that the Commission will move with the greatest of care in the enforcement of Section 11(b) of the Act and thus will avoid losses wherever possible. It has already by its decisions in the Peoples Light and Power Company and American Water Works cases committed itself to such a program as, it seems to me, should bring assurance to anyone who is at all reasonable.

I have not undertaken to discuss all the questions which seem to be disturbing the small investors, but this will give you some idea. If I can supplement this, or be further helpful to you, I want you to call upon me.

Yours faithfully,

William O. Douglas
Chairman.