U. S. Small Business Administration (SBA)
SBA Form 1031 Portfolio Financing Report
OMB Control Number 3245-0078
Justification – Part A Supporting Statement

Overview of Information Collection: The U.S. Small Business Administration (SBA) is seeking reinstatement, with change, of a previously approved collection for which approval has expired, to include a change in reporting and recordkeeping requirements under the Small Business Investment Company (SBIC) Investment Diversification and Growth Final Rule (3245-AH90 or Final Rule).

Under the Final Rule, SBA proposes to make SBA Form 1031 a quarterly submission in which each SBIC must report all portfolio company financings made during a calendar year quarter within 30 calendar days of the end of that quarter. Currently, SBA Form 1031 must be submitted within 30 days after the date of each financing. While making this change to reduce the reporting burden on SBICs, SBA also proposed to change the format for the collection of both voluntary and required financing information from an Adobe PDF document to a Microsoft Excel format. In this Excel format, SBA also seeks to simplify and clarify the collection of voluntary demographic information of portfolio company owners and leaders.

1. Need & Method for the Information Collection. The Small Business Investment Act of 1958, as amended (Act), authorizes SBA to license 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. Currently, 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 within 30 days of closing. Under SBA's Notice of Proposed Rulemaking (87 FR 63436), SBA proposed a change to 13 CFR 107.640 to require SBICs to submit a Portfolio Financing Report on SBA Form 1031 for each financing that an SBIC provides to a small business concern within 30 days of the calendar year quarter following the closing date of the financing. SBA Form 1031 is SBA's primary source of information for compiling statistics on the SBIC program as a provider of capital to small businesses.

   SBA is proposing one minor change to the information collection, related to capturing data regarding the Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) programs, by asking the respondent to provide an "Awardee Name" if the respondent has indicated by a "yes/no" response that the reported financing is in a portfolio company with an underlying technology that received SBIR or STTR funding in the course of its development. The addition of this information will help SBA's Office of Investment and Innovation (OII) to assess the linkages between the SBIC and SBIR/STTR programs and possibly provide new data in assessing commercialization. SBICs typically provide funding to later-stage companies. SBIR or STTR award 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 other venture capital funding, to the time of initial funding, or SBIR/STTR funding, for the development of a portfolio company's underlying technology. Obtaining an "Awardee Name" – even a partial

name – will allow SBA to search for matches more accurately in the SBIR.gov database. Typically, if a portfolio company owns intellectual property that received seed funding from the SBIR/STTR programs, even if by acquisition, someone related to the initial development will still be on staff as a consultant or Chief Technology Officer. 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 addition of this piece of information may also enable SBA to identify key characteristics of investments made by SBICs in small businesses with innovative technologies to support initiatives related to combatting climate change, aiding national defense, harnessing renewable energy, and/or addressing key weaknesses in supply chain issues.

Currently, SBA collects the information in SBA Form 1031 via PDF files submitted to the SBIC-Web electronic application. Under this revision request, SBA foresees the continued use of SBIC-Web as a legacy reporting repository and secure portal for SBICs to upload the new SBA Form 1031 in Excel spreadsheet format.

As part of the new Excel spreadsheet format, SBA also seeks to clarify the capture of voluntary demographic data of portfolio company owners and leaders. While this is a departure from the historical approach of capturing such data as exact ownership percentages on the SBA Form 1031, it is a move to a multi-dimensional approach to understanding demographic participation in ownership and leadership. The proposed change in the information collection will provide a more comprehensive picture of management, control, ownership, and leadership at SBIC portfolio companies by enabling transparency into more factors and across organizations.

The new information being requested is readily available to SBICs completing the SBA Form 1031 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/STTR "Awardee Name" and change in capturing DEI information 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. Use of the Information. The information on SBA 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, SBIC Financial Reports, in accordance with 13 CFR 107.630(e). This information helps SBA to measure the economic impact of the SBIC program over time.

3. Use of Information Technology. In 2013, SBA implemented SBIC-Web as a web-based reporting system for inputting data related to SBA Form 1031. However, the functionality of multiple users utilizing SBIC-Web during peak reporting and the costs associated with maintaining the system led SBA to seek a more practical and user-friendly solution. SBIC-Web allows SBICs to upload supplemental information (such as the auditor's report on the annual financial statements) in .pdf files. As part of SBA's modernization and streamlining efforts, the SBIC-Web functionality was expanded to also allow SBICs to upload Excel files. SBA believes the new SBA Form 1031 in Excel format will be more compatible with the information SBICs receive from portfolio companies and therefore reduce burden on SBICs for completion and submission of SBA Form 1031. The continued use of SBIC-Web as repository of legacy reporting information and secure portal for uploading Excel spreadsheets will be more convenient for respondents and help SBA with continued modernization and streamlining efforts.

