February 15, 2017

Michele Schimpp
Deputy Associate Administrator
Office of Investment & Innovation
U.S. Small Business Administration
409 3rd Street SW, 6th Floor
Washington, D.C. 20416

Re: Small Business Investment Companies: Passive Business Expansion and Technical Clarifications

Dear Ms. Schimpp:

On December 28, 2016, the Small Business Administration (“SBA”) released the Passive Business Rule (the “Rule”) as a final rule, which provided several important regulatory changes to assist SBICs. The rule was scheduled to be implemented on January 27, 2017.\(^1\) Due to a memorandum released by the new Trump Administration labeled “Regulatory Freeze Pending Review”, implementation of the rule will be delayed until March 21, 2017, while comments are solicited from the public.\(^2\)

SBIA would like to applaud the SBA for working together with the SBIC industry to implement these important regulatory updates, permitting significantly more flexibility in operations, while still maintaining taxpayer protections. These new changes will permit more investment into SBICs from foreign investors, allow BDC’s that have SBIC subsidiaries to invest equity in more small businesses, and allow SBICs to participate in more financings of small businesses. These are all positive steps in ensuring that small businesses can access the capital they need to grow and thrive.

While the Rule is not perfect and does not allow as much flexibility as the industry would like, notably a removal of the 50% ownership requirements in current 13 CFR 107.720(b)(2)(ii) and proposed 13 CFR 107.720(b)(3)(ii), SBIA believes the SBA should not wait to implement this rule as final, while continuing discussions with the industry on other concerns at a later date. Finalization of this rule in an expeditious manner is critical to ensure the SBIC industry can utilize this very helpful relief.

\(^2\) Id.
As always, SBIA appreciates the opportunity to discuss these issues with the SBA, and the opportunity to work together to update applicable regulations to ensure more of America’s small businesses get the funding they need.

Sincerely,

Brett Palmer
President
Small Business Investor Alliance.