S.E.C. ASPECTS OF THE SMALL BUSINESS INVESTMENT ACT OF 1958

Address of
Edward N. Gadsby
Chairman
Securities and Exchange Commission
Washington, D. C.

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It is a great pleasure for me to have this opportunity to address this joint meeting of the Federal Bar Association of New York, New Jersey and Connecticut and the City Club of New York. The timing of this meeting coming as it does approximately six months following President Eisenhower's approval of the Small Business Investment Act of 1958 on last August 21st suggests the opportunity of appraising what has been done during the last half year to make available to the public the opportunities opened up by the new Act as well as of indicating, in a general way, the path which lies ahead.

As soon as the bill was signed, we directed our most highly qualified staff members in the Division of Corporation Finance and the Division of Corporate Regulation to draft regulations which would implement the participation of the Securities and Exchange Commission in the administration of the Act, and the new statutory amendments to the Securities Act of 1933, the Trust Indenture Act of 1939 and the Investment Company Act of 1940. Following some weeks of conferences both within our own agency and with the newly created Small Business Investment Division of the Small Business Administration, the S.E.C. issued on November 5, 1958, a notice of proposed exemption for securities of small business investment companies and notice of a proposed single registration form for such companies designed to cover registration under both the Securities Act of 1933 and the Investment Company Act of 1940. In accordance with our usual practice, all interested persons were invited to submit their views and comments on the proposals to the Commission on or before November 20, 1958. In light of the comments so received and after further Commission consideration, we issued notice on December 17, 1958 of the adoption of a Registration Form N-5 for small business investment companies and a Regulation E providing under certain conditions an exemption for securities of small business investment companies. I will discuss this new regulation and the registration form later.

In January of this year the Small Business Administration conducted workshops at Los Angeles, Kansas City and Philadelphia for the purpose of explaining to the public the procedures for organizing and operating small business investment companies under the provisions of the Small Business Investment Act of 1958. In furtherance of our policy of close inter-agency cooperation, two of our top men participated in these sessions to explain the regulations under which the S.E.C. operates, the pertinent provisions of both the Securities Act of 1933 and the Investment Company Act of 1940, and what exemptions may be granted small business investment companies under those laws. More than 1,100 commercial and investment bankers, accountants, lawyers and businessmen attended the clinic at Los Angeles and almost as many attended at the meetings in Kansas City and Philadelphia. Inasmuch as

our regional and branch offices have received numerous inquiries concerning the new legislation, we arranged for our regional administrators to attend these sessions in order to become thoroughly oriented in this new field. Another such forum is being arranged to be held in New Orleans in the latter part of March.

We had originally expected that there would be considerable activity in the organization and financing of small business investment companies in the early months of the current year. As I will point out later, it is necessary for numerous preliminary steps to be taken before these filings can be made, however, and up to the present time, there have been no such papers filed with the Commission. Accordingly, while I expected, when I accepted your kind invitation to discuss this matter with you, that I would have some experimental data to present, I find myself in the position of being confined to our preconceived ideas and estimates as to the effect of this Act. While it is extremely difficult to make any reasonable estimate in this field, the present indications are that approximately 250 small business investment companies will seek funds through public financing in 1959. This will involve registration of such companies under the Investment Company Act of 1940 and also compliance with the Securities Act of 1933, either by registering their securities or by filing a notification under the new Regulation E, as I will explain in a moment.

The first step in setting up the machinery under this new legislation is the formation of a small business investment company, under state or federal charter. The capital of this investment company may be initially derived in part from the Small Business Administration and in part by the sale of stock to sponsors. These sponsors may be of two kinds. They may be governmental in character, such as a state or a regional organization, in which event the Securities and Exchange Commission has no immediate interest, at least insofar as the initial sale of the securities of the investment company is concerned. On the other hand, it is contemplated that some at least of these concerns will be financed, aside from the SBA participation, through the sale of their securities to a segment of the general public. It is at this point that the Securities and Exchange Commission begins to be interested.

After considering and weighing the many problems involved in affording assistance to small business and at the same time preserving adequate protection to the investing public, the Congress determined that any plan of assistance to small business which would involve public investment must be bottomed upon the time tested maxim that confidence can only be achieved and damage to the public avoided by adherence to the customary standards

of open and complete disclosure and of fair dealing between the parties. To this end it was determined these new small business investment companies would be subject to the applicable provisions of the Securities Acts. It is only in a very few necessary connections that Congress made specific exemptive provisions, and generally the Commission is left with discretion to establish exemptions to the extent consistent with the public interest.