4. Non-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. Burden on Small Business. The only entities required to complete SBA 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 SBA 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 SBA Form 1031 to areas which SBICs would ordinarily have available as a result of their due diligence process, and likely such information would be provided by the portfolio company to the SBIC in Excel format. Changing the SBA Form 1031 to Excel format should therefore have the effect of reducing burden on SBICs.

6. Less Frequent Collection. 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 businesses, 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. Paperwork Reduction Act Guidelines. There are no special circumstances that would cause the conditions described.

8. Consultation and Public Comments. On October 19, 2022, SBA published a Notice of Proposed Rulemaking entitled, "Small Business Investment Company (SBIC) Investment Diversification and Growth" (87 FR 63436), which included seeking comments from the public on revisions to the SBA Form 1031 information collection that were necessitated by the proposed regulations.

One comment was received from the public on the SBA Form 1031 information collection related to concern that the change in reporting from within 30 days of a financing to quarterly filings would be at times unmanageable and present a greater risk of error. SBA is inclined to agree with commenters who were supportive of changes that allow more time for SBICs to make timely submissions. SBICs may, as a practice, continue to collect information from portfolio companies on SBA Form 1031 within 30 days of a financing, and then file all 1031s from a given calendar year quarter within 30 calendar days of the end of that calendar year quarter.

9. Gifts or Payment. No payments or gifts are provided to respondents.

10. Privacy & 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. Records are maintained under conditions designed to preclude access by persons other than Agency personnel with a need to know.

11. Sensitive Questions. Questions regarding ethnicity and gender of portfolio company owners and leaders in order to allow SBA to evaluate the program's contribution to furthering the growth of small business in historically underserved communities. This information is voluntary, not required. Because this information is not retrieved by individual identifiers, a Privacy Act system of record is not required.

    SBA Form 1031 also requests confidential business and financial information, which is needed to fulfill SBA's statutory responsibilities with respect to SBIC financings to determine an individual SBIC's compliance with overall program requirements and to determine whether an SBIC has engaged in prohibited actions.

    SBA safeguards business proprietary information in compliance to federal laws, guidelines and SBA's Cybersecurity and Privacy Policy. Data in transit and at rest is encrypted to mitigate the potential of data spillage. Access controls and role-based permissions are just some of the other security precautions in safeguarding our customer's data.

12. Burden Estimate. The estimated annual hour burden of this information collection is 2,755 hours, determined as follows:

    Number of respondents – 309 (number of SBICs as of March 31, 2023)
    Number of annual responses – 2,755 (average number of SBIC financings for Fiscal Years 2019-2022) (11,018 total financings/4)
    Estimated hours to complete form – 1 hour
    Total burden hours – 2,755

    The estimated hourly cost to respondents is calculated using the mean hourly wage of $47.97 (mean annual salary rate of $99,790) for Management of Companies and Enterprises (rate obtained from the most recently available 2022 Bureau of Labor Statistics, Occupational Employment Statistics Management of Companies and Enterprises):

Estimated hours to complete form:	1
Hourly wage:	x $47.97
Total preparation cost per form:	$47.97
Number of responses:	x 2,755
Estimated total hour cost:	$132,157

13. Estimated nonrecurring costs. There is no annual cost burden to respondents other than the estimated cost of the hour burden provided in item 12.

14. Estimated cost to the Government. The estimated annualized cost to the Federal Government to review and analyze each SBA Form 1031 filed is estimated as follows:

    Analyst performing verification and clean-up of transmitted data:
    GS-14 Step 5: @ $71.88 (FY23 hourly rate for DC area) x 130 hrs/yr (2.5 hours weekly) = $9,344.

15. Reasons for changes. The increase in the annual hour burden estimate reflects the anticipated number of respondents based upon the current size of the SBIC program and the total number of SBIC financings over the past four full Fiscal Years. There is no change in the estimated hour burden per response.

16. Publicizing Results. Not applicable. Results of this collection of information will not be published.

17. OMB Not to Display Approval. Not applicable. The expiration date will be displayed.

18. Exceptions to "Certification for Paperwork Reduction Submissions." 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 is not a survey and does not employ statistical methods.

Attachments:
SBA Form 1031 Instructions
SBA Form 1031, Portfolio Financing Report
87 FR 63436 Small Business Investment Company Investment Diversification and Growth Proposed Rule
3245-AH90 Small Business Investment Company Investment Diversification and Growth Final Rule (draft with OMB for interagency clearance)
Authorizing Statutory and Regulatory Provisions