

## SUPPORTING STATEMENT - PART A

### Trusted Capital Digital Marketplace Application – 0704-XXXX

#### 1. Need for the Information Collection

The Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) is “delegated authority to exercise, within assigned responsibilities and functions, all authority of the Secretary of Defense” derived from statute, executive order (E.O.), or interagency agreement, “except where specifically limited by statute or E.O. to the Secretary of Defense.”<sup>1</sup> Responsibilities of the USD(A&S) include the establishment of policies to “maximize U.S. competitive advantage and ensure robust, secure, and resilient national industrial base capabilities” and “support and encourage small business.”<sup>2</sup>

Per the authority vested in the Secretary of Defense (SECDEF) by Section 1711 of the National Defense Authorization Act of 2018, the Office of the Under Secretary of Defense for Acquisition and Sustainment (OUSD(A&S)) has proposed a “Trusted Capital” initiative in the form of a public-private partnership designed to convene trusted sources of private capital with innovative companies critical to the defense industrial base (DIB) and national security. The initiative includes establishment of a Trusted Capital Digital Marketplace (TCDM) to facilitate business relationships between eligible investors (“Capital Providers”) and eligible small and medium-sized businesses that have been “downselected” by Department of Defense (DoD) Components based on relevancy, technical merit, business viability, or innovativeness (“Capability Providers”). Additional legal authorities are outlined below:

- Section 2501 of title 10, United States Code, requires that the Secretary of Defense (SECDEF) develop a “national security strategy for the national technology and industrial base.” The strategy must address “the development, manufacture, and supply of items and technologies critical to the production and sustainment of advanced military weapon systems within the national technology and industrial base.”<sup>3</sup> Additional requirements include, ensuring “generation of services capabilities that are not core functions of the armed forces” and “providing for the development, production, and integration of information technology within the national technology and industrial base.”<sup>4</sup> Civil-military integration is a critical component of this strategy and policy that increases the Department’s reliance on commercial capabilities is mandated.<sup>5</sup>
- The above mandate was underscored by a directive set forth in Section 1711 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2018 to “assess the feasibility and advisability of increasing the capability of the defense industrial base” to support of military requirements and the production of “emerging defense and commercial technologies.” Additionally, Section 885 of the FY 2018 NDAA required

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<sup>1</sup> DoD Directive 5135.02

<sup>2</sup> Id.

<sup>3</sup> 10 U.S. Code § 2501(a)(5)

<sup>4</sup> 10 U.S. Code § 2501(a)(6) and 10 U.S. Code § 2501(a)(7)

<sup>5</sup> 10 U.S. Code § 2501(b)(1)

the SECDEF to “develop a process and procedures for limiting foreign access to technology through contracts, grants, cooperative agreements, or other transactions, when such limitation is in the interest of national security.”

- More recently, Section 845 of the NDAA for FY 2020 established a requirement for the SECDEF to “modernize” methods utilized to protect the defense industrial supply base. The Department must develop modernized processes and an “analytical framework for risk mitigation across the acquisition process.”<sup>6</sup> “Characterization and monitoring of risks posed by contractor behavior” is a required component of the framework.<sup>7</sup> Such risks include ownership structures and foreign ownership among other factors.<sup>8</sup>

The information sought is essential to DoD’s mission by ensuring the availability of defense articles, modernized defense-industrial base (DIB) capabilities, and force readiness amid increased global supply chain concerns and the Novel Coronavirus (COVID-19) pandemic. The COVID-19 pandemic highlighted the criticality of the security and resiliency of defense supply chains. The Federal emergency enabled DoD to accelerate initiatives to ascertain constraints and risks in our supply chains that were initially identified in the 2018 Executive Order (EO) 13806 report and further outlined in section 885 of the 2018 NDAA and section 845 of the 2020 NDAA. The Department uses these frameworks to continually update assessments and derive new programs to focus DoD’s resources and address the industrial base’s shortfalls.

One of the risk archetypes identified in the report is foreign dependency on capital and supply chains. Although DoD will always have a diverse, domestic and international supply chain, we recognize that this comes with some risk. COVID-19 magnified that risk and the difficulties of stalling adversarial offshore sources of capital during times of global emergencies. From January to April 2020, China announced 57 outbound mergers and acquisitions worth \$9.9 billion and 145 outbound investments worth \$4.5 billion in the United States and other key allies according to the source GlobalData.com (<https://www.globaldata.com/covid-19/>). Most companies have some sort of cash reserves, or some sort of government support. However, as time goes on many companies will use up their reserves or government support will no longer be available. That’s when the crisis will begin, and this trend of predatory acquisitions will become more visible. Concerning examples of this problem set that have already been identified by the Department of Defense and Development Finance Corporation (DFC) are briefly detailed below:

- Mesa Biotech, a biotechnology company based in San Diego, California manufactures molecular diagnostics tests and uses third-party distributors to reach customers in the United States, Canada, Sweden, Denmark, and Norway. On March 24, 2020, Mesa Biotech received an Emergency Use Authorization from the U.S. Food & Drug Administration for its name brand Accula SARS CoV2-Test for COVID-19 testing. On April 7, 2020, the company shipped 10,000 tests to unspecified locations for rapid testing. Mesa submitted an application to DFC for a \$120M loan to rapidly grow its

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<sup>6</sup> 10 U.S. Code § 2509(a) and 10 U.S. Code § 2509(b)1

<sup>7</sup> 10 U.S. Code § 2509 (b)(2)(B)

<sup>8</sup> Id.

ability to ship millions of “Just in Time” tests over the next 12 months. However, due to the company’s minority Chinese ownership, the foreign ties maintained by its executives, foreign ownership control or influence (FOCI) risks, specifically ownership by entities based in China and Hong Kong, the DFC has thus far been unable to execute on the loan. DFC has asked the Trusted Capital program to help identify trusted sources of capital that would be willing to buy out adversarial capital equity owners.

- Snapdragon Chemistry, Inc, a privately held chemical technology firm in Waltham, MA. Snapdragon was founded in 2014 by academics at the Massachusetts Institute of Technology and Boston University to provide expertise in chemical continuous manufacturing technology to the pharmaceutical and fine chemical industries. Snapdragon is requesting a \$21 million loan from the DFC to rapidly build, operate, and maintain a 50,000-80,000 square foot continuous manufacturing facility that will produce ribonucleotide triphosphates (NTP) at a rate of about 10 kilograms per hour. It is projected that the United States will need 500 kilograms of NTP to vaccinate the U.S. population, and then require 150 kilograms per year to account for boosters and population growth. This NTP production will ensure that when the vaccines are approved for use, the raw materials are available to rapidly produce. Snapdragon projects a one-year build timeline and expects to be operational by fall of 2021. The NTP produced will be required by any company trying to produce and distribute an mRNA COVID vaccine, and Snapdragon is currently working with Pfizer as they develop their vaccine. NTP will also be required for mRNA therapeutics, mRNA vaccines in development for cancer, as well as diagnostic uses for COVID testing. Without the loan, the U.S. industry cannot reasonably be expected to provide the needed capacity, technological processes, or materials in a timely manner. However, the company’s overall risk is elevated based on its FOCI and supply chain risks. In August 2020, Snapdragon announced a strategic investment partnership of an undisclosed amount by Chinese pharmaceutical company, Asymchem Laboratories (“Asymchem”). Asymchem is owned by its parent company, The Asymchem Group, which is based in North Carolina and was founded by Hao Hong. The DFC has thus far been unable to execute on the loan because of these FOCI risks. DFC has asked the Trusted Capital program to help identify trusted sources of capital that would be willing to buy out adversarial capital equity owners in Snapdragon Inc.

Examples like this, coupled with the ever-present potential of political uncertainty, means that we need to re-establish domestic trusted sources of capital suppliers to maintain capability for our critical supply chain needs. The OUSD A&S Trusted Capital program offers critical technology companies an alternative to adversarial capital. To accomplish this important national security mission the Trusted Capital program requires the ability to gather data required to conduct national security and supply chain due diligence to prioritize “trusted” sources of commercial capital to offset direct financial distress in the Defense Industrial Base and support our partners affected by the virus with investments and local job creation. DoD cannot comply with normal clearance procedures because public harm is reasonably likely if current clearance procedures are followed. Delayed

processing could likely hinder DoD's ability to mitigate national security and COVID-19 concerns.

OUSD(A&S) is requesting emergency clearance for information collection for a period of six months.

2. Use of the Information

Information collected will be used in determining an applicant's eligibility for participation on the Trusted Capital Digital Marketplace (TCDM) platform. Parties will complete an electronic application and be subjected to a due diligence screening process to assess for adversarial foreign ownership, influence, or control as well as other national security risks. In the event additional information is necessary to process an application, additional inquiries may be sent to the applicant. Applicants that receive a favorable due diligence screening adjudication by OUSD(A&S) will be approved for TCDM participation. In addition to initial application requirements, participants will be subject to continuous reporting obligations.

3. Use of Information Technology

All responses will be collected electronically.

4. Non-duplication

The information obtained through this collection is unique and is not already available for use or adaptation from another cleared source.

5. Burden on Small Businesses

The information collection does not impose a significant economic impact on a substantial number of small businesses or entities.

6. Less Frequent Collection

This information is collected during initial application to the program and is updated annually to ensure participants remain compliant by disclosing any possible disqualifying information.

7. Paperwork Reduction Act Guidelines

This collection of information does not require collection to be conducted in a manner inconsistent with the guidelines delineated in 5 CFR 1320.5(d)(2).

