

The legislation also contains a number of other provisions to promote the SBIC program. Increased investment by banks in the companies is permitted, subject to appropriate safeguards; and an industry advisory board to SBA is provided for. The new legislation increases permitted bank-SBIC investments from 2 to 5 percent of a bank's capital and surplus, but limits acquisitions of ownership of an SBIC by a bank to 49 percent or less.

The first meeting of this group, the National SBIC Advisory Council, was held in early March of this year in Washington, D.C., and the second meeting was held on May 3 in Dallas, Tex. This Council promises to be a most helpful means of improving communication between SBA and the industry, and to aid in developing measures to better enable the SBIC's to provide increased assistance to the small business community.

We are also, pursuant to the legislation, working with other Government agencies—such as the Internal Revenue Service and the Securities and Exchange Commission—to simplify and clarify their rules applicable to SBIC's, as well as continuing our efforts to aid the industry in improving SBIC profitability, obtaining better access to institutional loan funds for the companies, and in methods to make the industry more attractive to investors so as to increase the flow of private capital to the SBIC program.

I might mention at this point that there is important complementary legislation—H.R. 10410 and S. 1863—still pending before the Congress to improve the tax treatment of SBIC's and to encourage their making more equity-type investments. While the Congress in 1958 enacted a number of tax provisions recognizing the unique venture capital nature of SBIC's, experience under the program shows a definite need for modifications. Accordingly, after consultation with the industry and Treasury Department, SBA proposed legislation to accomplish corrective improvements in the tax provisions applicable to the companies and their stockholders. The SBIC's are presently permitted to establish a loss reserve against their loan investments; to treat as ordinary losses certain losses on their portfolio; and to pass through gains to their shareholders without payment of the corporate tax in certain circumstances. In these and other areas this tax legislation contains provisions designed to accord with the special nature and functions of the companies in their small business financings. In effect, these tax amendments would allow SBIC's to increase their profit potential by making venture-capital investments in conformity with the purposes of the Small Business Investment Act, without incurring tax disadvantages. We are hopeful that these tax amendments will be enacted in the current congressional session.

Concurrently with the January 9 effective date of the new legislation, SBA issued a general revision of its regulations applicable to the SBIC industry. A major purpose of this revision was to consolidate, simplify, and improve SBA rules applicable to the companies. There are a number of new provisions in this regulations package which are especially significant. These include specific authority for SBIC's to guarantee to institutional lenders debts of portfolio small concerns. This authority could substantially help portfolio small concerns in obtaining short-term financing supplementary to their long-term financing from the SBIC's. The regulations governing control of a small business concern by an SBIC have been tightened.