

Client Advisory | July 2013

## The SBA Issues Updated TechNote 4: Reporting Portfolio Valuations

The U.S. Small Business Administration (the "SBA") recently issued an updated TechNote 4, which clarifies how Small Business Investment Companies ("SBICs") must report portfolio valuations and material adverse changes. The updated TechNote 4 replaces the July 1998 version of TechNote 4 and incorporates updates to SBA reporting requirements and best practices.

1. Updates to Form 468. TechNote 4 has been updated to reflect the current requirements of SBA Form 468, which has been updated since TechNote 4 was initially issued in July 1998.
2. Reporting Material Adverse Changes. The primary change to TechNote 4 is the reduction of semi-annual and annual reporting requirements such that SBICs are now required to report only a material adverse change in the valuation of a portfolio company, which is defined as an asset value decrease of more than 20% since the end of the prior fiscal year, excluding a decrease as a result of repayment of principal by the portfolio company. If there are no material adverse changes to report in the semi-annual or annual valuation, the SBIC must submit to the SBA a certification stating that no 20% decrease in the asset value of a portfolio company has occurred. Under the prior version of TechNote 4, SBICs had been required to report any change (increase or decrease) in the asset value of a portfolio company of 10%.
3. Electronic Filing. The updated TechNote increases the use of electronic reporting. Form 468 and its schedules, SBIC Valuation Meeting Minutes, statements by the SBIC's independent public accountant regarding compliance with the SBIC's approved valuation policy, and statements of material adverse changes should all be submitted electronically through the SBA's web-based system. SBICs are still required to mail original signature pages for all documents to the SBA.
4. Regulatory Requirements. The updated TechNote 4 incorporates other existing regulatory requirements relating to portfolio valuation, including the requirements that each SBIC provide its Valuation Meeting Minutes signed by each director or general partner with its semi-annual and annual reports and that each SBIC must report any material adverse change when seeking SBA approval on any credit matter (including commitments, draws, overlines and reductions of regulatory capital over 2%).

Each SBIC should review the updated TechNote 4 in its entirety to ensure ongoing compliance with the SBA's reporting requirements. If you have questions regarding updates to SBA reporting requirements or the SBIC program in general, please contact any of the attorneys listed below:

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