The Small Business Investment Act contemplates that the small business concerns which are in need of new capital on a long term basis and cannot obtain it otherwise on reasonable terms, may apply for such monies to an investment company so formed under the Act. Assuming all else to be favorable, such a small business will then issue and sell to the investment company its convertible debentures in the required amount. The Act also contemplates that the small business concern will invest nominally in the equity securities of the investment company. This feature involves some points under the Securities Acts which I will deal with later. In due course, if the subsequent activities of the small business prove to be profitable, the investment company may liquidate its holdings of the securities of the small business, either by redemption or by the sale of the debentures or by conversion and sale of the underlying stock, in either case at private or public sale. This raises another question under the Securities Act and possibly under the Trust Indenture Act.

Since this process which I have rather summarily described involves the issuance and sale of corporate securities, it is obvious that it also involves consideration of the jurisdiction of the Securities and Exchange Commission, which broadly covers activities concerning such access to the capital market. It is necessary, in order to consider how this arrangement may be affected by the various Acts which are administered by the S.E.C., first to consider how much of this program has been left to our jurisdiction by the Congress under the 1958 Act, in what respects the law calls upon the investment company, or its borrower, to note the jurisdiction of the S.E.C. and what measures this agency has adopted in order to make sure that this legislation will accomplish its stated purpose without running counter to the purposes expressed in the nexus of statutes we administer.

As I have mentioned, these small business investment companies will be chiefly concerned with two of the Securities Acts. The first of these is the Securities Act of 1933, which was enacted to protect investors and the public in connection with the offering and sale of securities by processes designed to insure full disclosure of all relevant facts. The other is the Investment Company Act of 1940, which is a regulatory statute prescribing

standards in the interests of investors and the public to govern certain of the activities of companies engaged in the business of investing in securities.

The Securities Act of 1933 has two basic objectives; one is to provide investors with information concerning securities offered for public sale and the other is to prevent misrepresentations and fraud in the sale of securities. The Act applies, with exceptions not here material, to the offering and sale of all types of securities not only by the issuer but also by any person in a control relationship with the issuer, and it is concerned with all types of securities, not only stocks and bonds, but also debentures, notes, evidences of indebtedness, investment contracts, voting trust certificates, certain oil and gas interests and, in general, any interest or instrument commonly known as a security, as well as some not so easily recognized as such. It seeks to accomplish its objectives primarily by requiring the registration with the Commission of all securities offered or sold by use of the mails or other instruments of transportation or communication in interstate commerce. There are, however, certain exemptions from registration, some of which are set forth in the statute while others are outlined in the Rules and Regulations of the Commission adopted pursuant to statutory authority.

Registration under the 1933 Act is the process whereby a registration statement is filed with the Commission and after a lapse of time becomes effective. The principal component of a registration statement is a prospectus which describes the issuer, its business and management and the proposed offering and furnishes certain financial and other information necessary to an informed investment appraisal of the offering. The registration statement must be signed by the issuer, a majority of the directors and certain of its officers, attorneys, accountants and agents. Each such signature to a registration statement subjects each such signatory to strict liability for material omissions or misstatements. Securities may not be offered for sale before the statement is filed and they may not be actually sold before it becomes effective, which is usually about three weeks after filing. The staff of the Commission reviews the registration statement when it is filed and any inadequacies or omissions are normally brought to the attention of the issuer for correction. Each purchaser of the security so offered must, during the offering period, be furnished with a copy of the prospectus at or before the time of purchase.

I would not mislead you into believing that the registration of securities under the Securities Act is a perfunctory matter nor can I truthfully say that in the usual situation it is a simple or easy task. Registration necessitates the careful assembling and preparation of the material required to be contained in the registration statement and requires the draftsmen and signatories

to make detailed disclosure of all pertinent facts concerning the proposed offering. This is an area in which there has been added to the ancient rule of caveat emptor the more modern doctrine of "let the seller also beware," and the burden of telling the whole truth has been put on the seller of securities.

As I have indicated, the Securities Act provides in Sections 3 and 4 for a number of exemptions applicable to certain types of securities, to securities issued under certain circumstances and to certain transactions in securities. Most of these exemptions are not pertinent to our discussion. They cover, for example, federal and municipal securities, securities of certain cooperatives and railroad and certain other common carriers, certain exchange transactions, etc. Another exemption, commonly referred to as the "intrastate exemption" and described in Section 3(a)(11) of the Act, is not available for the securities of a registered investment company, and we may forget it for our present purposes. There are, however, two exemptions which do seem to be pertinent here, and which may make registration unnecessary under some circumstances.