8. Consultation and Public Comments

Part A: PUBLIC NOTICE

A 60-Day Federal Register Notice (FRN) for the collection published on Tuesday, December 1, 2020. The 60-Day FRN citation is 85 FRN 77187. The 60-Day FRN comment period will end Monday, February 1, 2021.

As explained above, OUSD(A&S) is requesting expedited emergency approval as complying with normal clearance procedures, to include the FRN process, is reasonably likely to cause public harm. Delayed processing is likely to hinder DoD's ability to mitigate national security and COVID-19 concerns. The 60-Day FRN was published ahead of the normal clearance process that will be completed before the requested six-month emergency approval ends.

## Part B: CONSULTATION

No additional consultation was conducted for this submission.

### 9. Gifts or Payment

No payments or gifts are being offered to respondents as an incentive to participate in the collection.

### 10. Confidentiality

A Privacy Act Statement is not required for this collection because we are not requesting individuals to furnish personal information for a system of records.

A System of Record Notice (SORN) is not required for this collection because records are not retrievable by PII.

A draft copy of the PIA, Trusted Capital Digital Marketplace (TCDM), has been provided with this package for OMB's review. The PIA is in the process of being finalized.

The Records Retention and Disposition Schedule is pending NARA approval of an SF-115 Request for Records Disposition Authority.

### 11. Sensitive Questions

Business proprietary, banking, taxation, and financial questions are being asked to assess capabilities of applicants and screen for adversarial foreign ownership, influence, or control as well as other national security risks.

### 12. Respondent Burden and its Labor Costs

## Part A: ESTIMATION OF RESPONDENT BURDEN

### 1) Collection Instrument

[Trusted Capital Application]

- a) Number of Respondents: 300
- b) Number of Responses Per Respondent: 1
- c) Number of Total Annual Responses: 300
- d) Response Time: 1.5 hours
- e) Respondent Burden Hours: 450 hours

- 2) Total Submission Burden
  - a) Total Number of Respondents: 300
  - b) Total Number of Annual Responses: 300
  - c) Total Respondent Burden Hours: 450 hours

#### Part B: LABOR COST OF RESPONDENT BURDEN

- 1) Collection Instrument  
[Trusted Capital Application]
  - a) Number of Total Annual Responses: 300
  - b) Response Time: 1.5 hours
  - c) Respondent Hourly Wage: \$50.33
  - d) Labor Burden per Response: \$75.50
  - e) Total Labor Burden: \$22,648.50
- 2) Overall Labor Burden
  - a) Total Number of Annual Responses: 300
  - b) Total Labor Burden: \$22,649

The Respondent Hourly Wage was determined by using the Bureau of Labor Statistics, Occupation Outlook Handbook, Management (Top Executives) 2019 median pay. ([https://www.bls.gov/oes/current/oes\\_nat.htm](https://www.bls.gov/oes/current/oes_nat.htm))

#### 13. Respondent Costs Other Than Burden Hour Costs

There are no annualized costs to respondents other than the labor burden costs addressed in Section 12 of this document to complete this collection.

#### 14. Cost to the Federal Government

#### Part A: LABOR COST TO THE FEDERAL GOVERNMENT

- 1) Collection Instrument
  - a) Number of Total Annual Responses: 300
  - b) Processing Time per Response: 60 mins
  - c) Hourly Wage of Worker(s) Processing Responses : \$57.69
  - d) Cost to Process Each Response: \$57.69
  - e) Total Cost to Process Responses: \$17,307
- 2) Overall Labor Burden to the Federal Government
  - a) Total Number of Annual Responses: 300
  - b) Total Labor Burden: \$17,307

#### Part B: OPERATIONAL AND MAINTENANCE COSTS

- 1) Cost Categories
  - a) Equipment: \$0

- b) Printing: \$0
  - c) Postage: \$0
  - d) Software Purchases: \$2,500,000 (Due Diligence Platform)
  - e) Licensing Costs: \$0
  - f) Other: \$0
- 2) Total Operational and Maintenance Cost: \$2,500,000

Part C: TOTAL COST TO THE FEDERAL GOVERNMENT

- 1) Total Labor Cost to the Federal Government: \$17,307
- 2) Total Operational and Maintenance Costs: \$0
- 3) Total Cost to the Federal Government: \$2,517,307

15. Reasons for Change in Burden

This is a new collection with a new associated burden.

16. Publication of Results

The results of this information collection will not be published.

17. Non-Display of OMB Expiration Date

We are not seeking approval to omit the display of the expiration date of the OMB approval on the collection instrument.

18. Exceptions to "Certification for Paperwork Reduction Submissions"

We are not requesting any exemptions to the provisions stated in 5 CFR 1320.9.