

(6) *Endorsements.* (i) A corporation or labor organization may endorse a candidate, and may communicate the endorsement to the restricted class and the general public. The Internal Revenue Code and regulations promulgated thereunder should be consulted regarding restrictions or prohibitions on endorsements by nonprofit corporations described in 26 U.S.C. 501(c)(3).

(ii) Disbursements for announcements of endorsements to the general public are not contributions or expenditures, provided that:

(A) The public announcement is not coordinated with a candidate, a candidate's authorized committee, or their agents; and

(B) Disbursements for any press release or press conference to announce the endorsement are de minimis. Such disbursements shall be considered de minimis if the press release and notice of the press conference are distributed only to the representatives of the news media that the corporation or labor organization customarily contacts when issuing non-political press releases or holding press conferences for other purposes.

(iii) Disbursements for announcements of endorsements to the restricted class may be coordinated pursuant to 114.3(a) and are not contributions or expenditures provided that no more than a *de minimis* number of copies of the publication that includes the endorsement are circulated beyond the restricted class.

\* \* \* \* \*

(d) *Voter registration and get-out-the-vote drives*—(1) *Voter registration and get-out-the-vote drives permitted.* A corporation or labor organization may support or conduct voter registration and get-out-the-vote drives that are aimed at employees outside its restricted class and the general public. Voter registration and get-out-the-vote drives include providing transportation to the polls or to the place of registration.

(2) *Disbursements for certain voter registration and get-out-the-vote drives not expenditures.* Voter registration or get-out-the-vote drives that are conducted in accordance with paragraphs (d)(2)(i) through (d)(2)(v) of this section are not expenditures.

(i) The corporation or labor organization shall not make any communication expressly advocating the election or defeat of any clearly identified candidate(s) or candidates of a clearly identified political party as part of the voter registration or get-out-the-vote drive.

(ii) The voter registration drive shall not be directed primarily to individuals previously registered with, or intending to register with, the political party favored by the corporation or labor organization. The get-out-the-vote drive shall not be directed primarily to individuals currently registered with the political party favored by the corporation or labor organization.

(iii) These services shall be made available without regard to the voter's political preference. Information and other assistance regarding registering or voting, including transportation and other services offered, shall not be withheld or refused on the basis of support for or opposition to particular candidates or a particular political party.

(iv) Individuals conducting the voter registration or get-out-the-vote drive shall not be paid on the basis of the number of individuals registered or transported who support one or more particular candidates or political party.

(v) The corporation or labor organization shall notify those receiving information or assistance of the requirements of paragraph (d)(2)(iii) of this section. The notification shall be made in writing at the time of the registration or get-out-the-vote drive.

\* \* \* \* \*

■ 9. Section 114.10 is revised to read as follows:

**§ 114.10 Corporations and labor organizations making independent expenditures and electioneering communications.**

(a) *General.* Corporations and labor organizations may make independent expenditures, as defined in 11 CFR 100.16, and electioneering communications, as defined in 11 CFR 100.29. Corporations and labor organizations are prohibited from making coordinated expenditures as defined in 11 CFR 109.20, coordinated communications as defined in 11 CFR 109.21, or contributions as defined in 11 CFR part 100, subpart B.

**Note to paragraph (a):** Pursuant to *SpeechNow.org v. FEC*, 599 F.3d 686 (D.C. Cir. 2010) (en banc), and *Carey v. FEC*, 791 F. Supp. 2d 121 (D.D.C. 2011), corporations and labor organizations may make contributions to non-connected political committees that make only independent expenditures, or to separate accounts maintained by non-connected political committees for making only independent expenditures, notwithstanding 11 CFR 114.2(b) and 11 CFR 114.10(a). The Commission has not conducted a rulemaking in response to these cases.

(b) *Reporting independent expenditures and electioneering*

*communications.* (1) Corporations and labor organizations that make independent expenditures aggregating in excess of \$250 with respect to a given election in a calendar year shall file reports as required by 11 CFR part 114, 104.4(a), and 109.10(b)–(e).

(2) Corporations and labor organizations that make electioneering communications aggregating in excess of \$10,000 in a calendar year shall file the statements required by 11 CFR 104.20(b).

(c) *Non-authorization notice.* Corporations or labor organizations making independent expenditures or electioneering communications shall comply with the requirements of 11 CFR 110.11.