The exemption which would probably account for the vast bulk of the exempt financing of Small Business investment companies is found in Section 4(1) of the Act which exempts, among other things, "transactions by an issuer not involving any public offering." It should be noted that this is not an exemption of the security as such but is an exemption of a limited type of transactions in securities, and the full provisions of the Act apply to subsequent transactions in the same security. In common parlance, the language of the section has been turned around so that, instead of referring to transactions not involving any public offering, reference is usually made to "private transactions" or "private offerings."

The question whether a public offering is involved in any particular case is not easy to answer. It is a question of fact in the resolution of which all of the surrounding circumstances must be considered. It cannot be answered solely upon the basis either of the number or class of persons to whom the securities are offered or the number of persons with whom sales transactions are concluded. We have been told by the courts that the number of persons to whom the security is offered is not determinative and that in fact an offering to a limited number may be a public offering. However, it is still true that the scope of the offering is one of the factors to be considered. This includes not only persons to whom an express offering is made but any person to whom an "offer" in the statutory sense is made, including any attempt of any kind to dispose of a security. Preliminary conversations and the solicitation of offers to buy or even of indications of interest are thus within the meaning of the term.

The relationship of the offerees to the issuer is significant in determining whether or not an exemption is available under Section 4(1). An offering to a class of persons who are intimately familiar with the business and affairs of the issuer is less likely to involve a public offering than one made to persons having no special knowledge in this respect. The Supreme Court, in S.E.C. v. Ralston-Purina Co., stated that the availability of the exemption depends upon whether the particular persons affected need the protection of the Act. The Court stated that "an offering to those who are shown to be able to fend for themselves is a transaction 'not involving any public offering'"; that the "exemption question turns on the knowledge of the offerees . . ."; and that "The focus of inquiry should be on the need of the offerees for the protection afforded by registration." The effect of this decision is to limit the applicability of the exemption to an offering to persons who have such knowledge of the business and affairs of the issuer as would be substantially comparable to that which would be provided by the registration statement.

Another factor which must be considered in determining whether a given issue is entitled to an exemption as a private issue is the size of the offering and the number of units offered. Frequently, a large issuer will place a sizeable issue of debt securities with a comparatively few institutional investors. Because of the ability of such institutions to insist upon and to receive information even more extensive than that usually provided in a prospectus and their ability to negotiate the transaction on equal terms, such private placements, as they are called, can be effected within the limitations of the exemption provided by Section 4(1). I rather doubt that this situation will be met in the usual placement under the 1958 Small Business Investment Act, but it should be noted that the purchase of convertible debentures of the small business enterprise by the investment company would be exempt from our jurisdiction under this exemption. Note, however, that such treatment would not be available in the case of a sale of such securities by the small business investment company under circumstances suggesting that it is acting as a statutory underwriter, as to which transaction there would have to be a registration statement filed or else some other exemption would have to be found to be available.

On the other hand, the placing of an issue of stock consisting of a large number of units with a relatively small group under circumstances which indicate probable reoffering and resale in whole or in part to a larger group would suggest the unavailability of the exemption under Section 4(1). In such a case, the initial purchasers would be underwriters as the term is defined in Section 2(11) of the Act because they would have "purchased from an

issuer with a view to . . . the distribution of any security," and therefore no exemption would be available under Section 4(1), either for such persons or for the issuer. To meet this problem, an issuer will usually require the purchasers in a private offering to furnish a written representation that they are taking the securities for investment and not for the purpose of distribution. This precaution is a salutary one since it causes both parties to the transaction to give thought to the intentions of the purchaser. However, such a representation should be a serious one and not given perfunctorily to set the basis for a formal claim to exemption, since the mere presence of such a representation is not conclusive. The surrounding facts and circumstances may be such as still to raise a question as to the actual intention of the purchaser. This is illustrated by the question reasonably arising when a person who is in the business of buying and selling securities represents that he is acquiring securities of an issuer for investment and not for resale.

