

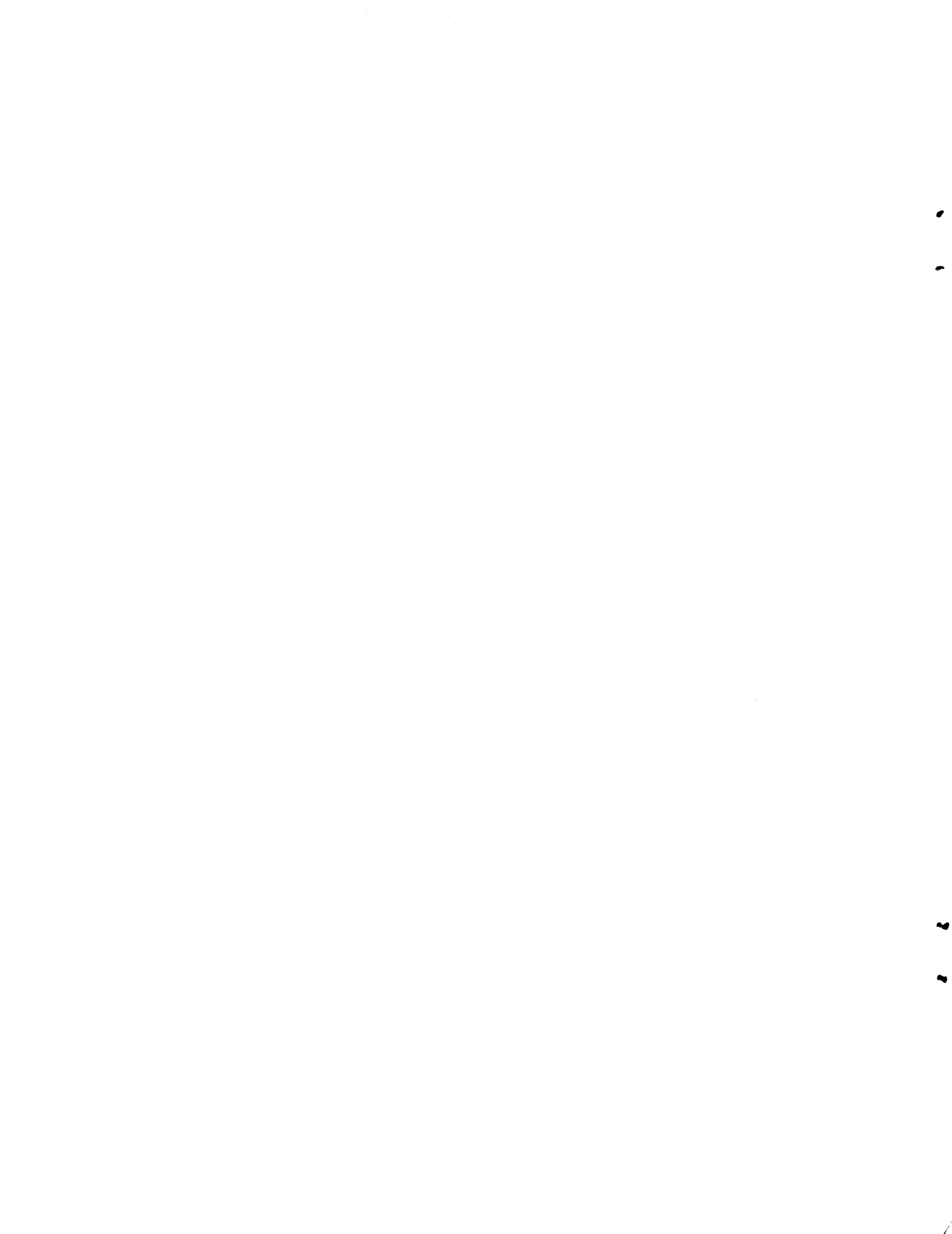
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Washington, D.C.  
November 1982

**REGULATORY RELIEF  
AT THE  
INDEPENDENT REGULATORY AGENCIES**

A Report by the **Council of Independent Regulatory Agencies**

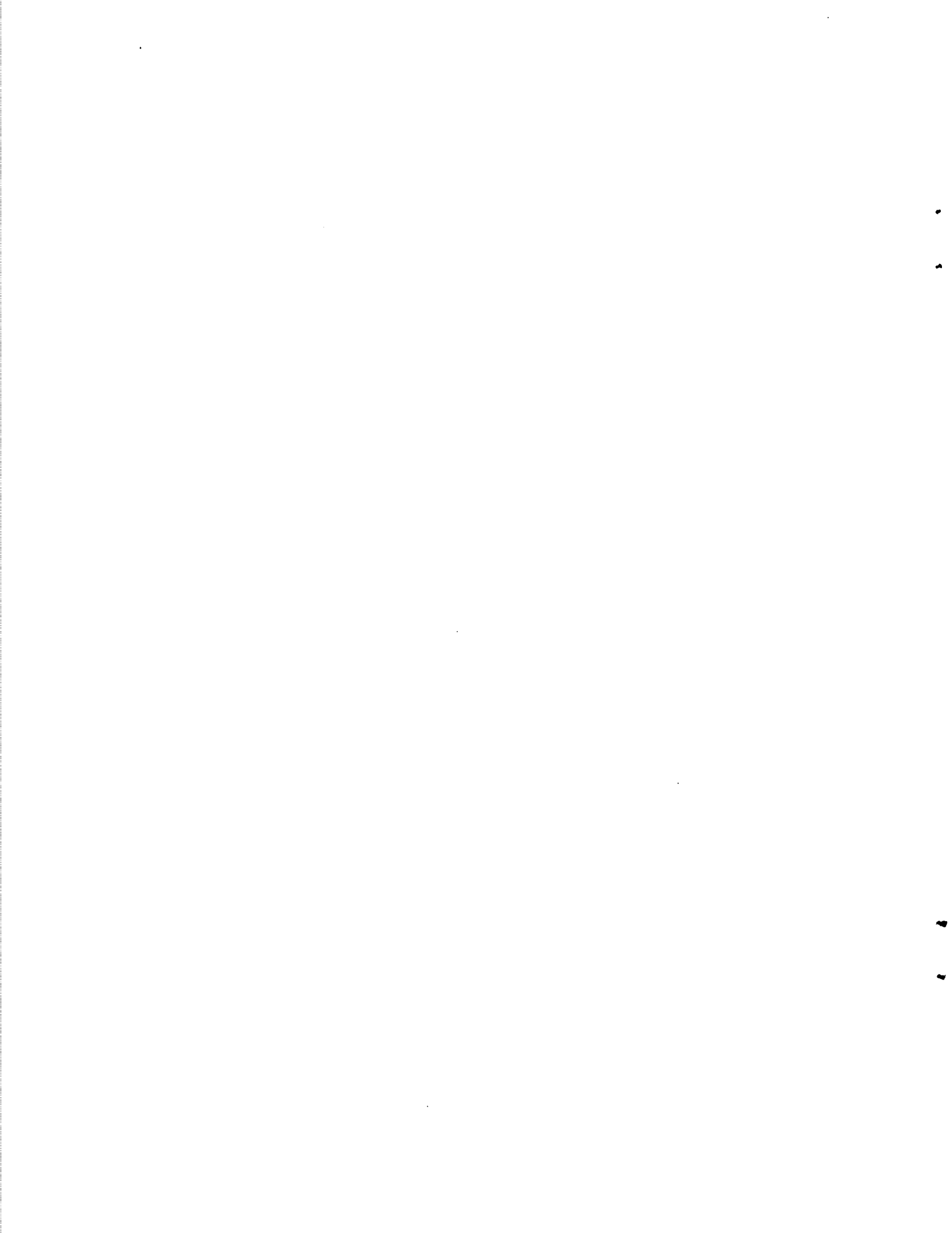


STATEMENT OF POLICY  
of the  
COUNCIL OF INDEPENDENT REGULATORY AGENCIES

The Council of Independent Regulatory Agencies (CIRA) was created by its members to further the efficiency, effectiveness and responsiveness of the major independent regulatory agencies in doing the public's business. CIRA is an informal organization sponsored by the Office of the Chairman of the Administrative Conference of the United States and chaired by Administrative Conference Chairman Loren A. Smith. It is composed of the chairmen of the 14 major independent regulatory boards and commissions. It meets monthly with the chairmen, one staff aide from each agency, and such individuals who may from time to time present reports, share ideas or confer with the group.

The meetings of CIRA are designed to allow the chairmen to share common problems and various successful solutions achieved at one agency or another. They are also designed to better enable the chairmen to fulfill their responsibilities by cooperating in the solution of governmental and regulatory problems that cut across agency lines. The meetings are not public as they are designed to provide an opportunity for the candid exploration of mutual problems rather than to produce official agency pronouncements.

The group is in the truest sense a forum for exchanging ideas. At a time when fundamental questions about the nature and quality of our regulatory system are being raised, CIRA is an innovative and efficient way for providing the various chairmen a better perspective on the problems and challenges each of their agencies face, both individually and as parts of the Federal government.



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Regulatory Commission

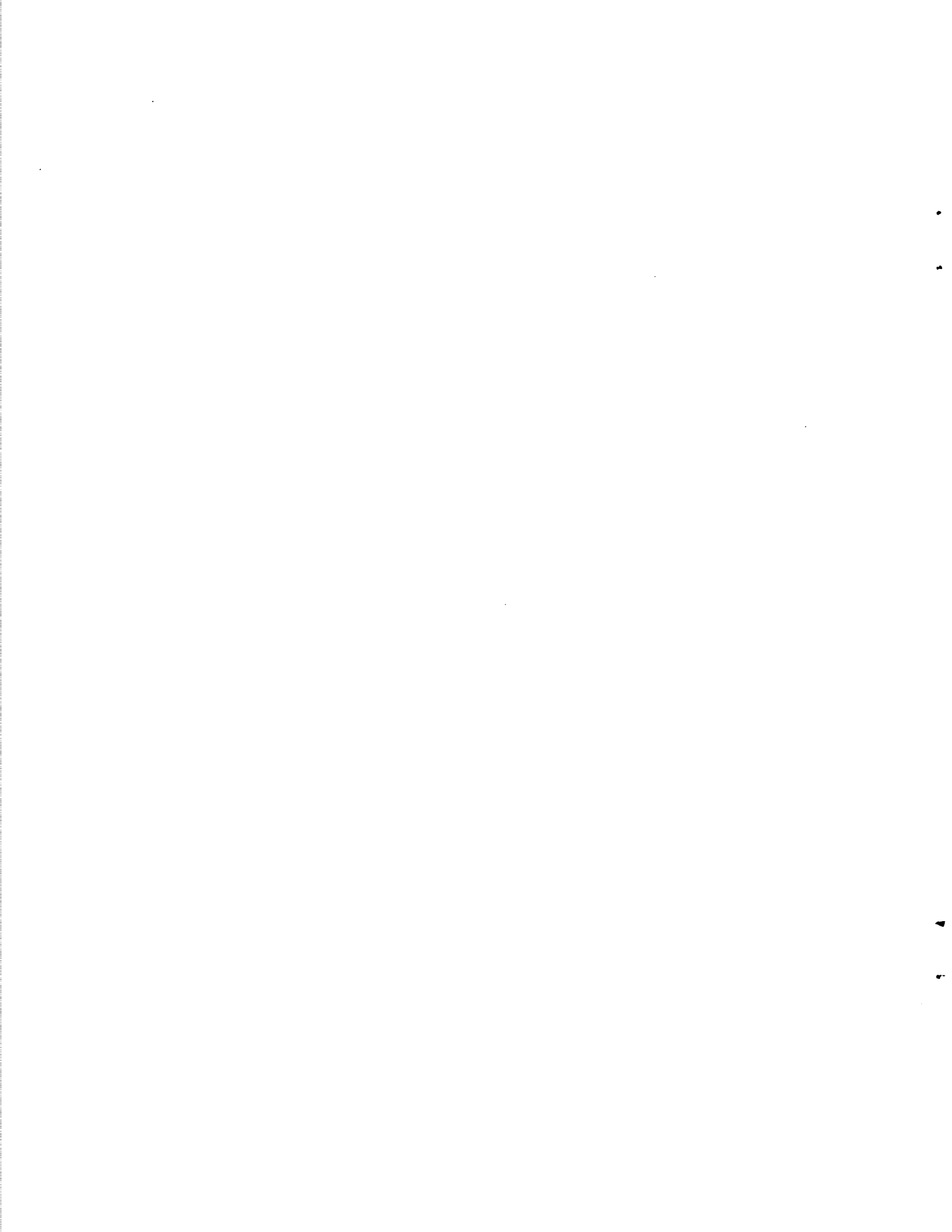
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Regulatory Commission

Honorable John Shad  
Chairman, Securities and  
Exchange Commission



## Foreword

The commitment to regulatory relief of the agency Chairmen publishing this report is not just an infatuation with a fashionable issue. It springs from a deep belief on the part of CIRA's members, and the President, that our free economy and our free society must always view regulation as the exception, and the forces of free consumer choice and competitive markets as the norm. This presumption in favor of personal, and its corollary economic, liberty must be overcome in justifying all governmental regulatory policies. Above and beyond the initial justification, such government regulations as are necessary should be as efficient, clear, simple and rational as possible. Every unnecessary, vague, overly complex or poorly thought-out regulation imposes a tax on this Nation's citizens, just as surely as any levied by the Congress. With this philosophy in mind, we are trying to do what we believe the laws require, the spirit of the Constitution mandates, and the taxpayers of this country demand: to reduce the burdens of regulation on our economy, without compromising public safety and other essential interests.

