

SUPPORTING STATEMENT FOR SBA FORM 468  
(INCLUDES FORMS 468.1, 468.2, 468.3 AND 468.4)  
SBIC FINANCIAL REPORTS

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(d)(1)(C)(i) of the Act requires each SBIC to submit audited financial statements to SBA at least annually. 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 107.630) require SBICs to submit annual financial statements on SBA Form 468. Form 468.1 is used for corporations and Form 468.2 is used for partnerships. Under certain circumstances, 13 CFR 107.630 and 107.1220 also require SBICs to file quarterly financial statements on Form 468, using Form 468.3 for partnerships or Form 468.4 for corporations. The quarterly financial statements consist of selected pages from the annual financial statements.

In 2011, OMB approved a number of revisions to the forms that provided for collection of expanded information on the financial performance of SBICs and the individual companies in which they have invested. After gaining experience using this new information, SBA has found some data that can be collected less frequently and other data that can be collected in a format that lessens the burden on respondents. As a result, SBA is proposing revisions to the current forms to implement these changes, along with one correction to conform to current regulations and minor caption changes to improve clarity.

Details of these changes are as follows:

**Cover Page, page 1**

- Delete “Net IRR and Gross IRR” fields. Some SBICs commented that they were unsure how to calculate these figures. SBA’s intention was to capture the same IRR information that SBICs provide to their limited partners in the ordinary course of business, without requiring them to perform any special calculations for the purpose of reporting on Form 468. However, given the apparent variation in calculation methods, SBA has determined that the analytical value of these two fields is not sufficient to justify their inclusion.

**Schedule of Regulatory and Leverageable Capital, page 8**

- **For partnership SBICs**, delete Part IIa from Forms 468.2 (annual) and 468.3 (quarterly). The calculation in this section relates to a provision in 13 CFR 107.740 that was removed in 2009.

- **For corporate SBICs**, delete lines 14 and 15 of Part IIa from Forms 468.1 (annual) and 468.4 (quarterly), for the same reason.

### **Schedule of Loans and Investments (Schedule 1), page 11**

- Remove portfolio company information designated as “unaudited” and move it to a separate schedule that will be designated as “unaudited” in its entirety (see “Unaudited Portfolio Company Information”, Schedule 8, below). This change responds to concerns about higher audit costs for SBICs that may result from the mixing of “audited” and “unaudited” information on the Schedule of Loans and Investments. Auditors have explained that a mixed presentation requires them to perform substantial review procedures on even the unaudited information, and they advocated moving the unaudited portfolio company information to a separate schedule.

### **Unaudited Portfolio Company Information (Schedule 8)**

- This is a new schedule, but it is not collecting any new information. All of the content was previously included in Schedule 1. As discussed above, SBA is separating the audited information that will remain in Schedule 1 from the unaudited information that will move to Schedule 8.
- Remove the “Rounds of Financing/Waterfall” fields and instead allow SBICs to upload a .pdf copy of this information in any layout they have available. SBICs, in the ordinary course of business, maintain “capitalization tables” that provide information about rounds of financing, participation by other investors, preferences held by the various classes of securities, etc. Although the format of these tables may vary, nearly all have content sufficient to meet SBA’s analytical needs. This change will benefit respondents by reducing the amount of input required to complete the forms. In addition, once information has been uploaded for a given portfolio company, the SBIC will not need to re-submit unless and until there is a material change, such as a new round of financing.
- Remove the following fields applicable to portfolio companies of SBICs that have been transferred to the Office of Liquidation, and instead allow the SBICs to upload a .pdf copy of this information in any layout they have available:
  - Negative Covenants: ROFR – Right of First Refusal; COA – Co-sale Agreement; and Other.
  - Board Rights: Whether the SBIC holds a Board Seat; has Board observation rights; appoints the Board Chairperson.
  - Other Rights: Whether the SBIC has any of the following rights: Veto and “Springing” (right that comes into existence upon the occurrence of an event).

### **SBIC Cumulative Investment Performance (Schedule 9), annual Form 468.2 for partnership SBICs only**

- Designate this schedule as “unaudited” in the interest of holding down audit costs

incurred by SBICs.

- Renumber this schedule as Schedule 9 (changed from Schedule 5 in the currently approved Form 468.2), so that it will be grouped with other unaudited information.
  - Require the information on a going-forward basis only. SBICs may provide historical information voluntarily if they have it readily available. When this schedule was added in 2011, SBA believed that most SBICs tracked individual investment cash flows in the ordinary course of business, but learned that many did not routinely maintain historical information at the necessary level of detail. SBA still considers it important to build up a database of investment cash flows over time by collecting this information prospectively. The information collected in this schedule will aid SBA in assessing the risks within individual SBIC portfolios and determining the characteristics of investments that are successful or unsuccessful in the program.
  - Require the information on an annual basis only. Quarterly updates provide SBA with minimal incremental benefit that does not justify the additional burden on respondents.
  - This schedule will continue to apply only to partnership SBICs that have issued SBA leverage or have outstanding SBA leverage commitments.
2. How, by whom, and for what purpose information will be used. SBA Form 468 contains financial statements and supplementary information which are reviewed and analyzed by SBA staff to evaluate the financial condition of individual SBICs and determine an individual SBIC's compliance with its business plan and with overall program requirements. The information in Form 468 is the primary source of information used to determine the creditworthiness of SBICs seeking Federal financial assistance and to monitor the financial condition of these SBICs after such assistance is provided. In addition, information on Form 468 is used to evaluate an individual SBIC's compliance with certain regulations, such as the activity requirements in 13 CFR 107.590 and the portfolio diversification requirements in 13 CFR 107.740. The information collected on Form 468 is essential for the protection of the government's financial interest.