In addition to the exemptions contained in the statute, the availability of which does not depend upon any filing with or action by the Commission, Section 3(b) of the 1933 Act gives the Commission discretion to adopt rules and regulations exempting the offering of securities not in excess of $300,000 upon such terms and conditions as the Commission may prescribe. The principal exemption which has been adopted under Section 3(b) and which is currently of interest to small business is that provided by Regulation A. The availability of Regulation A is subject to certain terms and conditions which include the making of a filing with the Commission and the use of an offering circular containing certain specified information. While it is necessary to keep this exemption in mind, since it may be useful if the position of the investment company in a small business firm is liquidated by sale, it is pertinent only to one aspect of our present inquiry, since it is not available for securities of small business investment companies registered under the Investment Company Act of 1940.

At the same time that the Congress enacted the Small Business Investment Act of 1958, it inserted a new Section 3(c) in the Securities Act of 1933 which authorizes the Commission to adopt rules and regulations exempting, upon appropriate terms and conditions, the offering of securities by investment companies licensed under the Small Business Investment Act. Acting pursuant to this new authority, the Commission has adopted a new Regulation E which is similar in many respects to Regulation A and which would exempt from registration under the Securities Act such issues in an amount not in excess of $300,000.

The exemption under Regulation E is not automatic. It is available only upon compliance with certain terms and conditions and subject to

certain limitations. The exemption is not available, for example, to an issuer if either it or its directors, officers, promoters or underwriters are subject to certain administrative orders, or have been convicted of or enjoined against certain misconduct. It should be noted, however, that the issuer in such case would not be barred from filing a registration statement covering the securities to be offered in the form I have previously discussed.

The first step toward meeting the terms of Regulation E is for the issuer to prepare and file with the Commission what is called a "notification." This document is prepared in accordance with a relatively simple prescribed form and must set forth certain specified information in order that the Commission may determine whether or the extent to which the exemption is available. In order to assist in our review, the notification must be accompanied by certain exhibits, such as the underwriting contract, if any, and the consent of the underwriter to be named as such.

Regulation E requires that an offering circular be used in connection with the sale of the securities offered thereunder except in certain cases involving offerings of less than $50,000. With the exception of brief advertisements, the offering circular is the first written sales material which may be presented to the investor in connection with the offering of the security. It must, in any event, be in the hands of the investor not later than the date of the confirmation of the sale and prior to the payment of the purchase price of the security. The idea of requiring the use of an offering circular was one taken over from Regulation A. The requirement that an offering circular be used under Regulation A was adopted in large measure at the suggestion of the securities industry. It was felt that as a protection to those engaged in the investment business, as well as to the investing public, certain basic information should be furnished to each person to whom the securities are offered and that such material should be subject to the Commission's examination. This did not appear to impose any particular hardship because in most cases the honest issuer and underwriter would, in any event, prepare and use some form of offering letter or circular. Our experience has demonstrated the wisdom of this requirement and we believe that it is equally applicable, and for similar reasons, in the case of small business investment companies.

If specific requirements are not set forth governing the content of such offering documents, issuers not sophisticated in the ways of the securities markets might be at a loss to know precisely what information we conceive ought to be included in the offering circular in the interest of fair disclosure. Consequently, the requirements as to the contents of an

offering circular are described in a schedule attached to the proposed Regulation E. We believe that these requirements are limited to what would be regarded as the essential facts concerning the company and the securities to be offered.

The preparation of the notification and offering circular should not be much of a burden. The information required and described in the rule and the schedule is fundamental and is readily available to the company desiring to use the regulation and in fact will have to be submitted to the Small Business Administration. I believe that the procedure under Regulation E is as simple as it can be in view of the paramount necessity for protecting the American investor. The regulation itself, at first reading, seems rather formidable, but it should not be difficult to understand after a modicum of study.

Filings under the new regulation will be made in the principal office of the Commission in Washington. This is necessary in order that such filings be reviewed and correlated with necessary filings by small business investment companies under the Investment Company Act of 1940. I will come to this latter subject in a moment. Moreover, filing in the principal office will facilitate the maintenance of a close liaison with the Small Business Administration which has the primary responsibility of administering the Small Business Investment Act of 1958.

Before returning to the three points arising under the Securities Act to which I have referred, mention should be made of what is doubtless an unnecessary word of caution at this point. The requirements under the Securities Acts are in addition to, and in no wise in lieu of the requirements of the laws of the respective states. In enacting the federal securities statutes Congress chose the middle road of concurrent jurisdiction rather than exclusive federal jurisdiction. Many states have blue-sky laws under which a state administrator is usually empowered to specify the terms and conditions under which securities may be sold in that state, and these must be complied with before an issuer may offer securities to the public.