The agency decisions described in this report are not merely those of the agency Chairmen, of course, but represent the views of a majority of the members of each independent regulatory agency: the CIRA members have asked me to acknowledge the assistance and encouragement they have received in their efforts from their respected fellow commissioners. Of equal importance is the enthusiastic support and guidance -- both in the form of new legislation and through oversight hearings -- that they have received from the distinguished Senators and Congressmen who head the House and Senate Committees and Subcommittees that oversee their activities. That support, like the votes of fellow commissioners and the leadership of President Reagan's Administration, is an absolutely essential ingredient to the successes here reported, and to those the agencies intend to achieve in the future.

The first (and perhaps last) question about regulatory relief for many Americans may well be, "Why bother?" The most important answer is that deregulation -- and less intrusive rules when a regulatory system cannot be eliminated entirely -- increases efficiency and thus permits lower prices for consumers. Deregulating the airlines, for example, has resulted in fares in most markets that are substantially lower, in real dollars, than were the government-mandated fares under the old system. (Basically, the rates in those days had the effect of protecting the least efficient company in a market.) The same benefits of free entry and relative rate freedom are now having the

same effects in the trucking and bus industries. Although the work of reducing regulation in the banking industry is not yet complete, we have all seen the benefits of increased competition in that industry in the form of higher rates for smaller savings accounts. And while the new "shelf registration" procedures at the Securities and Exchange Commission and the new "blanket certification" procedures at the Federal Energy Regulatory Commission may look as though they simply benefit the regulated businesses, in fact the lower industry costs that these new regulations permit will be passed through to customers -- again resulting in lower consumer prices.

We thus are proud to make this report on the specifics of the substantial regulatory relief actions that our agencies have taken. These efforts will permit more efficient performance by the firms we regulate, will therefore result in lower consumer prices and, as well, will permit reduced expenditures by our agencies, yielding substantial savings to the taxpayers.

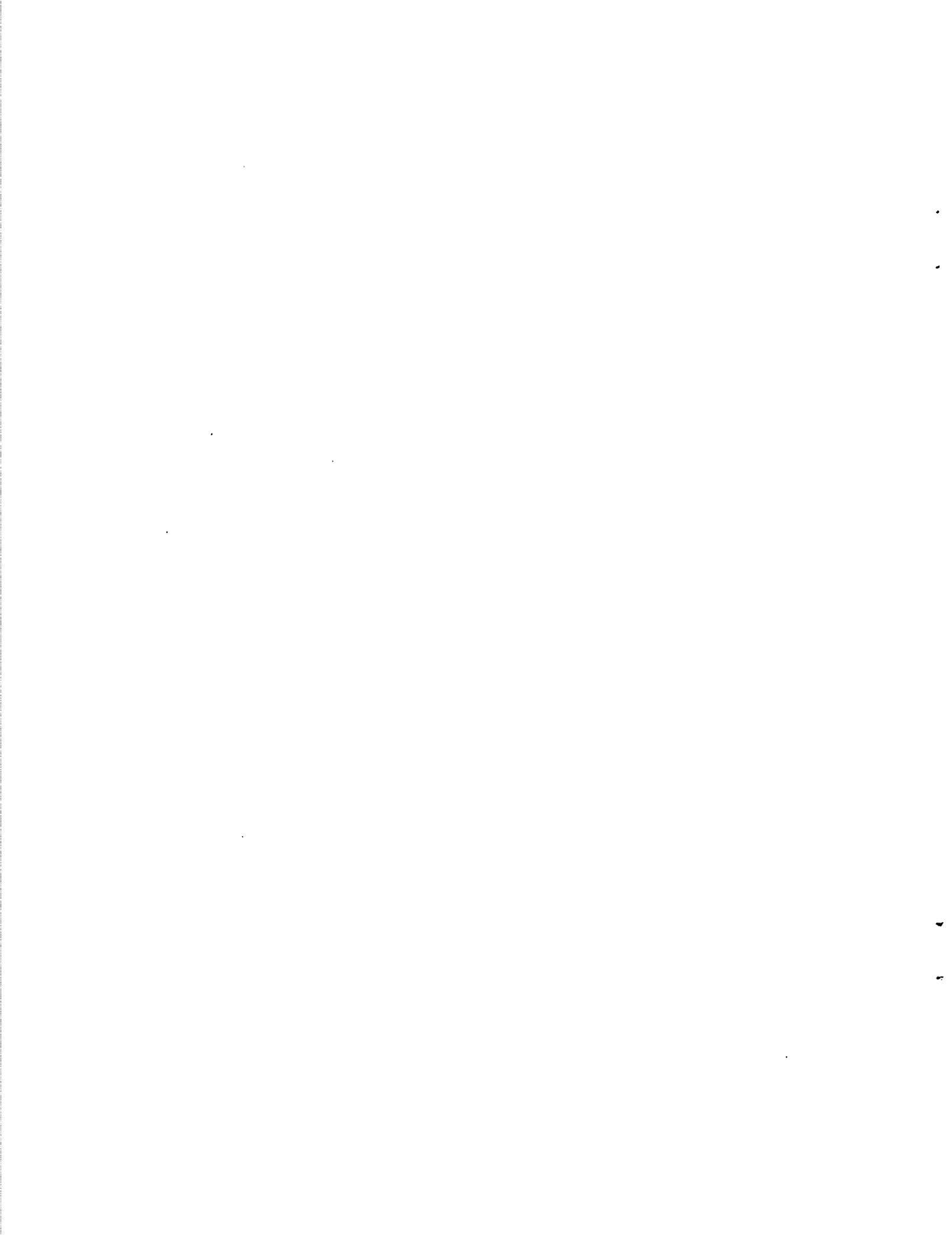
Loren A. Smith

Chairman, Council of Independent  
Regulatory Agencies  
(Chairman, Administrative  
Conference of the United States)



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## I. INTRODUCTION AND SUMMARY

The decade of the 1970's witnessed a virtual explosion in federal regulatory activity. Between 1970 and 1979 the number of pages in the Code of Federal Regulations nearly doubled, the number of pages published each year in the Federal Register tripled, and the expenditures of the major regulatory agencies more than quadrupled. No one knows the exact magnitude of the burden of the massive body of regulations that resulted, but by the end of the decade, estimates of the cost to the economy imposed by these regulations ranged as high as over \$100 billion per year.

The Reagan Administration and the independent regulatory agencies recognize the urgent need to reduce these regulatory costs and burdens. While the benefits of regulation--cleaner air and water, safer products, stable markets--continue to be valued, it is now recognized that the costs have often been excessive in relation to the benefits actually achieved.

The fourteen regulatory agency Chairmen who are members of the Council of Independent Regulatory Agencies (CIRA) are playing an important part in these efforts to provide relief from excessive regulatory and paperwork burdens by providing committed leadership to the multi-member agencies they head. This report is an effort to summarize the progress made to date and the prospects for further reform.

The fourteen CIRA regulatory agencies cover the entire spectrum of federal regulatory activity. All are engaged in a varying mix of economic regulation, in the regulation of financial markets, or in regulation designed to further goals such as more truthful advertising, safer products, and more equitable employment opportunities for all citizens. The mission of each agency is listed in Table 1.

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TABLE ONE  
Listing of CIRA Agencies' Missions

<u>Agency</u>	<u>Regulatory Mission</u>
Civil Aeronautics Board	- the airlines
Federal Communications Commission	- radio, television and telephone communications
Federal Energy Regulatory Commission	- distribution and sale of oil, natural gas and electric power
Federal Maritime Commission	- ocean shipping
Interstate Commerce Commission	- buses, trucks, rails and inland waterways
Commodity Futures Trading Commission	- the trading of grain and other futures
Federal Home Loan Bank Board	- savings and loan associations
Federal Reserve Board	- banks and the money supply
Securities and Exchange Commission	- the securities markets
Consumer Product Safety Commission	- all consumer products
Equal Employment Opportunity Commission	- fair employment practices
Federal Trade Commission	- ensuring free markets and non-deceptive practices
National Labor Relations Board	- fair labor bargaining
Nuclear Regulatory Commission	- nuclear power and exports

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Regulatory relief can take different forms for different areas of regulatory activity. As a result, the regulatory relief activities of the CIRA agencies are as diverse as their missions.

In areas of economic and financial regulation, the appropriate avenue for regulatory relief is frequently to deregulate--to remove regulatory constraints in favor of reliance on the greater efficiency and lower consumer prices that free markets produce. The past ten years have seen a growing consensus that traditional economic regulation has done more to aid anti-competitive cartels than control them, with the result being higher consumer prices and the stifling of innovation. Initial steps toward introducing competition have now been taken in many important areas, including airlines, securities brokerage, trucking, buses, banking and railroads. Congress has passed statutes to provide for a less burdensome regulatory role in these industries, and a major activity of the CIRA agencies engaged in economic and financial regulation has been the implementation of these statutes. Introducing the maximum amount of competition in these markets, whether by administrative reforms or by working with Congress to pass further deregulatory statutes, will continue to be a major activity for the foreseeable future.

A second major avenue of reform is the increased use of benefit/cost analysis to evaluate regulatory proposals. Virtually all of the fourteen agencies have taken important steps to increase their use of benefit/cost analysis. For example, the NRC has conducted a review of its standards for Value-Impact Analyses (its name for its economic analyses of regulations). The FTC has provided for economic input at the earliest stages of its case development process and proposed legislation to allow it to concentrate its resources where the potential for lowering prices and alleviating consumer injury is greatest.

All of the CIRA agencies have taken steps to eliminate unnecessary, nitpicking federal intrusions into private sector decisionmaking. The Federal Communications Commission and the Interstate Commerce Commission for example, have reduced unnecessary reporting requirements, the Commodity Futures Trading Commission and the Securities and Exchange Commission have clarified their responsibilities to avoid unnecessary duplication, and the Civil Aeronautics Board, the Federal Energy Regulatory Commission, and the Federal Maritime Commission all have used their exemption authority to remove unnecessary burdens, particularly where they apply to small business. Section II of this report contains dozens of examples of efforts to reduce or eliminate regulatory and paperwork burdens.

The benefits of the regulatory relief initiatives taken to date are impossible to quantify with any precision. And it is even more difficult to quantify the benefits of a more efficient FTC or of FCC moves to foster innovation in telecommunications markets: the benefits of these initiatives are to be found in resources that are not wasted or in innovations that are not impeded. But scholars have placed the benefits of airline and trucking deregulation alone in the billions of dollars, and it is obvious that the efforts of all the CIRA agencies to date have an aggregate value far exceeding that of airline and trucking deregulation alone.