SBA also pools financial information provided by individual SBICs to analyze the SBIC program as a whole with respect to the risk of financial loss to the government and the impact of SBIC financings on the growth of small business.

3. Technological collection techniques. In 2013, SBA implemented a new Web-based reporting system for SBICs that replaced the previous Access-based reporting software. The SBIC-Web system was designed to streamline Form 468 creation by integrating schedules and using available information to pre-populate as many fields as possible. For example, information about new financings submitted on SBA Form 1031 is automatically transferred to the Schedule of Loans and Investments in SBA Form 468. The new system also simplifies submission of data files created within the application, eliminating the need to transmit files to SBA by email or on a CD.

Finally, SBIC-Web allows SBICs to upload supplemental information (such as the auditor's report on the annual financial statements) in .pdf files. SBA believes this move to online form completion and submission will be more convenient for respondents.

Beginning with financial statements filed on SBA Form 468 for the year ended 12/31/14, the SBIC program will no longer require submission of paper copies with wet signatures.

4. Avoidance of Duplication. Most SBICs are privately held and SBA Form 468 is generally the only financial report prepared by such SBICs. Some SBICs do prepare other financial reports or are included in consolidated financial reports, such as SBICs that are owned by public companies regulated by the Securities and Exchange Commission (SEC). Form 468 is designed to provide information specific to SBIC regulatory and program requirements and does not duplicate reports required by the SEC.
5. Impact on small business or other small entities. The only entities required to complete Form 468 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 468 is primarily the type of information that any investment company must maintain in the ordinary course of business, i.e., basic financial statements plus information about the company's investments and their current value. The remainder of the collection is limited to the information needed to show whether the SBIC is in compliance with specific regulations such as those governing permitted distributions, capital impairment, and activity requirements.
6. Consequences if collection of information is not conducted. SBA Form 468 is designed to provide information needed to evaluate the operating effectiveness, regulatory compliance, and financial soundness of SBICs. SBA requires such information in order to protect the government's financial interest (as the largest investor or creditor of most SBICs) and to ensure that SBICs are operating in accordance with the regulatory requirements and public purposes of the program.
7. Existence of special circumstances. There are no special circumstances that would cause the conditions described.
8. Solicitation of public comment. A notice was published in the Federal Register on September 25, 2013, Volume 78, Number 186, page 59080. No comments were received
9. Payment or gifts. No payments or gifts are provided to respondents.
10. Assurance of confidentiality. The information collected includes financial data of SBICs and their portfolio companies, which are protected from disclosure under the Freedom of Information Act; specifically, exemptions 4, 6 and 8 allow SBA to

withhold financial data on individual companies. The information collected will be protected to the extent permitted by law.

11. Questions of a sensitive nature. No questions of a sensitive nature are asked.
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 complete the forms. SBA identified two major factors affecting burden: (1) Is the SBIC required to report quarterly or only on an annual basis? (2) Is the SBIC required to complete the wind-up plan supplement? Because of these variations in reporting requirements, SBA has developed separate burden estimates for the following categories of SBICs:
  - SBICs that do not have or intend to seek SBA leverage (“non-leveraged SBICs”). These SBICs report to SBA on an annual basis only, using corporate Form 468.1 or partnership Form 468.2, and are not required to complete the wind-up plan.
  - SBICs that have outstanding SBA leverage or leverage commitments (“leveraged SBIC”) and are required to complete the wind-up plan, because they either have been transferred to the Office of Liquidation or are no longer making new investments. These SBICs file corporate Form 468.1 or partnership Form 468.2 on an annual basis, **including** the wind-up plan, and file corporate Form 468.4 or partnership Form 468.3 at the end of each fiscal quarter other than Q4, which is covered by the annual filing.
  - Leveraged SBICs that are not required to complete the wind-up plan because they are still actively investing. These SBICs file corporate Form 468.1 or partnership Form 468.2 on an annual basis, **excluding** the wind-up plan, and file corporate Form 468.4 or partnership Form 468.3 at the end of each fiscal quarter other than Q4, which is covered by the annual filing.