The first point earlier referred to as raising a question under the Securities Act relates to the requirement that a small business firm, obtaining funds by the issuance of its debenture bonds to a small business investment company must, by reason of the provisions of the 1958 Act and the rules of the Small Business Administration thereunder, purchase stock of the investment company in minimum specified amounts. Since the investment company must stand ready to issue the stock this procedure has raised the question whether a public offering of the securities, within the meaning of

the Securities Act and the Investment Company Act, by the investment company may be involved. The Commission has recently published proposed rules (Rules 151 and N-3C-1) which would define the offer and sale of the securities of the investment company under these circumstances as not involving a public offering within the meaning of both statutes. It should be noted, however, that the proposed rules relate solely to the transaction between the investment company and the small business firm, and contemplate that the latter will keep the shares so received for investment. If, however, small business firms should take the securities of the investment company with a view to the resale of those securities, this might result in a broad offering of the stock to the general public. Under such circumstances consideration must be given by the investment company, and the small business firm wishing to dispose of the securities so acquired, to the registration and prospectus provisions of the Securities Act. This activity may also result in a public offering bringing a company within the ambit of the Investment Company Act which would not otherwise be subject to it.

A similar problem, but in reverse, is raised when the investment company acquires the convertible debenture bonds of the small business firm with a view to their distribution, after seasoning and development of a market of such bonds, with a view to the distribution of the underlying common stock received upon the conversion of the bonds. Since most investment companies would probably be interested in turning over available resources as rapidly as possible, this activity of the investment company may be likened to that of the old fashioned underwriter. It is, therefore, necessary to give consideration to the registration and prospectus provisions of the Securities Act and to the provisions of the Trust Indenture Act insofar as these securities of the small business companies are concerned.

The third problem has already been dealt with. This relates to the offering by an investment company of its own securities to the public. As already noted, the Commission has adopted a special form for use under the Securities Act in such circumstances and an exemptive regulation for offerings not in excess of $300,000.

One word as to the possible effect of the Trust Indenture Act of 1939, which complements the Securities Act and, generally speaking, requires public offerings of debt securities to be issued under a qualified indenture. The debentures to be issued to the Small Business Investment Company exceeding $250,000 in principal amount would normally be put out under a corporate indenture, it being implicit, as I have previously pointed out, that such securities may eventually be distributed to public holders in a

public offering which would require qualification of an indenture. In practice, however, since the Trust Indenture Act exempts issues of less than $1 million, it is perhaps doubtful that this legislation will be of significant effect under the 1958 Act. Looking at it from the standpoint of the investment company, the 1958 Act adds a new provision to the Trust Indenture Act which authorizes the Commission to exempt, without limitation as to amount, any class of securities issued by a small business investment company, subject to such terms and conditions as may be prescribed. The staff of the Commission is giving consideration to the need for, and possible extent of, an exemptive regulation under this authority.

At the risk of covering ground that may be thoroughly familiar to most of you, I should like to point out briefly the applicability of the 1940 Act to the new small business investment companies and, in general, the nature of the requirements of that statute assuming that it is applicable. As I have mentioned, it is only in a very few particular areas that the Congress enacted specific exemptive provisions in the Small Business Investment Act. In most areas, the Commission is given the same discretion as it has with reference to investment companies generally to establish exemptions where and to the extent necessary in the public interest.

A specific exemption, for example, was provided in connection with Section 18(a) of the 1940 Act so that small business investment companies need not have the asset coverage of 300% which is otherwise required in the case of issuance of indebtedness. An exemption was also provided from the statutory prohibition against the declaration of dividends on capital stock unless certain asset coverages on publicly held bonds or debentures are maintained. In administering this aspect of the new legislation, then, the Small Business Administration will have the responsibility of seeing that sound capital structures are maintained in accordance with the purposes of the statute. In other respects, the Securities and Exchange Commission will have to exercise its duties and responsibilities under the Investment Company Act of 1940, since it is clear that those companies operating to make capital available to small business under the Small Business Investment Act will in the usual case be investment companies as defined in the Investment Company Act and thus be subject to SEC jurisdiction.