One measure of public benefit that is available is the reduced paperwork burden placed on the private sector by CIRA agencies. As shown in Table Two, CIRA agencies have reduced their combined burden by over 25 percent -- amounting to more than 30 million hours annually -- in just the last year. If these hours are valued only at the minimum wage, this represents a \$100 million annual saving to the American public. It should also be noted that the 26 percent reduction far exceeds the 16.7 percent reduction achieved by the federal government on average.

Regulatory relief also means the ability to do more with fewer of the taxpayers' dollars. By reducing the resources devoted to enforcing obsolete or unnecessary regulations, the CIRA agencies have been able to do more than their part in the Administration's efforts to balance the federal budget. Table Three shows levels of employment for the fourteen CIRA agencies: employment by the CIRA agencies has fallen nearly 10 percent in the past three years. These statistics are a sharp contrast with the rapid growth of regulatory agencies during the preceding decade, indicating a true reversal in the path of federal regulatory activity. Spending for the period 1980-1983 has increased by less than four percent annually, indicating a reduction in real spending once inflation is accounted for.

A great deal remains to be done. In addition to the many administrative changes underway, the CIRA agencies are working closely with Congress to enact further important regulatory relief legislation. Among the bills now under consideration are proposals to remove unnecessary restrictions on free speech by broadcasters, to eliminate regulation of oil pipelines, and to further simplify federal regulation of financial markets. International regulation is increasingly recognized as an important area in need of reform, and other CIRA agencies are at work in areas such as airlines and shipping, where international cartels help to keep consumer prices higher than they would be without regulation.

In other areas the challenge is to achieve the best tradeoff between regulatory benefits and lower consumer prices. Increased use and refinement of benefit/cost analysis can be an important means of improving regulatory decisions in these areas. Innovative regulatory techniques, such as industry self-regulation and increased use of free market principles to supplement regulation, can also play an important role.

The CIRA agencies are devoted to providing regulatory relief. As this report shows, a good start has been made already. As this report also indicates, the CIRA agencies are continuing to work with the Administration, their relevant Congressional Committees, and the interested public, to continue to progress toward greater regulatory efficiency.

TABLE TWO  
Reductions in Paperwork Burden Hours  
by CIRA Agencies

Agency	Burden Hours (millions)		Reduction from 1981 <u>a/</u>	
	FY 1981	FY 1982	Hours	Percent
Civil Aeronautics Board	0.6	0.5	0.1	18
Commodity Futures Trading Commission	2.6	2.3	0.3	9
Consumer Product Safety Commission	0.6	0.3 <u>b/</u>	0.3	50
Equal Employment Opportunity Commission	3.8	3.3	0.5	12
Federal Communications Commission	27.2	9.8	17.4	64
Federal Energy Regulatory Commission	8.9	7.9	1.0	11
Federal Home Loan Bank Board	9.7	8.0	1.7	18
Federal Maritime Commission <u>c/</u>	--	--	--	--
Federal Reserve Board	6.9	5.8	1.1	15
Federal Trade Commission	0.7	0.6	0.1	15
Interstate Commerce Commission	1.8	1.5	0.3	17
National Labor Relations Board <u>c/</u>	--	--	--	--
Nuclear Regulatory Commission	19.3	13.1	6.2	32
Securities and Exchange Commission	46.8	42.0	4.8	10
<b>Totals</b>	<b>128.9</b>	<b>95.1</b>	<b>33.8</b>	<b>26</b>

Source: OMB, Information Collection Budget, Fiscal Year 1982.

a/ Calculated from rounded numbers.

b/ The CPSC figures are the burden request figures for FY 82 and FY 83. FY 81 and FY 82 figures are not comparable because of changes in the burden computation methodology.

c/ Exempt from information collection budget due to insignificance of paperwork burden.



TABLE THREE  
Employment at CIRA Agencies, 1980-1983

<u>Agency</u>	<u>Full Time Permanent Positions</u>				<u>Percent Change 1980-1983</u>
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	
Civil Aeronautics Board	743	650	505	427	-42.5
Commodity Futures Trading Commission	550	550	550	550	0.0
Consumer Product Safety Commission	850	812	631	577	-32.1
Equal Employment Opportunity Commission	3777	3416	3327	3278	-13.2
Federal Communications Commission	2153	2004	1862	1602	-25.6
Federal Energy Regulatory Commission	1605	1742	1648	1789	11.5
Federal Home Loan Bank Board	1480	1488	1503	1503	1.6
Federal Maritime Commission	361	306	306	290	-19.7
Federal Reserve Board	1496	1570	1536	1554	3.9
Federal Trade Commission	1665	1587	1380	1235	-25.8
Interstate Commerce Commission	2024	1836	1653	1450	-28.4
National Labor Relations Board	3157	3213	3213	3213	1.8
Nuclear Regulatory Commission	3041	3277	3325	3303	8.6
Securities and Exchange Commission	2102	2023	2021	1896	-9.8
<b>Totals</b>	<b>25004</b>	<b>24474</b>	<b>23459</b>	<b>22667</b>	<b>-9.3</b>

Source: Budget of the United States, fiscal years 1982 and 1983.

## II. AGENCY INITIATIVES

### CIVIL AERONAUTICS BOARD (CAB)

The CAB has been in every sense a leader in the deregulation movement. Its consideration of significant regulatory relief options dates to the Domestic Passenger Fare Investigation conducted in the mid-1970's; under the Airline Deregulation Act the board will be the first major regulatory agency to be eliminated in recent years.

It will cease to exist on January 1, 1985.

The Board's most recent contributions to regulatory relief are directed at facilitating the transition to competition and removing remaining unnecessary burdens. In particular, the Board has recently taken several important steps:

- \* Reductions in Reporting Burdens;
- \* Incentives for Efficiency in International Markets;
- \* Modification of Denied Boarding Compensation Rules;
- \* Allowing Incorporation by Reference After Elimination of Tariffs, and
- \* Review of Domestic Baggage Liability Rules.

Reductions in Reporting Burdens: The introduction of competition has lessened or eliminated the need for information about a variety of airlines activities. Such information was used in the past to facilitate Board decisions on regulatory matters that are now left for determination in the competitive market place.

The Board is thus making a major effort to determine which information is no longer required and remove unnecessary burdens.

On July 8, 1982 it took a major step in this direction by adopting Economic Regulation 1297, which effects a 49 percent reduction in the number of annual reporting hours incurred by certificated carriers in complying with the Board's financial and statistical reporting requirements.

Under a September 1981 staff paper, which was subsequently revised to reflect extensive public suggestions, the Board will continue to look at these reporting requirements and expects to eliminate many more.

It has specifically proposed to eliminate a requirement that carriers filing for certificates of public convenience and necessity serve complete copies of the application

on all interested parties. Instead, only one-page summaries of the lengthy documents would be served on all parties, thus eliminating a substantial burden on carriers acquiring new authority.

Incentives for Efficiency in International Markets: The Board works closely with the Departments of State and Transportation to negotiate liberal bilateral treaties with other nations which allow for unlimited entry in air travel between the two countries. Unfortunately, the United States has not been able to negotiate that type of agreement for all markets served by United States airlines. As a result, the Board must select one or two U.S. airlines to provide service in each of these markets.

In these limited-entry markets, the Board has begun to use innovative measures to simulate the forces of competition.

In particular, the Board has granted experimental temporary certificates in these markets, certificates which expire at the end of a set term.

This puts the carrier on notice that it will have to demonstrate, at the end of this term, that its authority should be renewed. Also, the temporary authority can be revoked by the Board at any time based on carrier performance. This creates a regulatory incentive for carriers to be responsive to consumer demand during the terms of their authority.

Further, it encourages other carriers to consider whether they can provide superior service and, if so, to apply for authority at the end of each term.

This threat of new entry simulates the competitive forces that normally work to maximize consumer welfare.

Modification of Denied Boarding Compensation Rules: As part of the Board's review of its main public-protective rules prior to sunset, it considered eliminating or modifying the rule providing compensation to passengers "bumped" because of oversales of a flight. The Board considered comments from all parts of the affected industries and the public.

There was a substantial consensus among the commenters that the rule should be retained in some form, but the Board made several changes to simplify and clarify it.

Airlines will no longer have to pay compensation to bumped passengers if they can get them to their destination within an hour of the time they were supposed to arrive.

U.S. carriers will no longer have to conform to U.S. rules on inbound foreign flights, so that they can compete on equal terms with their foreign counterparts.

The measure of compensation will be the fare, for even the lowest-fare flights, rather than having to be at least \$37.50. This will remove an extra burden on low-fare carriers.

Allowing Incorporation by Reference After Elimination of Tariffs: Tariffs for domestic travel will be eliminated on January 1, 1983. This created a difficult situation for the airlines.

They were unsure about whether, without Federal control, the laws of the various States would force them to give out all the rules concerning their flights -- the "contracts of carriage" that were previously contained in the tariffs -- to each passenger. The travel agency system is heavily dependent on uniform short-form ticket stock that can be used for ever carrier.

To avoid the cost of bulky and varying contracts and years of court litigation, while giving adequate notice to the public of important terms, the Board issued a rule to allow airlines to continue to incorporate terms by reference on short-form tickets.

The rule provides notice of important terms on the tickets, and provides for a system whereby passengers who want them can get copies of the full contracts. Thus, this brief rule allows for the smooth elimination of the entire domestic tariff system, the retention of short-form ticket stock by agents and carrier ticket offices, and giving notice of essential terms to passengers.

Review of Domestic Baggage Liability Rules: In February 1982 the Board proposed three options for simplifying baggage liability rules: eliminate the rules altogether; eliminate all rules except the minimum liability limitation, or codify the significant aspects of the current rules. The Board subsequently adopted a modified version of option two in its final rule, which sets a \$1,000 liability limit and requires carriers to inform passengers of any limitation on liability (such as for fragile goods) and provide notice if excess valuation insurance can be purchased. The final rule eliminates detailed regulation of what items are considered fragile or perishable, what exculpatory clauses are permitted, and passenger claims practices.

## COMMODITY FUTURES TRADING COMMISSION (CFTC)

The primary regulatory relief activities undertaken by the CFTC are in the nature of facilitating innovation and efficiency in commodity futures markets--i.e., of providing an efficient set of property rights within which market mechanisms can work. The Commission's four major regulatory relief actions fall loosely within this description:

- \* Opening New Markets for Exchange Trading;
- \* Resolving Jurisdictional Tensions;
- \* Promoting Efficient Industry Self-Regulation, and
- \* Trading Fees.

Opening New Markets for Exchange Trading: The Commission is required by law to approve all new futures contracts before they can be traded on the floors of United States exchanges. For years, delays and bottlenecks in the process have allowed innovative contract proposals to languish. Solving this problem has been a key priority, and the results of improved efforts are already beginning to show. Since June 1981 the Commission has approved 29 new contracts, including many new innovative efforts to allow traders to hedge economic risks. Of the 29 contracts, five have involved futures contracts on stock indices, three on Eurodollars; others have involved petroleum, government securities and domestic certificates of deposit, all areas representing new markets which simply did not exist a short time ago.

The Commission has also ended its 1978 moratorium on options trading by initiating a three-year pilot program for trading in commodity options. Under the program, each exchange could trade one option on a commodity futures contract already traded on that exchange. Public response to the program has been heavy, with eight exchanges having applied to participate. Actual trading could begin this fall.

It is also important to note that the speed-up in approval of innovative contracts has not been accomplished at the expense of quality control: each of the 29 new contracts approved, for instance, received a full and thorough economic analysis to assure that the public interest is being protected.

