SBA should be notified as rapidly as possible. If the case is to be litigated, it should be prosecuted promptly and with vigor.

The SBA has cooperated with the Department of Justice in criminal matters to facilitate prompt prosecution of these matters.

RECOMMENDATION NO. 4

The SBA should consult with representatives of the SBIC industry in an endeavor to formulate a workable plan whereby the assistance of organizations representative of the industry can be utilized to assist in policing the industry to insure compliance with provisions of the Act and regulations adopted pursuant thereto.

The SBA has consulted with representatives of the industry regarding the enforcement of the Act and Regulations. In addition, the National Association of Small Business Investment Companies has adopted a "Code of Ethics," "Trade Practice Rules," and "Procedures for Enforcement of the Code of Ethics and Trade Practice Rules" which are attached hereto.

RECOMMENDATION NO. 5

Amendatory provisions of the Small Business Investment Act as discussed in this report should be considered by the appropriate legislative committee of the Congress.

The SBIA was amended and became effective January 9, 1968. The dual types of lending programs (Sections 302 and 303) have been replaced by one type of lending program. This legislation provides 2-1 leverage to companies up to $7,500,000. In addition, the amendments provide a 3-1 leverage on capital in excess of $1,000,000 but not to exceed $10,000,000 if the company has sixty-five percent of its investments in venture capital.

The amendments eliminate the option to a small business concern obtaining capital from an SBIC to become a stockholder-proprietor of the SBIC.

RECOMMENDATION NO. 6

Immediate consideration should be given by the appropriate legislative committee to legislation which would amend the Internal Revenue Code to—

(a) allow bad-debt and reserve treatment on all types of financing instruments acquired by SBIC's other than shares of stock or rights to acquire stock.

(b) clarify the personal holding company surtax exemption now referred to in code section 542(c)(8).

(c) liberalize the diversification requirements for SBIC's registered under the Investment Company Act of 1940 that elect to be taxed as regulated investment companies, in order that small business investment companies can operate as SBIC's while being permitted to pass through their income to their shareholders without the payment of corporate income tax.

These provisions are included in the tax bill pending before Congress.

RECOMMENDATION NO. 7

Following completion of its examination of all SBIC's, the Small Business Administration is directed to make a full report on the operation and management of this program, together with recommendations, to the Congress.

Answered by letter dated 2-7-67.

EXHIBIT 1-A

SMALL BUSINESS ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., February 7, 1967.

Hon. JOE L. EVINS,
Chairman, Select Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In its report to the House of Representatives, 89th Congress, Second Session, the Select Committee on Small Business directed SBA, following completion of its intensive examination program, to make a full report to the Congress on the operation and management of the investment program.