The estimated hour burdens for the forms are shown in the following table:

Form Number	Number of respondents	x	Frequency	x	Hours per response	=	Total Hour Burden
Form 468.1 – with wind-up plan	3		1		35		105
Form 468.1 – without wind-up plan	24		1		25		600
Form 468.2 – with wind-up plan	90		1		35		3,150
Form 468.2 – without wind-up plan	265		1		25		6,625
Form 468.3	260		3		23		17,940
Form 468.4	9		3		23		621
TOTAL COLLECTION							29,041

Note 1: The total number of respondents shown on OMB Form 83-I (item 13a) is 382, calculated as the sum of the respondents shown in the first four lines of the table above for Forms 468.1 and 468.2. The respondents shown for Forms 468.3 and 468.4 are a subset of the same group, and therefore have been excluded from the total number of respondents to avoid double-counting.

Note 2: The total number of responses shown on OMB Form 83-I (item 13b) is 1,050, calculated as follows:

- Form 468.1, 3 with wind-up plan + 24 without 27
- Form 468.2, 90 with wind-up plan + 265 without 355
- Form 468.3, 260 respondents x 3 780
- Form 468.4, 9 respondents x 3 27

Total responses

1,189

Note 3: The quarterly partnership Form 468.3 and quarterly corporate Form 468.4 are somewhat shorter than the year end forms, consisting of pages 2-13, 15, 20, and a modified quarterly version of the Certifications that deletes the references to annual audited financial statements. In addition, the quarterly reports do not include a wind-up plan. Therefore the estimated hours per response for these forms are slightly lower than the estimated hours for the year end forms without wind-up plan.

The cost to respondents of the estimated hour burden is shown in the following table:

Form Number	Number of responses	x	Hours per response	x	Cost per hour	=	Total Cost
Form 468.1 – with wind-up plan	3		35		\$40		\$4,200
Form 468.1 – without wind-up plan	24		25		\$40		\$24,000
Form 468.2 – with wind-up plan	90		35		\$40		\$126,000
Form 468.2 – without wind-up plan	265		25		\$40		\$265,000
Form 468.3	780		23		\$40		\$717,600
Form 468.4	27		23		\$40		\$24,840
TOTAL COLLECTION							\$1,161,640

The cost per hour is based on estimated annual compensation of \$80,000 per year for an accounting professional who would be preparing the forms.

13. Estimate of total annual cost burden. The annual cost burden resulting from the collection of information is estimated at \$35,000 per year end respondent. This amount represents the cost of the required audit of the financial statements by an independent public accountant. No capital and start-up costs have been included in the cost burden estimate because SBA expects that all licensees would acquire and use the necessary equipment (primarily a personal computer) in the ordinary course of business, even in the absence of any information collection requirements.

\$35,000 cost per respondent x 382 year-end respondents = \$13,370,000

14. Estimated annualized cost to the Federal government. The Federal government's cost to review and analyze each SBA Form 468 filed is estimated at \$200. The aggregate cost is computed as follows:

Analyst performing financial and regulatory review of SBA Form 468:  
GS-13: 4 hours @ \$50 per hour \$ 200  
Estimated number of responses (annual and quarterly combined) x 1,189  
Total cost to Federal government \$ 237,800

15. Explanation of program changes in Items 13 or 14 on OMB Form 83-I. The increase in the hour burden in item 13 of OMB Form 83-I reflects an increase in the total number of responses. The burden per response has not changed. The higher number of responses is attributable to (1) a slight increase in the total number of SBICs filing annual reports on Form 468, (2) a larger increase in the number of SBICs also filing quarterly reports, and (3) an increase in the number of SBICs filing Form 468 after being transferred to the Office of Liquidation. The change in the number of respondents

from 375 to 382 is the net result of an increase in newly licensed SBICs, offset by license surrenders related primarily to the continuing wind-down of the participating securities program. Because new SBICs are being licensed at a steady pace (30 or more new funds licensed in each of the past three fiscal years), the program includes a larger proportion of SBICs that are in their active investment period and are drawing SBA leverage. All such funds are required to file Form 468 quarterly. SBA is estimating a total of 780 quarterly filings per year, vs. the prior estimate of 630. Finally, the Office of Liquidation has standardized a practice of having SBICs continue to file Form 468 if the existing management team has been left in place to carry out a “self-liquidation” of the fund. Approximately 60 SBICs in the Office of Liquidation are currently filing Form 468 either annually or quarterly.

The increase in the cost burden in item 14 of Form 83-I, from \$13,125,000 to \$13,370,000, reflects the slight increase in the number of year end respondents from 375 to 382. The cost burden in item 14 represents the cost to SBICs of engaging a certified public accounting firm to perform an audit of the annual Form 468 financial statements. The estimated cost per audit has not changed.

16. Collection of information whose results will be published. Results of this collection of information will not be published.
17. Expiration date for collection of information. Not applicable.
18. Exceptions to certifications in Block 19 on OMB Form 83-I. Not applicable.

B. Collection of Information Employing Statistical Methods

This collection of information does not employ statistical methods.