Resolving Jurisdictional Tensions: Because commodities on which futures are traded are sometimes regulated by other agencies, cooperation is necessary to avoid harmful effects on developing markets. The most important step the Commission has taken in this regard

is its December 7, 1981 accord with the Securities and Exchange Commission clarifying their respective authorities with respect to financial futures and options, and thus settling the longstanding uncertainty engendered by the jurisdictional issue.\* Other important steps taken to improve cooperation with other agencies include reorganization of the Office of Government Affairs to allow it to assume chief responsibility for coordinating intragovernmental matters, and the adoption of formal procedures for the sharing of market data with the Department of the Treasury and the Federal Reserve Board.

Promoting Efficient Industry Self-Regulation: A key theme of regulatory relief at the Commission is increased reliance on industry to govern its own affairs. Financial exchanges have traditionally functioned as self-regulatory bodies, subject to government oversight to assure that actions are in the public interest and are not guided by incentives to limit entry and facilitate cartel activities. In September 1981, CFTC took a major step in promoting self-regulation in the commodity industry by registering the National Futures Association as a futures association responsible for policing industry sales practices, membership standards, and other policy areas, subject to strict Commission oversight. Four exchanges have already joined the association, which expects to begin operation this fall.

Trading Fees: In keeping with the Administration's general philosophy that groups that can be identified as benefiting from particular government programs should bear their fair share of the costs of those programs, the Commission has proposed a small fee under which commodity exchanges would pay the Treasury six or 12 cents for each transaction. (The lower fee would apply to traders already financing industry self-policing activities, the higher to all others.) Depending on market volume, the fee would be sufficient to cover most or all of the Commission's \$20 million annual budget, with an equivalent saving to American taxpayers. The fee proposal is now pending before Congress as part of the Commission's reauthorization legislation.

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\*/ Legislation to ratify the accord is pending before Congress.

## CONSUMER PRODUCT SAFETY COMMISSION (CPSC)

The keystone of the CPSC's regulatory relief program is to reduce the burden of existing regulations without adversely affecting product safety. The agency not only strives to avoid needless confrontation with industry but in fact has enlisted the support of industry in protecting the public. In addition to performing regulatory analyses of all proposed rules as mandated by statute, the Commission has taken regulatory relief initiatives in four major areas:

- \* Management Efficiencies;
- \* Revision of Existing Regulations;
- \* Voluntary Standards Development, and
- \* Reduction of Paperwork Burdens.

Management Efficiencies: Certain management changes in the Commission over the last year have resulted not only in savings to the agency but also in a reduction of regulatory burdens on industry. The number of regional offices has been reduced from thirteen (13) to five (5); the field directorate has been eliminated; and the communications directorate has been eliminated and its functions taken over by strengthened offices of public affairs and outreach coordination.

These changes have enabled the Commission to enlist industry's help rather than to impose regulatory burdens. For example, last December, in cooperation with the United States Congress and with help from the Toy Manufacturers of America, the Consumer Product Safety Commission launched a major national program focusing on safety in a new way. The emphasis of the program was put on "Buying the right toy for the right child at the right age." CPSC took a positive, constructive approach. Industry volunteered. Therefore no regulatory burden was imposed, and the program was overwhelmingly successful.

Management redirection also helped to save lives and yet reduce regulatory burdens in the area of poison prevention. As you may know, CPSC has the responsibility for the child resistant closures. Since 1973, 315,000 poisonings have been prevented, 320 lives have been saved, and \$800,000 in social costs have been saved.

This year the Commission's participation in "National Poison Prevention Week" was increased. For the first time, the President of the United States launched the event with a ceremony in the White House. Over 50 major corporations and business groups participated across the nation.

With no increased regulatory burden and at small cost to the Commission, lives were saved. There are other programs that could be highlighted. The Commission has reduced regulatory burdens by fostering cooperative industry/government activities.

Revision of Existing Regulations: The Commission has revised or revoked a number of its rules in order to reduce compliance burdens. For example, the Commission amended its ban on unstable refuse bins to exempt certain straight-sided bins that did not present an unreasonable risk of injury. Exemption from the ban meant that a segment of the industry did not have to test and possibly retrofit existing bins. Other existing rules that the Commission has proposed to revise include its standard for testing of guaranteed clothing to allow firms subject to the standard to devise their own reasonable testing programs and its flammability standard for mattresses to eliminate some of the production testing requirements. The Commission has also proposed amendments to its flammability standards for Clothing Textiles and Children's Sleepwear that would allow manufacturers and importers who are required to use specific testing procedures under the standards to use alternative testing procedures. The proposed changes to the flammability standards will allow the regulated industry to eliminate unnecessary testing and recordkeeping burdens, thus decreasing the cost of manufacturing those products, without diminishing the level of consumer protection.

Additionally, in June of this year, the Commission partially revoked its safety standard for architectural glazing materials to eliminate tests for plastic glazing materials. The Commission took this action because the tests in question are not necessary to ensure the safety of plastic glazing materials.

The Commission is also concerned about the impact of its regulations on small businesses and is taking action to ensure that the least regulatory burden is imposed consistent with the public health and safety. For example, a standard governing omnidirectional CB antennas which was recently issued by the Commission contains provisions for granting a delay in the effective date for small manufacturers. This will allow these small businessmen to comply with the standard while minimizing the economic impact on their businesses.

Voluntary Standards Development: A major component of the Commission's regulatory relief program is the promotion of industry self-regulation through the development of responsible voluntary standards. The Commission is currently involved in 39 voluntary standards projects. These projects range from working with industry and voluntary



organizations to monitor and upgrade existing standards to actively participating in the formulation and implementation of new standards. Some of the Commission's current voluntary standards efforts include standards to address strangulation hazards associated with toy chests, hazards presented by gas water heaters and the flammability of upholstered furniture. The Commission plans to continue to actively promote voluntary standards efforts in the upcoming fiscal year.

Reduction of Paperwork Burdens: Many of the Commission's regulatory relief initiatives have had positive effects in the paperwork area as well. The Commission paperwork budget request for fiscal year 1983 is approximately 37 percent below its 1982 request. Additionally, adoption of the proposed changes could lead to even greater paperwork reductions in the upcoming year. For example, the proposed revisions in the mattress flammability standard mentioned above may result in eliminating about half of the burden now imposed by that standard on mattress manufacturers. The clothing test standard revisions will also result in significantly reduced paperwork requirements.

## EQUAL EMPLOYMENT OPPORTUNITY COMMISSION (EEOC)

The Equal Employment Opportunity Commission has centered its regulatory relief activities on reducing recordkeeping requirements; indeed, such requirements are the major source of regulatory burdens imposed by the Commission, since virtually all of its regulations take the form of interpretive guidelines that do not have the force of law and hence impose few, if any, burdens. The major regulatory relief initiatives underway at the Commission are:

- \* Reduction of Filing Requirements;
- \* Review of Uniform Employee Selection Guidelines;
- \* Review of Sexual Harassment Guidelines;
- \* Reduction of Duplication through Coordination, and
- \* Reduction of Duplication through Certification of State and Local Fair Employment Agencies.

Reduction of Filing Requirements: In order to reduce reporting burdens, the Commission waived the filing of its EEO-5 Survey Report, Elementary-Secondary Staff Information Report, for calendar year 1981. The Commission has also proposed to permanently reduce the reporting requirement from once every year to once every two years. The EEO-5 survey would only be filed on even years, coinciding with the Department of Education's companion survey of pupil population, thus resulting in a 412,500 burden hour reduction every other year. Another substantial burden reduction in the Commission's reporting requirements is planned for fiscal year 1983. The Local Union Report (EEO-3) will be revised to request information only from referral unions, thus eliminating the non-referral union reporting requirement. This will reduce reporting burdens by 33,000 hours.

Review of Uniform Employee Selection Guidelines: The Commission's guidelines for employee selection procedures have been designated for review by the Task Force on Regulatory Relief pursuant to Executive Order 12291. EEOC staff is considering initiatives available to the Commission to study these guidelines with a view towards reducing regulatory burdens.

Review of Sexual Harassment Guidelines: The Commission's Sexual Harassment Guidelines have also been designated for E.O. 12291 review. Commission staff has

developed several alternative approaches for reviewing these guidelines to determine how more adequate guidance can be provided to employers regarding what is prohibited sexual conduct within the meaning of Title VII of the Civil Rights Act.

Reduction of Duplication through Coordination: The Commission is charged with reducing duplicative efforts by the various federal agencies enforcing different employment discrimination prohibitions. In furtherance of this effort, a proposed rule has been issued which will allow fund granting agencies to refer employment discrimination complaints to the EEOC for investigation and conciliation. The rule will reduce duplicative efforts by Federal agencies enforcing anti-discrimination statutes, as well as reduce the burden on employers covered by more than one of those prohibitions.

Additionally, in order to promote uniformity in complaint processing procedures, the Commission has recommended to the Department of Justice that its coordination regulations under E.O. 12250 should make the procedures for handling complaints alleging discrimination in the provision of benefits and services consistent with equal employment opportunity complaint processing procedures.

Reduction of Duplication through Certification of State and Local Fair Employment Agencies: The Commission's very recent procedures for certification of state and local fair employment agencies are expected to result in substantial savings for both the Commission and the state and local agencies receiving certification. As a result of these new procedures, the Commission will accept the findings and resolutions in discrimination cases processed by certified state and local agencies, with certain exceptions, without conducting an individual case-by-case review of those findings and resolutions. As a result, the number of case files reviewed by the Commission is expected to decline by about 85 percent, that is, approximately 34,000 fewer reviews per year. This is expected to save the Commission nineteen staff years annually. Additionally, for those state and local agencies which are certified, this will mean a substantial reduction in the amount of costs (in terms of time, resources and money) spent in copying case files and forwarding them to the Commission.

## FEDERAL COMMUNICATIONS COMMISSION (FCC)

The Federal Communications Commission has pursued a great number of regulatory relief initiatives in three overall categories:

- \* Legislative Reforms;
- \* Management Initiatives, and
- \* Rulemaking Actions.

Legislative Reforms: The Commission has proposed two sets of legislative reforms to Congress, designated as "Track One" and "Track Two" reforms. Track One reforms are largely technical amendments to the Communications Act of 1934, including for instance a proposal to eliminate the requirement for individual licensing for Citizens Band radio operators. Also among the Track One reforms is a proposal to allow random (i.e., lottery) selection of qualified applicants for mutually exclusive licenses, thereby eliminating the need for the costly and time-consuming comparative hearing process now used.

Track Two reforms are more substantive and hence more controversial. For example, one reform would establish a presumption in favor of marketplace forces over Commission regulation to determine what telecommunications services will be available to the public. Also very significant is the proposal to accord the electronic press the same First Amendment freedoms currently enjoyed by print media. This would be accomplished by a repeal of Section 315 of the Communications Act which requires a broadcast station to provide "equal opportunities" for use of a station's facilities to all legally qualified candidates for public office and also includes the so-called "fairness doctrine," requiring broadcasters to give air time for all points of view on controversial issues. While these standards may have had a place when broadcast stations were few, the current environment of competition makes them unnecessary and creates unnecessary opportunities for government interference with freedom of speech. Track One has become law, and with Congressional implementation of the Track Two proposals, significant regulatory relief will be assured.

Management Initiatives: A second major area of the Commission's regulatory relief initiatives has been improvement in management. Some of the specific initiatives taken to date are implementation of a Management by Objective system, creation of a Managing Director position to perform executive functions, and establishment of a

Regulatory Review Working Group to examine, according to a benefit-cost analysis-based priority system, all of the Commission's 4,500 regulations. A particular concern of the group has been to identify unnecessary paperwork burdens, and a preliminary review indicates that as many as 40 percent of the Commission rules containing paperwork requirements can be simplified or eliminated. The most striking result of the Commission's improved management system to date is a reduction of nearly 65 percent in the paperwork burden it places on the public between FY 1981 and FY 1982. The Commission was the single most successful agency in the federal government in eliminating unnecessary paperwork requirements last year.

