

*PAPERWORK REDUCTION ACT SUBMISSION FOR
U.S. SMALL BUSINESS ADMINISTRATION'S (SBA)
SMALL BUSINESS INVESTMENT COMPANY (SBIC) PROGRAM*

*INFORMATION COLLECTION 3245-0078
SBA FORM 1031: PORTFOLIO FINANCING REPORT*

A. Justification

1. Circumstances necessitating the collection of information. The Small Business Investment Act of 1958, as amended (Act), authorizes the Small Business Administration (SBA) to license Small Business Investment Companies (SBICs) and to regulate their operations. Section 310(b) provides that each SBIC shall make such reports to SBA at such times and in such form as SBA may require. SBA regulations (13 CFR 107.640) require SBICs to submit a Portfolio Financing Report on SBA Form 1031 for each financing that an SBIC provides to a small business concern. The form is SBA's primary source of information for compiling statistics on the SBIC program as a provider of capital to small businesses; this information is needed to evaluate the program's contribution toward its public policy goal of furthering the growth of small business and creating economic benefits such as job creation and increased tax revenue. SBA also uses the information provided on Form 1031 to evaluate individual SBICs' compliance with regulatory requirements.

SBA is proposing one minor change to the form, related to capturing data regarding the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs:

- A new question 17b in Part B of the form will ask the respondent to check a box to indicate that the reported financing is in a portfolio company with an underlying technology that received SBIR or STTR funding in its development.

Going forward, this information will help SBA's Office of Investment and Innovation (OII) to assess the linkages between the programs and provide new data in assessing commercialization. SBICs typically provide funding to later-stage companies. SBIR or STTR grant funding is typically provided to early-stage companies and/or companies in the early stages of a particular technology. By capturing linkages between these programs, SBA may be able to work backward from the time of SBIC financing, or receiving venture capital funding, to the time of initial funding, or SBIR/STTR funding, for the development of a portfolio company's underlying technology. Also, working in reverse order from the time of SBIC financing may provide other significant data, such as how many times the ownership of a developed technology may have changed hands. While this information would provide only a subset of industry data, it may be of instrumental use to SBA's Office of Innovation in looking at commercialization efforts for the SBIR/STTR programs. The new information will also enable SBA to identify key characteristics of investments made by SBICs in small businesses with innovative technologies.

The new information being requested is readily available to SBICs completing the form shortly after a financing is closed, either in the financing documents that have just been executed or in the investment memorandum that SBICs prepare as part of their standard pre-investment due diligence. The addition of the SBIR or STTR checkbox would have negligible impact on the reporting burden, so no changes have been made to the burden estimate on completing the SBA Form 1031.

2. How, by whom, and for what purpose information will be used. The information on Form 1031 is used by SBA staff to evaluate the investment activities of individual SBICs in terms of compliance with applicable regulations and consistency with the overall objectives of the program (to further the growth, expansion and modernization of small business). The information is also used in the aggregate by SBA to evaluate program effectiveness. The information collected can be compared to available financing statistics for the venture capital industry as a whole to determine the extent to which the SBIC program is filling a market gap by meeting the financing needs of small businesses that otherwise do not have adequate access to private equity funding. In addition, the pre-financing information collected, including number of employees, revenues, profits and taxes paid, provides baseline figures which are then updated annually on SBA Form 468 in accordance with 13 CFR 107.630(e). This information helps SBA to measure the economic impact of the SBIC program over time.
3. Technological collection techniques. SBA provides all SBICs with a Web-based version of the Form 1031 for electronic reporting. SBA believes the online form completion and submission to be more convenient for respondents, and it provides SBICs with the option to print and/or save electronic copies of the submitted forms for internal file retention.

Although the filing of SBA Form 1031 is entirely electronic, SBA has required a related certification, SBA Form 1031A, to be submitted in hard copy semi-annually (leveraged SBICs) or annually (non-leveraged SBICs). For portfolio financings completed after 9/30/14, the SBIC program will no longer require the certifications on SBA Form 1031A to be submitted on paper with wet signatures.

