

SBIC TechNote 4: Reporting Portfolio Valuations

A. Introduction.

The Small Business Investment Company (“SBIC”) regulations require SBICs to value their portfolios and report portfolio valuations on a periodic basis. The Small Business Administration (“SBA”) uses these valuations as part of its evaluation of SBA’s portfolio and risk management program. This document provides guidance regarding this critical activity.

This TechNote replaces TechNote 4, which was issued in July 1998, and includes updates reflecting best practices and provides guidance on SBA Form 468 reporting changes that have occurred since that time.

B. References and Definitions

1. References

SBICs are required to “prepare, document, and report the valuations of your Loans and Investments in accordance with the Valuation Guidelines issued by SBA” under SBIC regulations 13 CFR [§107.503](#) and [§107.650](#).

13 CFR §107.503(d) identifies the frequency for reporting portfolio valuations, which includes annual and semi-annual portfolio valuations. Leveraged SBICs must report portfolio valuations after the end of their fiscal year (annual valuation) and after the end of their second fiscal quarter (semi-annual valuation). Non-Leveraged SBICs must report portfolio valuations after the end of their fiscal year (annual valuation).

Valuation Guidelines may be found at http://www.sba.gov/sites/default/files/files/inv_valuation.pdf.

[TechNote 12](#) provides further clarification regarding specific valuation issues and the use of third party valuation contractors.

2. Definitions

The following definitions are provided to clarify terms used in this TechNote.

Term	Definition
Leveraged SBIC	Any SBIC with outstanding SBA-guaranteed leverage, Earmarked Assets, or leverage commitments, or an SBIC intending to seek leverage within one year of the end of the reporting period. SBA will consider all other SBICs to be “Non-leveraged”.

Term	Definition
Material adverse change	Any decrease of more than 20 percent in the Asset Value of any individual portfolio security since the end of the immediately prior fiscal year, excluding changes due to repayment of principal by the portfolio concern.
Asset Value	The dollar amount that the general partners or board of directors of an SBIC have established as the current value of an individual portfolio security in accordance with the SBIC's Valuation Policy.

C. Description of Procedures.

The following procedures provide guidance on reporting portfolio valuations, per the regulations and guidelines cited under Section B. Paragraph C.1 describes what you need to report, paragraph C.2 describes when you need to report the information, and paragraph C.3 describes what items you need to retain in your records.

1. What You Need to Report

a. Annual and Semi-Annual Portfolio Valuations.

SBA will review the SBIC's entire portfolio at the annual and semi-annual portfolio valuation. The following items are required to be submitted to SBA for portfolio valuations.

Items Required for Portfolio Valuations	Annual	Semi-Annual (Leveraged SBICs Only)
1) Use Form 468 Financial Report in SBA's web-based system. The following notes are provided as reminders. <ul style="list-style-type: none"> • Schedule 1: <ul style="list-style-type: none"> ○ If a valuation depends on collateralized assets, information regarding the value of those assets should be reflected within the "Collateral" field. ○ For loan or debt securities, record any change in payment history by the portfolio company or any restructuring of an investment since the last valuation in the loan and debt "Status" field. 	Long Form	Short Form
<ul style="list-style-type: none"> • Schedule 8 <ul style="list-style-type: none"> ○ SBIC should complete Schedule 8 in SBA's web-based system when filing a year end (annual) or 2nd quarter (semi-annual) Form 468. (When filing a Form 468 for the 1st or 3rd quarter, the SBIC may complete Schedule 8 in SBA's web-based system or provide the requested portfolio company information in its own format.) ○ If appropriate, you should identify in Schedule 8's comment field any reasonably known changes that may negatively affect the company's financial condition, such as a lawsuit, a recent or imminent "down round," closing down of a product line, or loss of a key customer. ○ For equity securities, you should reflect any changes to the portfolio company waterfall/capitalization table. 	Yes	Yes
<ul style="list-style-type: none"> • Schedule 9 in SBA's web-based system. 	Yes	No

Items Required for Portfolio Valuations	Annual	Semi-Annual (Leveraged SBICs Only)
2) SBICs are required to identify material adverse changes as described in paragraph b below.	Yes	Yes
3) In accordance with §107.650 , SBIC Valuation Meeting Minutes signed by each Director or General Partner. You should upload an electronic version of the minutes as a PDF into SBA's web-based system, with the signature page mailed to SBA.	Yes	Yes
4) In accordance with §107.503 , a statement by your independent public accountant on your audited annual financial statement indicating that your valuations were prepared in accordance with your approved valuation policy. You should upload a copy of the statement as a PDF into SBA's web-based system and also mail the signature page to SBA.	Yes	No

- b. **Material Adverse Changes:** You must report material adverse changes electronically, uploading the PDF file into the Form 468 system. For each material adverse change, you should specify the associated portfolio company name, the security, cost of the investment, current Asset Value, Asset Value as of the end of your previous fiscal year, and the reason for the material adverse change. SBA may follow up with a request for additional information on the portfolio company including additional financial information and the latest investment memorandum on the portfolio company prepared by or for the SBIC on a case by case basis.

For Annual and Semi-Annual Valuations, if you do not have any material adverse changes, you must send SBA a written certification containing the following language: "The Asset Value of each portfolio security has not decreased by more than 20 percent from the Asset Value at the end of the previous fiscal year, excluding changes due to repayment of principal by the portfolio concern." An officer or general partner of the SBIC must sign the certification.

- c. **As Requested by SBA:** If SBA has questions or concerns with any portfolio valuation, SBA may require additional information on a case-by-case basis.

2. When You Need to Submit Portfolio Valuation Reports

SBICs should report portfolio valuations as follows:

Type	Due
a) Annual Portfolio Valuations: You must report the valuation of your investments annually as of the end of your fiscal year.	<ul style="list-style-type: none"> No later than 90 days after the end of your fiscal year.
b) Semi-Annual Portfolio Valuations (Leveraged SBICs only): You must report the valuation of your investments as of the end of the second quarter of your fiscal year.	<ul style="list-style-type: none"> Report with the exception of Schedule 8: No later than 30 days after the end of your second fiscal quarter. Schedule 8: No later than 60 days after the end of your second fiscal quarter.
c) Material Adverse Change: You must report a material adverse change in any investment valuation at least quarterly.	<ul style="list-style-type: none"> No later than 30 days following the close of the quarter. When seeking SBA approval on any credit matter, including commitments, draws, overlines, and reductions of regulatory capital over 2%, you must report any material adverse changes that occurred since the ending period of the last Form 468 submitted by the SBIC.
d) As Requested by SBA: On a case-by-case basis, SBA may require you to perform and report valuations more frequently.	<ul style="list-style-type: none"> As required by SBA.

3. What You Need to Retain in Records

The [Valuation Guidelines](#) and SBA regulation 13 CFR [§107.600](#) require SBICs to retain in their permanent files a valuation report as of each valuation date that documents for each portfolio security(i) cost;(ii) current Asset Value;(iii) the previous Asset Value; and (iv) the methodology and supporting data used to determine the Asset Value. These reports must be available for review by SBA examiners and other SBA staff upon request.

If you have any questions regarding this TechNote, please contact your analyst.