Rulemaking Actions: Of course, the bulk of the Commission's regulatory relief activities take the form of changes in its regulations. The Commission has been especially active in the broadcasting area, where it has authorized or proposed several new services, including direct broadcast satellites, low power television, a new form of TV service via teletext data transmission, and AM stereo. Following on earlier decisions to deregulate radio broadcasting, the Commission has recently voted to substantially deregulate subscription television and proposed to deregulate auxiliary television stations and noncommercial radio and television. In the future the Commission may examine whether commercial television should be deregulated along the lines of radio deregulation. Additionally, the Commission intends to review the basic ownership rules which, in large measure, dictate and perhaps skew the overall structure of the broadcast marketplace.

The Commission has also taken several important steps in the common carrier area. It continues to implement its landmark Computer II decision by deregulating customer premises equipment and enhanced services. It has now confirmed its tentative finding in its Competitive Carrier decision that it has discretionary authority to exempt non-dominant carriers from many aspects of FCC regulation. As a first step in applying this discretion, the Commission has decided not to regulate resellers of basic terrestrial communications services -- carriers who do not own transmission facilities and obtain basic services from underlying carriers for resale. These carriers are thus exempt from the FCC's basic rate and entry regulations. Other initiatives include affirming the decision to allow wireline carriers and radio common carriers to apply for cellular mobile telephone service authority, proposing to reduce orbital spacing requirements for communications satellites, and allowing Comsat to compete with other carriers in offering "end-to-end" international communications services.

The Commission's regulatory efforts, however, are not confined to those regulations affecting the major participants in the telecommunications marketplace. The Commission intends to review and seek elimination of the plethora of regulations that affect smaller entities in the day-to-day operations of their businesses. Included among these "underbrush" items are those conduct related rules prescribing minute details of station operation. The agency's computerized plan for review encompasses in a unified manner its own regulatory reform goals as well as OMB form review and the statutory requirements reflected in the Regulatory Flexibility and Paperwork Reduction Acts.

## FEDERAL ENERGY REGULATORY COMMISSION (FERC)

The Federal Energy Regulatory Commission has been actively examining its regulation of natural gas pipelines, electric utilities, hydroelectric power licensees, and oil pipelines to eliminate unnecessary or burdensome requirements and to streamline its administrative processes.

FERC also has made a great deal of progress in removing unnecessary reporting and filing requirements. To date, 53 forms, applications and other paperwork burdens have been either eliminated or reduced and 17 more have been targeted for reduction. This has resulted in combined annual savings to firms subject to FERC's jurisdiction of more than 900 work years and \$27 million. The Commission expects to complete its review and revision of all forms and filing requirements by 1984.

The Commission also has begun to use rulemakings to provide a focussed, cohesive approach to generic issues and to reduce the regulatory and administrative burdens of policymaking by adjudication. However, where appropriate, FERC has employed precedent-making cases to provide guidance to regulated industries as to current and future trends in agency policymaking.

- \* Natural Gas Wellhead Pricing;
- \* Natural Gas Pipeline and Price Regulation;
- \* Electric Rates;
- \* Hydroelectric Power, and
- \* Oil Pipelines.

Natural Gas Wellhead Pricing: The Natural Gas Policy Act of 1978 replaced wellhead price regulation of natural gas under the Natural Gas Act with a complex new system of price controls. Some categories of gas are regulated on a putative cost-of-service basis and others are subject to incentive prices. A schedule of partial deregulation would allow about 60% of domestic gas to be price-deregulated in 1985.

The 1978 Act did not address institutional distortions created under the previous regulatory regime, particularly gas purchase contract provisions which permit prices to escalate but not to decline. Since the statute prices a sizable proportion of gas supply at less than marginal cost, and will continue to do so after 1985, it has had the effect of forcing pipeline purchasers to pay prices above market-clearing levels for some categories of gas. By averaging above-market price against gas in inventory priced

below market under the Act, pipelines have been able, until recently, to avoid exceeding market-clearing levels.

Recently, however, the combination of steep declines in alternative fuel prices, sharp increases in average prices under the Act, and downward price inflexibility caused by gas contract conventions have caused average gas prices to exceed market-clearing levels in some areas. The resulting loss of sales volumes has caused remaining customers to be charged considerably more for gas than would be the case in a free market. Accordingly, despite the absence of a clear consensus on the Commission in favor of wellhead price deregulation of gas, the Chairman has assumed a leadership role in advocating it.

In addition to allowing free market efficiencies to lower consumer prices, gas deregulation will permit the elimination of about 200 positions at the Federal Energy Regulation Commission, yielding a saving to the taxpayers of about \$8 million per year. Considerable administrative savings at the Commission will also be achieved, and very substantial administrative savings will accrue to private industry, which also will help reduce prices paid by consumers.

Natural Gas Pipeline and Price Regulation: Under the Natural Gas Act, no company may engage in the interstate transportation and sale of natural gas without first receiving a certificate of public convenience and necessity from the Commission. Once having received such a certificate, companies cannot abandon any jurisdictional service or facility without again obtaining approval from the Commission. Traditionally, certificate applications have been considered on a case-by-case basis. To make the licensing process more efficient and less burdensome, the Commission has adopted a blanket certificate program.

Under Phase One of the program, already in effect, interstate pipelines may obtain a one-time blanket certificate that provides them with automatic authorization to engage in specified construction, operational activities and storage services that meet certain cost, volume or capacity criteria. The automatic authorization is subject only to a reporting requirement in routine matters, and to a notice and an opportunity-to-protest procedure for more complex or significant matters.

In the second phase of the program, the Commission is proposing blanket authorizations for certain gas transportation and sales activities, including off-system sales by one interstate pipeline to another, subject to annual volume limitations, reporting requirements and a notice and protest procedure.



The Commission estimates that full implementation of the blanket certificate program will reduce the regulatory burden on industry by approximately 25,000 hours per year. It will also significantly reduce the administrative burden of handling certificate applications on a case-by-case basis and speed up processing time. The program will decrease pipeline industry costs, which will in turn reduce the prices that public utilities must pay for the gas they supply to individual business consumers and home owners. In many localities a "fuel cost surcharge" is now passed directly through to individual consumers; the Commission's blanket certificate program should result in at least some small reductions in those fuel cost surcharges.

Electric Rates: Under the Federal Power Act, the Federal Energy Regulatory Commission is responsible for regulating wholesale sales of electric power in interstate commerce and the transmission of electricity in interstate commerce. The Commission must assure that rates for wholesale transactions are just and reasonable, and not unduly discriminatory or preferential. To expedite the rate making process, the Commission has delegated authority to the staff to act on certain routine and non-controversial applications. Approximately 85 percent of the rate filings are completed under these delegations, freeing Commission members to concentrate on the important and controversial issues.

The Commission has also proposed a rulemaking to adopt generic rates of return on equity for three different risk categories of electric utilities. These generic rates of return would be applied in individual rate proceedings where the parties had not settled the issue by agreement. Since disputes over rates of return are often a complex and time-consuming element of rate litigation, a generic resolution of this issue should substantially reduce regulatory lag and trial expense.

Generic rates of return may also play a role in establishing performance standards for utilities. The existing regulatory structure gives utilities few incentives for efficient managerial performance. The traditional approach to improve performance is to "second guess" utility actions in rate cases or other regulatory proceedings. The Commission is now studying the feasibility of a second approach -- establishing specific performance targets. Its principal advantage is that the agency would only measure a utility's performance against a specific standard. The Commission would not be required to attempt an overall assessment of the utility's operating efficiency or to "second guess" utility management on a multitude of specific decisions.

The Commission also is considering voluntary experiments to test whether price regulation can be relaxed for certain bulk electric power transactions. The focal question is whether a surrogate for effective competition can be created. The proposed experiments would analyze the potential for expanded electric energy brokering and other arrangements for exchanging energy among utilities.

Hydroelectric Power: The Commission's hydropower responsibilities include licensing hydroelectric generating facilities and assuring dam safety. The Energy Security Act of 1980 authorizes the Commission to exempt certain small hydroelectric power projects from the licensing requirements of the Federal Power Act. FERC is now in the final stages of a rulemaking to exempt certain projects having a generating capacity of 5 megawatts or less from licensing requirements upon filing a Notice of Exemption. These categorical exemptions eliminate the need for case-by-case processing of approximately 20 percent of feasible small (5 MW or less) hydroelectric power projects.

Other categories of projects qualify for exemption from Federal Power Act licensing upon application. The Commission has reduced and simplified the amount of information required in an application to reflect the non-burdensome intent of the exemption procedure.

Oil Pipelines: The Commission's principal initiative in this area has been its support of legislation to repeal federal control of oil pipeline rates. The Commission believes that there is a competitive market for oil pipeline transportation and that existing price regulation is inefficient and unnecessary, and thus results in higher prices than a deregulated market would produce. The Commission also has taken steps to reduce the administrative burden on this industry including a revision of the reporting requirements for oil pipeline carriers which is expected to save the industry 5,600 hours per year.

## FEDERAL HOME LOAN BANK BOARD (FHLBB)

As financial markets become more competitive, the Board's regulations restricting thrift institutions' activities have come to be burdensome, preventing them from entering new markets and making other business decisions in the unfettered manner demanded by a competitive environment. The Board has taken a number of initiatives to relieve the unnecessary regulatory burdens it imposes on thrift institutions and hence allow them to compete more effectively. These initiatives fall into three categories:

- \* Competitive Markets Initiatives;
- \* Facilitation of Merger Activity, and
- \* More Efficient Deposit Insurance.

Competitive Markets Initiatives: The primary thrust of the Board's regulatory relief activities is to limit government intervention in private sector decisionmaking -- to allow institutions to make their own decisions about what services and products to offer and how. Several important regulatory changes have been made in this regard. The Board has eased its restrictions applying to the design of certificates of deposit, loophole money market certificates, and Eurodollar certificates, and has allowed federally-chartered thrift institutions to design any type of fixed, variable, or graduated rate mortgage instrument subject only to the requirement that the terms be disclosed to the buyer. In addition, restrictions on borrowing by FSLIC-insured institutions have been lifted, and the Board has approved a regulation to allow savings and loans to provide correspondent services to each other to minimize their dependence on commercial banks for these services.

Finally, the Board supported with great vigor the recently-enacted Thrift Garn-St. Germain Depository Institutions Act, which gives federal savings and loans authority to engage in many commercial activities currently denied them, including commercial lending, demand deposits, consumer lending, equipment leasing, and other activities.

Facilitation of Merger Activity: Mergers may play an important role in accomplishing restructuring of financial institutions to accommodate the more competitive environment. However, Board regulations restricting merger activity can delay beneficial mergers and raise costs unnecessarily. With this in mind, the Board has acted to revise its guidelines for reviewing mergers. First, it has proposed a new three-tiered approach to merger processing that would result in approximately 80 percent of all

mergers being allowed to proceed within 30 days. Second, the Board's internal procedures for assessing mergers have been revised to simplify its decisionmaking process and concentrate resources on mergers with potential anticompetitive effects. Third, several changes have been made in securities trading regulations pertaining to ownership of saving and loan stock, including institution of a procedure analogous to the SEC's "shelf registration" procedure, which allows firms to receive approval for stock issuances and then choose when to actually issue the stock. The combined effect of these changes will be to allow savings and loans to restructure according to competitive conditions and to lower the cost of capital for the entire industry.

More Efficient Deposit Insurance: The Board has been studying the possibility of moving to a system of deposit insurance that would more efficiently reflect different institutions' operating plans, management strategies, performance records and inherent risk features. In essence, different institutions would be charged different premiums depending on the riskiness of their operations. The Board's Office of General Counsel is studying the means by which such a proposal could be incorporated in new legislation. If adopted, variable premium insurance could reduce overall insurance costs and result in a more efficient risk-bearing device.

## FEDERAL MARITIME COMMISSION (FMC)

The Federal Maritime Commission has focused its regulatory relief efforts on five major areas:

- \* Legislative Reform of the Shipping Act of 1916;
- \* Deregulation of Domestic Offshore Trade;
- \* Use of Exemption Authority to Remove Unnecessary Burdens;
- \* Cost-Recovery User Fees, and
- \* Establishing Improved Channels of Public Communications.

