

regulations overlap and result in dual regulation of our industry to the detriment of our program and the benefit of no one.

The proposed rule presents an excellent example of the very type of situation we referred to yesterday, and we therefore urge you to accept our suggestion as a first step in the direction of eliminating unnecessary dual regulation between SEC and SBA with respect to our industry.

Sincerely yours,

MILTON D. STEWART, *President.*

EXHIBIT B

PROPOSED RULE 18(d)1 UNDER THE INVESTMENT COMPANY ACT OF 1940

Notwithstanding the provisions of Section 18(d) and Section 23(a) of the Investment Company Act of 1940, a small business investment company licensed as such by the Small Business Administration pursuant to the authority granted such Administration by the Small Business Investment Act of 1958, as amended, and registered with the Commission, pursuant to the Investment Company Act of 1940, may adopt a plan to grant and may grant stock options to its officers and employees and issue stock upon exercise of such options on the following terms and conditions:

1. Options may be issued only to officers and employees of the small business investment company and the right to exercise such option shall continue only so long as such officer or employee is actually employed by the company or not later than three months after the date he ceases to be an employee, except that such option may be exercised upon his death by his estate or legal representative within three months after such death.

2. No one person shall receive options in excess of 40% of the total options permitted to be issued under the plan, provided however that in cases of persons whose annual cash compensation equals or exceeds \$50,000. The aggregate exercise price of the options at the time of their grant shall not exceed 200% of such annual cash compensation.

3. The total number of shares to be issued under the terms of the plan shall not exceed at any one time an amount greater than 5% of the then outstanding shares of the class of the securities which is the subject of the option.

4. The exercise price of the options shall be at least equal to the fair market value of the shares which are the subject of the option on the date of the granting of such option, or on the date any reduction is made in the exercise price because of a decline in the average market price of the underlying security as described and permitted in Section 421 of the Internal Revenue Code as it now exists or is hereafter amended, provided, however, that in the case of any person who owns securities possessing more than 10% of the total combined voting power of all classes of securities of the company, the option price shall be at least 110% of the fair market value of the securities subject to the option on the date of grant of such option and by its terms such option is not exercisable after the expiration of five years from the date such an option is granted. For the purposes of this paragraph, an individual shall be considered as owning (i) the securities owned directly or indirectly by or for his brothers and sisters (whether by the whole or half blood), spouses, ancestors and lineal descendants, and (ii) stock owned directly or indirectly by or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by or for its shareholders, partners or beneficiaries.

5. The stock option plan shall be duly approved by the holders of a majority of the securities of the small business investment company, present or represented, entitled to vote at a meeting for which proxies are solicited substantially in accordance with the rules and regulations, if any, then in effect under Section 20(a) of the Investment Company Act of 1940 or by the written consent of the majority of the holders of the securities of such company entitled to vote solicited substantially in accordance with such rules and regulations in each case, whether or not such rules and regulations are applicable to such solicitation.

6. The options to be issued under the plan shall be "restricted stock options" as that term is defined in Section 421 of the Internal Revenue Code as it now exists or as hereafter amended except that such options shall not be exercisable for at least one year after their issuance.

The CHAIRMAN. Yes, we thank you both for coming and giving us the benefit of your judgment and experience and wisdom on this matter. And you have permission to extend your remarks.