4. Avoidance of Duplication. Pre-financing financial information for small businesses financed by SBICs is not reported in any other format. Therefore, there is no duplication of information with this form.
5. Impact on small business or other small entities. The only entities required to complete Form 1031 are licensed SBICs, a majority of which are small entities; however, the economic impact on these entities is not significant. The information requested on Form 1031 is the type of information that any investment company must maintain in the ordinary course of business, i.e. information about the type of financing being provided and the company receiving the financing. An SBIC considering whether to make a debt or equity investment in a small business concern normally requests extensive financial and operating information from the concern as part of its due diligence process. SBA has attempted to limit the information collected on Form 1031 to areas which SBICs would ordinarily have available as a result of their due diligence process.
6. Consequences if collection of information is not conducted. SBA Form 1031 is designed to provide information to evaluate the extent to which the SBIC program is helping to further the growth, expansion and modernization of small business, and to help ensure that SBICs are operating in compliance with program regulations. There is no similar information available which can be used to accomplish the purposes of this collection. If the collection were not conducted, or were conducted less frequently, SBA would be significantly handicapped in its ability to fulfill its statutory oversight and program evaluation responsibilities. For example, SBA would not be able to determine the number or dollar amount of small business financings taking place, the industries and geographic regions in which financings are concentrated, or the intended uses of financing proceeds.
7. Existence of special circumstances. Respondents are required to file Form 1031 within 30 days after closing a financing to a small business. Therefore, depending on the number of

financings completed, Form 1031 may be submitted to SBA more often than quarterly. In SBA’s experience, this requirement benefits both SBA and the responding SBICs because the form is completed when all the necessary information is readily available from the closing documents. It is more difficult to complete Form 1031 long after an investment has been made, as the details are no longer fresh and relevant documents have been filed away, leading to a more time-consuming and error-prone completion process.

8. Solicitation of public comment. A notice was published in the Federal Register on Wednesday, September 25, 2013, 78 FR 59080. No comments were received.
9. Payment or gifts. No payments or gifts are provided to respondents.
10. Assurance of confidentiality. Assurances of confidentiality to the extent permitted by law are provided to portfolio companies and SBICs responding to this collection. SBA Form 1031 includes confidential SBIC and portfolio company financial data, which is protected from disclosure under the Freedom of Information Act; specifically, exemptions 4, 6 and 8 which allow SBA to withhold financial data on individual companies. Records are maintained under conditions designed to preclude access by persons other than Agency personnel with a need to know.
11. Questions of a sensitive nature. Questions 13 through 15 ask about ethnicity and gender of portfolio company owners and top managers in order to evaluate the program’s contribution to furthering the growth of small business in historically underserved communities. This information is needed to fulfill SBA’s statutory responsibilities with respect to SBIC financings. The information is not retrieved by individual identifiers, therefore a Privacy Act system of record is not required.
12. Estimate of the hourly burden of the collection of information. A small sample of respondents was consulted regarding the amount of time required to prepare SBA Form 1031. The estimated annual hour burden of this information collection is 424 hours, determined as follows:

Number of respondents – 2,120 (average number of SBIC financings FYs 10-13)
 Number of responses per respondent – 1
 Estimated hours to complete form – 0.2 hours (12 minutes)
 Total burden hours – 424

The estimated hourly cost to respondents is calculated using the mean hourly wage of \$35 for an accounting manager of a company or enterprise. The hour burden for an SBIC to prepare SBA Form 1031 is \$7.00. The estimated aggregate cost is computed as follows:

Estimated hours to complete form	0.2
Hourly wage for accountant	<u>x \$35</u>
Total preparation cost per form	\$7
Number of responses	<u>x 2,120</u>
Estimated total hour cost:	\$14,840

13. Estimate of total annual cost burden. There is no annual cost burden to respondents other than the estimated cost of the hour burden provided in item 12.
14. Estimated annualized cost to the Federal government. The cost to the Federal Government to collect the information is estimated to be \$15,002 annually, or \$7.08 per form. Estimated annualized cost to Federal Government is computed as follows:

Verification and clean-up of transmitted data:

GS-12 program assistant, 182 hrs/yr (3.5 hours weekly) @ \$41/hr	\$7,462
GS-14 supervisor, 130 hrs/yr (2.5 hours weekly) @ \$58/hr	\$7,540
Total annualized cost to Federal Government	\$15,002
Divided by number of responses	<u>2,120</u>
Estimated hour cost per form	\$7.08

15. Explanation of program changes in Items 13 or 14 on OMB Form 83-I. The decrease in the estimated total annual burden hours in item 13 of OMB Form 83-I reflects decreases in the total number of SBIC financings over the past 4 Fiscal Years. There is no change in the estimated hour burden per response.
16. Collection of information whose results will be published. Not applicable. Results of this collection of information will not be published.
17. Expiration date for collection of information. Not applicable. The expiration date will be displayed.
18. Exceptions to certifications in Block 19 on OMB Form 83-I. Not applicable. There are no exceptions to the certification statement identified in Item 19, "Certification for Paperwork Reduction Act Submissions," of OMB 83-1.

B. Collection of Information Employing Statistical Methods

This collection of information does not employ statistical methods.

Attachments:

- SBA Form 1031, Size Status Declaration
- Federal Register Notice
- Authorizing Statutory and Regulatory Provisions