Legislative Reform of the Shipping Act of 1916: The Commission's highest priority has been to work with Congress to reform and update the Shipping Act. The revisions of the Act being considered by Congress would eliminate preapproval standards for cooperative agreements among carriers and others, ending an era in which the Commission has been forced to speculate about the effects of such agreements in the absence of operational experience. By eliminating the costly and time-consuming preapproval process, this legislation would allow U.S. carriers to adjust more efficiently to the rapidly changing needs of international and domestic waterborne commerce. Needless and costly government delays would no longer frustrate legitimate commercial responses to an extremely dynamic marketplace. It should be noted that the Commission has never administered controls on entry, route determination, levels of service, or rates, and this legislation would not affect the traditional "hands-off" policy in these areas.

Deregulation of Domestic Offshore Trade: The Commission is currently involved in another activity that emphasizes its approach to introducing competition wherever possible. It has begun an inquiry into deregulation of domestic offshore trades, including Hawaii, Guam and Puerto Rico. In contrast to its "hands-off" policy towards international shipping, the Commission's traditional role in this area has been public utility-style rate setting. By pre-empting the forces of the marketplace, the Commission believes, government may be an unwilling participant in what could otherwise be a viable competitive situation. The Commission is seeking input from interested parties, including the Interstate Commerce Commission and Department of Transportation, on both legislative and regulatory proposals to eliminate unnecessary regulation in the offshore market. In particular, it is seeking comment on alternative methodologies for assessing the reasonableness of rate proposals.

Use of Exemption Authority to Remove Unnecessary Burdens: One means available to the Commission to remove unnecessary regulatory burdens is its exemption authority under section 35 of the Shipping Act, which allows exemption of activities where an exemption will not substantially impair effective regulation, be unjustly discriminatory or detrimental to the interests of the U.S. Under this authority the Commission has aggressively examined many of its programs with a view towards eliminating unnecessary regulations. Since 1980 the Commission has taken 15 such deregulatory actions, including removing certain financial reporting requirements for domestic offshore carriers, eliminating unnecessary requirements for some environmental analyses, and exempting many routine types of matters from filing requirements.

Cost-Recovery User Fees: Finally, the Commission has issued a Notice of Proposed Rulemaking to revise its schedule of user fees to make them more accurately reflect the agency's true costs. The Independent Offices Act of 1952 provides that benefits from Commission action accruing to particular segments of the population should be supported to the maximum extent possible by fees and charges. The Commission has recently taken steps to improve its compliance with this statute, both by restructuring and increasing already existing user fees and by adding user fees where there have previously been none. The revised schedule of fees is based on a complete evaluation of the costs of Commission services, which will also allow for improved allocation of its resources.

Establishing Improved Channels of Public Communication: The Chairman of the Commission is also involved in a program to improve the channels of communication between the agency and the entire maritime community. Beyond continuing his rigorous speaking schedule, the Chairman is planning a series of informal field hearings in the major shipping centers of the U.S. These hearings will provide a forum for shippers, carriers, freight forwarders, port authorities and other interested parties in the private sector to discuss current policy and operational concerns with key agency staff. Furthermore, such sessions should improve relations with the general public and afford them a greater understanding of the importance of oceanborne commerce to U.S. economic vitality.

## FEDERAL RESERVE BOARD (FRB)

The Federal Reserve Board has undertaken a major Regulatory Improvement Project. In recent years it has completed reviews of 12 of its 27 lettered regulations, with five additional reviews near completion. In most cases, it has issued complete revisions of the regulations and, in two cases, rescinded a regulation entirely. Specifically, recent initiatives have reduced regulatory burdens in each of six major areas of FRB regulatory activity:

- \* Monetary Policy Regulations;
- \* Securities Credit Regulations;
- \* Banking Structure;
- \* Consumer and Community Affairs Regulations;
- \* Increasing Public Input, and
- \* Regulatory Initiatives in the Upcoming Year.

The Board has also undertaken important initiatives to promote public understanding of its regulations and increase public input into its regulatory activities.

Monetary Policy Regulations: In 1980, in order to enhance monetary policy, the Monetary Control Act gave the Board jurisdiction to set reserve requirements for an additional 35,000 depository institutions. To facilitate compliance, the Board revised its Regulation D, as well as its regulation on the use of the discount window (Regulation A). To ease the burden for small institutions, the Board has continued to defer reserve and reporting requirements on a temporary basis for any nonmember institution with total deposits of less than \$2 million, which affects nearly 18,000 institutions, mostly credit unions. Very recently, upon the Board's recommendation, the Congress enacted legislation that makes the exemption permanent. For other small institutions (\$2 - \$15 million in deposits), the Board decided to permit quarterly reports rather than weekly reports, thereby considerably reducing the reporting and reserve management burden for another 22% of the nation's depository institutions.

In June 1981, the Board adopted changes in Regulations D and Q to allow depository institutions to establish international banking facilities in the United States. Deposits at these facilities, which must conduct an essentially international business, are exempt from reserve requirements and from remaining interest rate limits. The changes allow depository institutions to compete with Euromarkets from U.S. offices, while

preserving the effectiveness of the Board's monetary policy instruments.

Securities Credit Regulations: In January 1982 the Board adopted proposals to allow greater freedom for brokers and dealers to offer financing in conjunction with investment banking services, to narrow the differences in regulation of lending by banks and by lenders who are neither brokers nor dealers, to eliminate "equity building" devices that limit investor freedom to reallocate their portfolios, and to reduce the coverage of the U-1 report form that banks and their customers must complete when loans are made on stock. Apart from increasing competition between banks and broker/dealers and providing increased consumer flexibility in investment decisions, these changes will result in a paperwork burden reduction of more than 1 million hours.

Separately, the Board adopted changes in Regulation T to create a "good faith" margin requirement that allows each exchange, rather than the Board, to set margin requirements on uncovered options on government securities, and to allow brokers and dealers to use irrevocable letters of credit and certain other instruments as collateral when borrowing securities. These changes create additional flexibility and promote the more efficient operation of securities markets.

Banking Structure: The Board has simplified procedures for engaging in banking overseas and establishing branches in foreign countries, in some situations requiring no more than a simple after-the-fact notification (Regulation K). Permitting Edge Corporations (limited purpose banking facilities established by U.S. banks for international finance) to establish branches in the U.S. for the first time has resulted in more efficient operations and in the establishment of facilities in cities not previously served by Edge Corporations. Recently, the Board amended Regulation K further to permit Edge Corporations in the United States to offer certain investment, financial and economic advisory services. These changes have enhanced the organizational and operational flexibility with which United States banks can conduct international activities, with particular emphasis given to upgrading the competitive capabilities of Edge Corporations at home and abroad. In this connection, however, the Board reported to the Congress that Edge Corporations will still not be able to compete effectively with foreign banks operating in the United States unless they are given more liberal lending powers and other statutory changes are made.

By regulation or by order in individual cases, the Board has permitted bank holding companies to engage in new nonbanking activities not previously available to them, such



as the issuance of travellers checks, expanded data processing activities, acting as a futures commission merchant, engaging in financing commercial real estate development by the placement of equity interests, and management consulting to thrift institutions. Such expansion will promote competition in these fields through the addition of new entrants.

In revising its regulation on management official interlocks among depository institutions (Regulation L), the Board created a number of exceptions to permit interlocks, particularly for the benefit of new or minority institutions. More recently, it has proposed additional steps to relieve the regulatory burdens, including an amendment that would especially aid small institutions facing a disruptive loss of management because of the Depository Institutions Management Interlocks Acts.

Consumer and Community Affairs Regulations: Under authority granted by the Truth in Lending Simplification and Reform Act, the Board recently completed a thorough revision and simplification of its truth in lending regulations (Regulation Z). The new regulation reduces the number of required disclosures, provides increased flexibility in making disclosures that are required, and clarifies complex legal questions that had produced conflicting court decisions in the past. Included in the new regulation are model disclosure forms that, if used properly, guarantee compliance with the federal law. This feature should reduce litigation costs as well as executive and legal time spent designing forms. The new Regulation Z is about 40 percent shorter than its predecessor, and an official commentary has been published as a service to users.

The Board has also revised Regulation C, which implements the Home Mortgage Disclosure Act. This Act requires banks and thrift institutions located in standard metropolitan statistical areas to make annual disclosures concerning the neighborhood distribution of their mortgage and home improvement loans. The Board's new regulation simplifies the disclosures required and is cost-effective within the statute. The Board also has also recommended to Congress that it create statutory authority to exempt institutions that are relatively inactive in residential financing.

Increasing Public Input: The Board has also attempted to increase public awareness of its activities and solicit public input. One important initiative in this vein is the 1981 publication of both the Federal Reserve Regulatory Service and separate handbooks on each of the major areas of FRB regulations. The comprehensive collection and publication of the various rules under which the Federal Reserve System operates should

promote a dialogue on rules that may be inconsistent or unnecessarily burdensome as well as improve the overall accessibility of Board rules. In addition, as part of its communication efforts, the Board has held conferences and distributed explanatory materials on its regulations; has conducted several surveys of public and financial institution reactions to its regulations, including a voluntary survey of about 100 depository institutions on the incremental costs of complying with certain consumer protection regulations; has undertaken surveys of consumers to determine their perceptions of problems in consumer protection areas; and has instituted a series of colloquia on deregulatory issues that bring businessmen together with agency policymakers. The net effect of the public input program is to allow the Board to better estimate the benefits and costs of its rules and change them accordingly.

Regulatory Initiatives in the Upcoming Year: During the next six months, the staff should complete its review of Regulation Y (Banking Holding Companies and Change in Bank Control), and public comment on proposed changes will be sought. It is expected that application procedures will be eliminated in some cases or greatly simplified, and a sizable number of Board rulings as well as essential statutory material will be collected and incorporated to make the regulation a self-contained and more useful document. These proposals are being designed to reduce regulatory burdens significantly, as well as reduce system costs, and increase efficiency in the administration of the statute through greater disclosure of Board policies. The Board will also continue to develop the ongoing revisions of the "securities credit" regulations to simplify unnecessary complexities and eliminate obsolete provisions. Changes in the regulations will promote efficiency by modernizing a regulatory framework that dates back half a century. Finally, the staff plans to begin work as soon as possible on the comprehensive review of some of the 10 remaining regulatory areas that have not yet been reviewed to reduce any unnecessary burdens.

## FEDERAL TRADE COMMISSION (FTC)

The Federal Trade Commission has taken a variety of actions to reduce the burdens it places on the private sector and to lessen the "adversarial" tone that had come to typify its relations with regulated industries. These initiatives can be grouped into these broad areas:

- \* Integration of Economic Analysis in Agency Decisions;
- \* Analyzing Pending Actions;
- \* Revising Enabling Statutes;
- \* Competition and Consumer Advocacy;
- \* Improving Communications with Outside Parties, and
- \* Future Plans for Regulatory Reform.

Integration of Economic Analysis in Agency Decisions: Economic logic has become an integral part of decisionmaking at the FTC. Instead of agency attorneys moving forward alone with initial investigations that might lead to a regulatory proceeding or injunction, economists from the Bureau of Economics together with agency attorneys examine issues and reach agreement that there is both legal cause for action and economic benefits from taking that action--that is, there are expected net consumer benefits. The emphasis on economic logic as a foundation for legal action at the origin of agency initiatives yields maximum assurance that any regulatory action taken has the promise of being cost-effective and beneficial to consumers.

Analyzing Pending Actions: In recent years, the regulation pipeline at the Commission has become clogged with a backlog of matters awaiting final action. Lacking an economic theory to guide rulemaking decisions, proceedings have often lacked focus. There were sometimes no schedules for future actions, and some rulemakings received no staff attention at all for several months. As a result, possible targets of Commission proceedings found themselves facing considerable uncertainty regarding agency intentions. Bureau personnel have worked to reduce this backlog; between October 1981 and April 1982 about one-fifth of all Bureau of Competition and nearly one-third of all Bureau of Consumer Protection pending cases were closed, significantly reducing the backlog facing the Commission. Wherever possible, affected industries have been given greater certainty regarding pending actions, thus reducing the burden of regulatory uncertainty.

