

some. Do you believe that a compromise can be worked out so that public investors in SBIC's will still continue to have the protection provided for them by our security laws?

Mr. BROWN. We have been working, Congressman, with the Securities and Exchange Commission and the industry for some time to try to eliminate as best we can the dual regulation of the industry. We are in sympathy with the industry on this point. And we would like to see the number of things where they have to go to both SEC and SBA cut down to the very minimum. There are some problems involved. SEC is primarily a stockholder protection agency, while our primary mission is to protect small business. And we have had several meetings, both with SEC alone and with the industry and SEC, and we are going to have more. And we feel like we are making progress. We are going to do our best to try to cut down the number of areas where the public SBIC's have to make dual reports when it is not necessary, and in other areas where perhaps one of the two agencies can do the whole job, and they don't have to go to both of them.

Mr. CONTE. I imagine that you agree with me, though, that the public investor should be protected as he is at the present time under SEC rules, whether they be SBA rules or not.

Mr. BROWN. He certainly has to be, Congressman.

Mr. CONTE. When will you come up with a final decision?

Mr. BROWN. I am not sure about that. We just had a meeting with the SEC and the SBIC industry about a week ago, and we have got another one scheduled to come up very soon. We hope to do it as quickly as possible.

Mr. CONTE. I have no further questions, Mr. Chairman.

The CHAIRMAN. Congressman Morton.

Mr. MORTON. Thank you, Mr. Chairman.

Mr. Brown, in the early warning system you touch on, precisely what is the system you use to give you the early information that something is wrong with the transaction?

Mr. BROWN. Congressman, generally we consider that an SBIC is capital impaired when it has lost 50 percent of its private capital. Now, this is not Government money; they have to lose their private money before Government money is lost. But we consider it capitally impaired when 50 percent of its private capital is in jeopardy. And formerly, before this, we would just wait until we were able to pick it up on an examination report or in some other manner. And sometimes the first time we would know about it, it would be 55 or 60 percent capitally impaired. We have now got this regulation where the SBIC, if it knows about this, must report at the earliest possible moment, when it reaches a certain point of capital impairment, a certain part of its private capital is impaired. And then when it does tell us about this we try to do what we can to prevent that company from going down the drain creditwise.

Mr. MORTON. Do you have any guidelines on which SBIC's can base a judgment of impairment?

Mr. BROWN. Yes, sir. In other words, they understand it just means the amount of money in jeopardy of their private capital, and I think it is a fairly simple test.

Mr. MORTON. Do you have any centralized data processing system which could be used to monitor SBIC investments?