One important exception to this general statement is, however, specifically set out in Section 3(c) of the Investment Company Act. Under this section, an investment company is excepted from regulation under the 1940 Act if its own outstanding securities are beneficially owned by not more

than 100 persons and if it is not engaged in making or it is not proposing to make a public offering of its securities. You will note that both these elements must be present, so that if a public offering is involved or proposed or if the company has more than 100 security holders, registration under the Investment Company Act would be required. In calculating the number of such holders of the investment company securities, the beneficial holders of the securities of any company which owns 10% or more of the voting securities of the investment company must be counted individually. A considerable number of small business investment companies will doubtless be financed privately by a limited group of persons, thus bringing them within this exception. If, however, one or several corporations with more than 100 stockholders of their own organize and control a small business investment company, registration under the 1940 Act will be required even though no public offering is involved. The factors which are of consequence in reaching a determination as to whether a public offering is involved are, of course, the same as those to be considered in determining whether a public offering is involved under the Securities Act of 1933, which I have already discussed.

Small business investment companies for which Section 3(c) of the Investment Company Act will provide no exemption will be required to register with the SEC. Such registration is a separate process from the registration provided for under the Securities Act. This mechanism was originally designed to fit the usual investment company situation in the light of which the 1940 Act was written. The procedure has been simplified, however, in the case of small business investment companies, and Form N-5 has been adopted to cover registration under both the Securities Act and the Investment Company Act, or under the Investment Company Act alone if the Securities Act is not applicable. It may be noted that registration under the 1940 Act entails certain responsibilities to file periodic reports. We hope to work out, in cooperation with the Small Business Administration, such uniform periodic reporting requirements as will result in the filing of identical documents with each agency.

Neither the Investment Company Act nor, indeed, the other statutes administered by the Commission, should be viewed as involving so much red tape or as having been designed to place unreasonable obstacles in the path of corporations which must raise money from the public. On the contrary, history teaches us that the standards of conduct imposed by these statutes will in the long run be of great assistance in contributing to the successful operation of small business investment companies having a public interest. To the extent that investors are protected by the safeguards

provided for by this legislation, a more favorable climate for the flow of capital in this area can be expected.

This is demonstrated by the objectives of the Investment Company Act. In general these are to secure honest and unbiased management of the investors' funds; to give security holders a voice in the company and particularly in the selection of management; to assure adequate and feasible capital structures; to obtain fairness in all transactions between affiliated persons and the company; and to see that the shareholders are provided with informative periodic financial reports. The Act is long and involved, not only because it is quite detailed and specific in its requirements but also because it covers many different situations and considerations. Many of these have no bearing upon the activities of the proposed new small business investment companies, who will have no concern, for example, with provisions relating to open-end mutual funds, face-amount certificate companies and periodic payment plan companies.

In the last analysis, however, those provisions of the 1940 Act which are applicable must carefully be kept in mind. I do not believe it is necessary, before this audience, to go into detail as to these regulatory limitations upon the activities of investment companies. I will confine my remarks, then, in this connection to one particular preliminary question and for the rest will refer you to the Act itself. The Investment Company Act requires that, before a public offering of investment company securities may be made or completed, an initial $100,000 in net worth must be raised either privately or from not more than twenty-five persons as part of a public offering. This requirement is intended to assure that financially responsible persons will organize these companies which manage the investments of the public. We have prepared a memorandum dealing with the specific mechanics of complying with this $100,000 capital requirement as part of a public offering, and will be glad to furnish it upon request.

The provisions which Congress has written into the 1940 Act, and those which have been adopted by the Commission in its rule-making capacity, are based upon extremely careful studies of the industry and are designed to achieve the general statutory aim of investor protection. That they have succeeded in the purpose of establishing public confidence in the investment company industry is perhaps best demonstrated by the pragmatic results. From the first year of the operation of this legislation in 1941, to the present, the dollar value of investments in these concerns has grown from $2-1/2 billion to $17 billion, and the number of individual investors has increased manyfold. This rather startling growth may be some indication

that there is an ample supply of capital which may be drawn on to finance the activities of the small business investment companies when they are prepared to issue their securities to the public.

As one last word, let me emphasize that Regulation E and Form N-5 are designed to simplify procedures before this Commission in connection with the public offering of securities. Of course, the Commission never intends to be unreasonable in any of its demands, and if Regulation E and Form N-5 prove to be unworkable, we will most certainly review them. It seems to us, however, that the safeguards provided in Regulation E are the minimum which potential investors in securities might expect to receive. The Commission offers to cooperate in every possible way with those persons who wish to organize under the Small Business Investment Act of 1958 and to make this new legislation work. We do not anticipate any particular difficulty in so doing and we see no reason why experienced lawyers and businessmen should not, without any substantial difficulty, be able to meet the requirements of the statutes we administer.