Revising Enabling Statutes: The Commission's authority to prohibit "false, deceptive, or unfair" acts or practices against consumers has been the source of difficulty in the past, especially where that authority has been used to pursue "new theories" of regulation not well-founded in law or economics. To avoid such instances in the future, the Chairman has worked with Congress to develop new legislation to better define which activities should be considered deceptive. At the same time, Commission authority to direct its activity towards some sectors of the economy, including insurance and agricultural cooperatives, has recently been limited. Working diligently with Congress to preserve the Commission's authority to prohibit price-fixing and boycotts in all areas of the economy has been another important area of activity.

Competition and Consumer Advocacy: The Commission has begun a new "Competition and Consumer Advocacy" program that focuses the resources of the Commission on regulatory proceedings at other agencies and on proposed legislation. The Commission has long been aware that government initiatives, as well as private action, may in some cases decrease competition and consumer welfare. As a result, the FTC has traditionally been active in espousing pro-competitive and pro-consumer actions before other government bodies. What is new under Chairman Miller is a more systematic evaluation of the areas where Commission intervention may make a difference, and greater use of economic analysis in the interventions undertaken. The "Competition and Consumer Advocacy" program draws upon existing knowledge and specialized capacities within the Commission's three bureaus, giving priority to intervention opportunities where FTC participation may contribute to the achievement of appreciable economic benefits. In particular, the Commission has been involved in hearings before the International Trade Commission which address allegations that foreign producers are selling steel below cost in the U.S. Comments have also been offered on a variety of matters, including several proceedings before the Interstate Commerce Commission and on Federal Communications Commission rules concerning satellite transponder sales and broadcast license ownership restrictions. The goal of the program is to make the Commission's economic expertise available in the deliberations of other regulatory agencies.

Improving Communications with Outside Parties: In an effort to reduce the adversary relationship that seemed to exist almost continually between the agency and those groups interested in its policy actions, the Chairman has initiated a series of breakfast dialogues at the Commission. The breakfasts allow for informal discussion of agency issues

emphasizing ways to improve communications. The Chairman has also accelerated his speaking schedule to provide greater access to agency thinking. Key agency staff have also scheduled meetings across the country to increase understanding of the reasons for FTC actions.

Future Plans for Regulatory Reform: Several regulatory reform projects are in the planning stages at the Federal Trade Commission. Over the course of the next two years both law enforcement bureaus--the Bureau of Competition and the Bureau of Consumer Protection--will be developing clearer guidance for law enforcement actions. The Bureau of Consumer Protection will develop a series of protocols that define more clearly how certain market practices, e.g., credit and advertising, will be evaluated prior to the initiation of agency action. This effort to provide better information to market participants is intended to reduce the level of regulatory uncertainty, thereby producing one of the desired effects of deregulation. The Bureau of Competition plans to accelerate its review of older antitrust consent orders, considering the current applicability of those orders in the light of existing market conditions, and where appropriate, offering recommendations for revisions.

The agency's Business and Consumer Education program will develop carefully researched and developed educational products and programs designed to augment and/or replace regulatory approaches which might be taken in the consumer protection area. Wherever possible, the agency will seek to aid the development of a better informed market place as an alternative to the formation of more highly regulated markets.

While these planned activities are under development, the agency will continue to improve mechanisms for emphasizing the application of economic reasoning to its law enforcement decisions, as well as to intensify ongoing efforts gauged to reduce the administrative burden of its programs carried by the private sector.

## INTERSTATE COMMERCE COMMISSION (ICC)

During 1980 the Congress passed the Motor Carrier Act and the Staggers Rail Act, calling for substantially reduced regulation of the trucking and railroad industries, respectively. The Commission's recent activities have consisted largely of implementing these two statutes and of proposing further deregulatory initiatives to the Congress. For purposes of this summary, the Commission's regulatory relief initiatives can be divided into five categories:

- \* General Reform Activities;
- \* Initiatives to Deregulate Trucking;
- \* Initiatives to Deregulate Railroads;
- \* New Legislation to Deregulate Buses, and
- \* New Legislation to Further Deregulate Motor Carriers.

General Reform Activities: In July of 1981, the Chairman's Office began a careful, consistent, and comprehensive review of all Commission regulations, aimed at determining which regulations were no longer appropriate, necessary, or meaningful in today's environment. Using the technique of cost/benefit analysis, we have examined more than 150 regulations. We have targeted 45 regulations or CFR sections to be addressed by this September. Due to consolidation of some sections of the CFR, the number of proceedings was reduced to 35. The majority of these rulemakings are completed. Ultimately, we believe the savings to our regulated carriers and the public, in terms of time, paperwork and money, will be enormous. It should be noted that, despite limited resources, we have kept this review on target while laying the groundwork for implementation of bus deregulation through 18 initial implementation rulemakings.

Along with our regulatory review, we have established a statutory review committee, and charged it with identifying and recommending those areas where the Commission can responsibly seek a divestiture of its statutory responsibilities.

The Committee's approach is to presume that specific areas of substantive jurisdiction are ripe for relinquishment. Only if it can be demonstrated that a particular area is absolutely essential will it be retained. Input from the private sector will be actively solicited soon.

One example of the statutory areas previously reviewed can be found in our proposal to terminate the Commission's jurisdiction over security issuances by motor carriers. Our proposal has now become the "Bus Regulatory Reform Act of 1982," which the President has just signed into law.

The statutory review committee is compiling a list of areas of possible divestiture of statutory responsibility which we intend to use in working with the Administration and Congress relative to preparation of a substantial motor carrier deregulatory proposal for next year.

Initiatives to Deregulate Trucking: The Commission has sought to provide increased competition in the trucking industry by facilitating applications for new authority and more competitive rates by trucking firms. It continues to approve about 95 percent of the entry applications it receives, including applications for nationwide authority. Of the 600,000 rate applications it will receive during 1982 (most of which involve reductions in rates), only a small minority will be disapproved.

Among the most notable accomplishments during the past 15 months has been the replacement of the fuel surcharge program with a more equitable, mileage-based method of reimbursing independent truckers for their out-of-pocket costs. The agency had struggled with the inherently flawed fuel surcharge program since June of 1979. Converting the program to a cents-per-mile reimbursement method has corrected many inequities while continuing to offer a measure of economic protection for independent truckers.

Independent truckers also will benefit from the Commission's decision to allow them to lease directly to private carriers. (Ex Parte No. MC-122 - February 17, 1982.) This decision -- currently being challenged in the courts -- was made with the intent of stimulating competition while improving the economic well-being of independent truckers.

The Commission proposed modifications to the leasing rules which would allow private carriers to trip-lease their equipment and drivers to authorize carriers. (Leasing Rules Modifications, Ex Parte No. MC-43 (Sub No. 12)). After a review of the public comments, the staff was instructed to prepare a proceeding shortly after the decision in Ex Parte No. MC-122 (Sub No. 2) Lease of Equipment and Drivers to Private Carriers, which was served February 17, 1982. Unfortunately, the initial draft which was prepared by the staff in January was far too lengthy and required substantial revision. The necessary revisions are now completed, and a final decision should be served shortly.

Following survey evidence that many independent owner-operators did not understand the reduced entry barriers created by the Commission's new policy, the Commission has conducted over 30 two-day training sessions for these carriers with the intention of encouraging familiarity with and utilization of its easier authority-application procedures. These training sessions have been of tremendous assistance to this important class of small businessmen.

In addition, the Commission revised and clarified application regulations pertaining to operating authority sought as a direct substitute for abandoned rail service. (Ex Parte No. 55 (Sub No. 43C) -- November 20, 1981.) This "fitness only" service protects shippers and commuters which might be adversely affected by rail abandonments.

The processing of applications is still moving forward at a rapid rate. Using the standards adopted in the Motor Carrier Act, the Commission has continued granting roughly 95% of all motor carrier operating rights applications.

After working with the Motor Carrier Act for only a short time, it became readily apparent that the "evidence of public need standard" should be eliminated from the entry requirements for motor carrier applicants. The conclusion we reached, which led to a legislative proposal, was that this standard serves no useful purpose and consumes an undue amount of our limited resources.

However, our suggestion that the Commission rely solely upon the "fit, willing, and able" test is not part of a scheme to create some new kind of entry barrier. The sole purpose of the standard is to protect the public interest by assuring safe and responsible motor carrier operations on America's highways. To make this point certain beyond any doubt, Congress has been asked to emphasize that the fitness requirement is not intended to constitute an undue burden. In fact, to bring about consistency, the legislative treatment of fitness for motor carriers of property should correspond with the one (i.e., dealing with safety and insurance) adopted in the bus legislation.

Pricing innovation and independent ratemaking have substantially increased since enactment of the Motor Carrier Act. Independent actions have soared: more than 600,000 motor carrier filings are anticipated this year (based on data for the first eight months of 1982).

The vast majority of these filings are rate reductions which are routinely approved. Volume discounts, multiple shipment discounts, shipper allowances and aggregate tender discounts are among the new price options offered by carriers in accordance with the intent of the Act.



Where allegations of predatory and discriminatory pricing are submitted, they are examined on a case-by-case basis. It may well be that the complaints of this nature now being received are due to transitional problems, exacerbated by recent economic conditions. However, public comment and Commission clarification and guidance in this area should promote certainty, clear the air, and promote rate innovation.

Another important proposal currently pending before the Commission would eliminate the necessity of contract carriers filing tariffs with the Commission.

The Commission has confined its enforcement efforts to two major public interest areas: unsafe and unauthorized operations. The Chairman has consistently emphasized that enforcement activities must not entail "gumshoe" operations. The Commission wants to protect the public from harm, and does not seek to impose petty fines, or to engage in midnight raids. Our modern rule requires a "fine touch" in lieu of the oft-times heavy-handed enforcement techniques of the past.

Deregulation of the trucking industry has not been painless. The current recession has caused decreased industry profits that some have blamed on deregulation; the Commission has been hampered in its efforts by ambiguities in the legislation and by resulting court challenges to many of its regulatory relief initiatives. Despite these barriers, a good deal of progress towards deregulation has been made so far. The Commission will continue to pursue increased competition, including considering proposals for entirely eliminating its trucking regulation activities.

Initiatives to Deregulate Railroads: The Staggers Rail Act provided for increased exemption authority under which the Commission may exempt railroads from rate regulation. It has used that authority to finalize its exemption procedures for trailer-on-flatcar and container-on-flatcar (TOFC and COFC) rates and is considering exemptions in several other areas. The Staggers Act also authorized rail rate contracts between shippers and railroads where rates are not subject to ICC approval. About 100 such contracts are being filed with the Commission each month, indicating that this deregulatory provision is being utilized extensively.

The Commission initiated, early in the Chairman's term, an invitation to the rail industry to be innovative in requesting the Commission to exercise its exemption authority. The industry has responded with requests in such areas as abandonments, trackage rights, leases, new operations, and expedited effectiveness of contract rates.

One of the most significant changes made by the Commission in the rail area has resulted in the cancellation of all rate and route "standard traffic protective conditions" imposed by the agency since 1950. Under the new policy, consolidating railroads will be free to offer lower freight rates for shipments travelling over their routes than for shipments transported over competing routes in which the consolidated carriers formerly participated. This policy promotes efficiency and lower prices to shippers.

Among the first beneficiaries of the new policy was the Norfolk and Western and Southern Railway Systems, whose merger was approved by the Commission in March of this year. The network created by the merger will be the fourth largest rail system in the country.

Shortly after granting the Norfolk & Western and the Southern permission to merge, the Commission approved Guilford Transportation Industries' petition to acquire the bankrupt Boston and Maine Railroad, paving the way for the B&M to emerge from bankruptcy after 12 years. Additionally, the Commission has recently approved Guilford's application to acquire control of the Delaware and Hudson Railway, thereby establishing a 3,830 mile rail system.

On September 13, 1982, the Commission announced its approval of the plan to consolidate the Union Pacific, Missouri Pacific, and Western Pacific into a major system which will run single line service over 22,000 miles of track through 21 states. In approving the plan, the Commission also granted trackage rights to the DRGW, the MKT, and the SP. These rights will provide additional rail competition to shippers throughout the area served by the consolidated system.

The Commission also substantially reduced its filing requirements governing the construction, acquisition and operation of rail freight lines. This change will enable the agency to process applications more rapidly, benefiting both railroads and shippers. The most significant track building proposals have involved construction of rail lines to haul coal. We expect that the lessened filing burden will speed the processing of these applications.

New Legislation to Deregulate Buses: The Commission worked closely with Congress to pass legislation to deregulate the intercity bus industry, and is enthusiastic about the bill recently signed into law by the President. The new law eliminates the public convenience and necessity test for new operating authority and shifts the burden of proof in entry applications to those opposing the grant of authority. In addition, it creates a zone of rate freedom within which carriers are free to change rates without Commission

approval. Finally, the new law authorizes the Commission to preempt State regulations that inhibit carrier freedom and prevent achieving operating efficiencies and hence lower consumer prices. The Commission is rapidly implementing the new bus deregulation scheme: proposed regulations have already been released for public comment.

New Legislation to Further Deregulate Motor Carriers: The Commission has recently proposed various changes in motor carrier regulation. As discussed, we have been successful in eliminating ICC regulation of the issuance of securities for motor carriers through the incorporation of a provision of this nature in the bus bill. A provision allowing the Commission to exempt motor carriers of property from Commission jurisdiction with regard to mergers, consolidations and acquisitions of control also was included in the bus bill at our recommendation.

Further legislative initiatives are underway. The Commission intends, as a minimum, to propose a broad motor carrier exemption provision along the lines of the Staggers Rail Act. In addition, the Commission is taking a hard look at all facets of motor carrier regulation. We intend to work closely with the Department of Transportation, OMB, and congressional committee staffs in developing new legislative initiatives, including a revised "fitness only" proposal. Also under consideration is the question of whether to recommend the sunset of all motor carrier regulation.

## NATIONAL LABOR RELATIONS BOARD (NLRB)

The National Labor Relations Board differs from the other CIRA agencies in that it does not issue substantive regulations. As a result, the regulatory relief initiatives undertaken have been addressed to procedural regulations governing public relations with the Board. These initiatives are described here under the headings:

- \* Initiatives Completed to Date, and
- \* Future Regulatory Review and Simplification.

Initiatives Completed to Date: Within the past year the Board has approved three major revisions in its procedural regulations. It revised its definition of the content of the rulemaking record to include more materials and to allow parties to supplement the record even further. Second, it imposed a 50-page limit on briefs filed before the Board to require more concise statements of issues and arguments and hence lower Board and public costs of evaluating the evidence in each case. Finally, the Board modified the rules under which it oversees employee representation elections to clarify various post-election procedures. In addition to these major changes, eight minor changes were made that will also lead to increased Board efficiency and lower costs on the private sector.

Future Regulatory Review and Simplification: The NLRB has a standing Rules Revision Committee, which evaluates the Board's procedures on an ongoing basis and recommends revisions. In order to further the goal of regulatory relief, the Chairman recently instructed the committee as follows: "I am asking the Rules Revision Committee to expand its activities to include active consideration of all Rules and Regulations with a view toward simplification, elimination or modification of rules that are no longer relevant, or that have become obsolete or simply unnecessary. This is in line with the Administration's policy of cutting down excessive regulations and simplifying procedures before regulatory agencies specifically and all government agencies in general. I would suggest an interim quarterly progress report on such a study with an ultimate aim of completing such overall review within one year." The effect of this across-the-board review of the Board's regulations has yet to be realized, but it is clear that the effect of more efficient and understandable Board regulations will be reduced regulatory burdens for the public and reduced costs for the Board.

## NUCLEAR REGULATORY COMMISSION (NRC)

The Nuclear Regulatory Commission has aggressively pursued regulatory reform, particularly through the following three initiatives:

- \* Committee to Review Generic Requirements for centralized over the imposition of requirements on licensees;
- \* Regulatory Reform Task Force, and
- \* Improved Guidelines for Value-Impact Analysis.

Committee to Review Generic Requirements: The Commission's numerous regulatory requirements emanate from a number of different sources within the agency. Because of the large number of these requirements, agency and industry priorities have not always been focused on those matters having the greatest safety significance.

The Commission's response has been to create a central point -- the Committee to Review Generic Requirements -- where proposed requirements for one or more classes of nuclear power plants can be comprehensively reviewed. The Committee's purpose is to develop controls which assure that new requirements (and present requirements as well) do, in fact, contribute significantly to public health and safety and use Commission and licensee resources in as optimal fashion as possible. The Committee uses cost-benefit analysis and probabilistic risk assessment where data for its proper use are adequate.

The Committee reports to the Executive Director for Operations. Membership on the Committee includes the Deputy Director for Regional Operations and Generic Requirements and one senior official of each of the principal staff program offices.

Regulatory Reform Task Force: It is apparent that the licensing and regulatory processes of the Commission are in need of reform. In November 1981, the Chairman created an internal Task Force to address this problem. The Task Force reviewed the available information on nuclear licensing reform and prepared draft legislation that would mold a licensing process for new standardized nuclear power plants. The legislation was published for public comment and submitted to an ad hoc committee outside the Commission for review. Work may be completed as early as this fall.

The Task Force also is focusing on reforms that can be accomplished within existing laws. One measure recently proposed would revise the standards and procedures that govern retroactive application of new safety requirements to older plants that are

already licensed. Other reforms will address the adjudicatory hearing process which applies to nuclear power plant licensing.

A major goal of the Task Force has been to solicit public input on the proposed reforms, and the Commission's creation of the Ad Hoc Committee to Review Task Force Recommendations has allowed individuals with widely differing perspectives to address directly the proposals before the Commission.

Improved Guidelines for Value-Impact Analysis: Partially in response to Vice President Bush's request that the agency comply with the spirit of Executive Order 12291 (which requires Executive branch major regulations to be accompanied by Regulatory Impact Analyses), Commission staff reviewed internal guidance for preparation of Value-Impact Analyses, which are roughly equivalent to Regulatory Impact Analyses. The review was also prompted by Commission Policy and Planning Guidance to evaluate requirements on a cost-benefit basis. As a result of the review, the staff proposed revisions to the guidelines which would provide the flexibility to tailor the scope of the analysis to the significance of the action being considered. The general framework would permit the staff to select methodologies for assessing cost and benefits that are most appropriate for the particular case. The revisions have been approved by the Commission.

## SECURITIES AND EXCHANGE COMMISSION (SEC)

Recognizing that investors bear the costs and suffer the consequences of excessive regulations, the Securities and Exchange Commission has reduced corporations' estimated annual compliance costs several hundred million dollars; freed-up an additional estimated \$700 million of security industry capital for more productive employment; resolved a seven-year jurisdictional impasse with another regulatory agency which had blocked both agencies from authorizing new financial products for which there is substantial public demand; reduced regulatory costs and improved investor protections by placing greater reliance on private sector self-regulation; and has conferred other major benefits on the investing public.

Simplification and Improvement of Compliance Requirements: In February, 1982, the Commission integrated the registration and reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934 which is one of the most important improvements in the securities laws since they were enacted. Integration telescopes corporations' time requirements and substantially reduces their expenses. At the same time it increases their flexibility in structuring and timing financings -- without compromising the full disclosure of material information to investors. Incorporation by reference in disclosure documents of previously disclosed information eliminates repetitive disclosures. Compliance cost savings aggregate several hundred million dollars per annum.

Other compliance improvements include the new "shelf registration" rule which permits companies to register securities and hold them "on the shelf," pending favorable market conditions. Over 130 redundant accounting releases have been withdrawn and the remaining 71 codified into a ready-reference manual. The prospectus for exchange-listed options has been simplified and a comprehensive review of the proxy regulations is in process.

More Efficient Use of Securities Industry Capital: SEC regulations which constrain broker-dealer capital usage increase the cost of securities services. In January, 1982, the Commission reduced securities firm net capital requirements by approximately \$500 million, permitting the more productive use of these funds. The Commission has also authorized the use of letters of credit to secure member firms' contributions to clearing house guarantee funds and to collateralize stock loans, which frees-up approximately \$200 million of additional capital.

Other actions which improve market efficiency include modifying rules that have inhibited underwriters from market-making, permitting domestic investment companies to hold foreign securities in foreign depositories and facilitating transactions between institutional investors. These actions increase market efficiency and reduce costs.

Reduced Constraints on Small Business Capital Formation: An area of concern is the high cost of capital to small business. In March, the Commission adopted Regulation D which exempts from Securities Act registration certain offerings up to \$5 million. Most states are expected to adopt similar exemptions which will be the first joint state and federal registration exemptions.

Form S-18, a simplified method of registering up to \$5 million of securities for first-time issuers, has been extended to noncorporate issuers and to mining, oil and gas firms. The dollar limits on the size of firms exempted from certain reporting and registration requirements has been increased from \$1 to \$3 million of assets, to take into account inflation since the original thresholds were established. In September, pursuant to the Small Business Investment Incentive Act of 1980, the Commission conducted the first Government Business Forum on Small Business Capital Formation. The Forum's recommendations are being carefully studied, with a view to legislative and other initiatives.

Private-Sector Self-Regulation: Greater reliance is being placed on private-sector self-regulation, under the Commission's oversight. The 428 accounting firms which audit almost all of the 9,000 publicly-owned companies are now on a three-year peer review cycle. The purpose of these reviews is to assure high auditing standards and practices -- which also decreases the potential liabilities of these firms to those who rely on their audits. It is far beyond the Commission's resources to conduct such reviews, but they are carefully monitored by the Office of the Chief Accountant.

The stock exchanges and National Association of Securities Dealers are also enhancing their electronic intermarket surveillance systems and audit trails of securities transactions, under the oversight of the Market Regulation Division.

These measures result in better regulation, reduced Commission expense, more efficient markets and improved investor protection. Self-regulation of investment companies is also under study.



Legislative Proposals: In order to better serve investors, depositors and policyholders, the Commission has proposed a task force under Vice President Bush to simplify the regulatory structure of the financial service industries, including regulation by functional activities instead of outmoded industry classifications, consolidation of related regulatory bodies and simplification and rationalization of the regulations within and between regulatory agencies.

Last December, the SEC reached an Accord with the Commodity Futures Trading Commission, which resolved a seven-year turf battle that had blocked both agencies from authorizing new financial products for which there is great public demand. The President recently signed the enabling legislation and trading has commenced in Treasury and GNMA options -- which will facilitate government and mortgage financings. These instruments have been endorsed by the Treasury, the Federal Reserve Board, and the housing, securities and banking industries. The Commission has also authorized trading in foreign currency options, which will facilitate international trade by reducing the cost of hedging foreign currency fluctuations. Trading will commence in these options in December.

Last November, the Commission proposed repeal of the Public Utility Holding Company Act which it administers. The utility industry and the Administration have endorsed repeal. Hearings have been held in the House and Senate. The basic objective of the Act -- the dismantlement of the multi-tiered electric and gas holding companies -- was accomplished 20 years ago. And yet, under this Act, major utility systems -- which generate 20% of the nation's electricity and distribute 8% of our natural gas -- still have to obtain prior SEC approval of their merger, acquisition, financing and geographical expansion plans, as well as their intra-system transactions. More important, the Act also inhibits these activities by all other electric and gas utilities -- for fear of becoming subject to the Act. This is the only area in which corporations are required to obtain prior SEC approval of such decisions. If the Act is repealed, these utilities will continue to be subject to the SEC's reporting and registration requirements, as well as pervasive rate and other regulation by the Federal Energy Regulatory Commission and the state utility commissions.

Finally, the Commission supported the Foreign Corrupt Practices Act amendments approved by the Senate, which are pending in the House. The amendments include proposed changes in the accounting and internal controls provisions, which will ease compliance burdens and eliminate ambiguities.