(d) *Segregated bank account.* A corporation or labor organization may, but is not required to, establish a segregated bank account into which it deposits only funds donated or otherwise provided by persons other than national banks, corporations organized by authority of any law of Congress, or foreign nationals (as defined in 11 CFR 110.20(a)(3)), as described in 11 CFR 104.20(c)(7), from which it makes disbursements for electioneering communications.

(e) *Activities prohibited by the Internal Revenue Code.* Nothing in this section shall be construed to authorize any organization exempt from taxation under 26 U.S.C. 501(a) to carry out any activity that it is prohibited from undertaking by the Internal Revenue Code, 26 U.S.C. 501, *et seq.*

■ 10. Sections 114.14 and 114.15 are removed and reserved.

On behalf of the Commission,  
Dated: October 9, 2014.

**Lee E. Goodman,**

*Chairman, Federal Election Commission.*

[FR Doc. 2014–24666 Filed 10–20–14; 8:45 am]

**BILLING CODE 6715–01–P**

## SMALL BUSINESS ADMINISTRATION

### 13 CFR Part 107

**RIN 3245–AG57**

#### Small Business Investment Companies—Investments in Passive Businesses

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Final rule.

**SUMMARY:** In this final rule, the U.S. Small Business Administration (SBA) is revising the regulations for the Small Business Investment Company (SBIC) program concerning investments in

passive businesses. SBICs are generally prohibited from investing in passive businesses under the Small Business Investment Act of 1958, as amended, as well as under SBIC program regulations. This final rule modifies an exception that allows an SBIC to make an investment in a passive small business that passes through the investment proceeds to one or more subsidiaries, each of which must be a non-passive small business. This modification allows an SBIC to structure an investment utilizing two levels of passive small businesses as pass-through entities under specific circumstances. The purpose of the modification is to place SBICs on a more equal footing with their non-SBIC counterparts in the venture capital and private equity sectors, in which investments structured with two passive levels are not uncommon.

This final rule also includes several technical corrections. Specifically, the final rule updates the regulations by replacing obsolete Standard Industrial Classification (SIC) codes with their equivalents under the North American Industrial Classification System (NAICS); corrects erroneous paragraph cross-references; and modernizes the options for meeting the record preservation requirements by removing the reference to “microfilm.”

**DATES:** This rule is effective November 20, 2014.

**FOR FURTHER INFORMATION CONTACT:** Theresa Jamerson, Office of Investment and Innovation, (202) 205-7563, or Carol Fendler, Office of Investment and Innovation, (202) 205-7559, or [sbic@sba.gov](mailto:sbic@sba.gov).

#### **SUPPLEMENTARY INFORMATION:**

##### **I. Background Information**

The Small Business Investment Act of 1958, as amended, prohibits an SBIC from making passive investments. Accordingly, SBA promulgated 13 CFR 107.720(b), which states as a general rule that an SBIC is not permitted to finance a passive business. The regulation defines a business as passive if: (1) It is not engaged in a regular and continuous business operation; (2) its employees do not carry on the majority of day-to-day operations, and the company does not exercise day-to-day control and supervision over contract workers; or (3) the business passes through substantially all financing proceeds to another entity.

Prior to this final rule, § 107.720(b) provided two exceptions to the general prohibition that allow SBICs to employ certain structures in which the direct recipient of financing is a passive

business, but the end recipient is an active business. The first exception, identified in § 107.720(b)(2), provided that an SBIC may make an investment in a passive small business that passes through the investment proceeds to one or more subsidiary companies, each of which must be a non-passive small business. SBA defined a subsidiary company as one in which the financed passive business *directly* owns at least 50 percent of the outstanding voting securities. The 50 percent ownership requirement was promulgated in 1998 (63 FR 5859, February 5, 1998), replacing an earlier provision that allowed a passive small business to be financed only if it passed the financing proceeds through to a wholly-owned small business subsidiary. In addressing comments suggesting that SBA should drop the ownership requirement altogether, the 1998 final rule stated, “SBA believes that when a Licensee makes an investment in a holding company which is unrelated to the Licensee and is, in fact, a portfolio company, the requirement that proceeds be passed through only to 50 percent-owned subsidiaries should remain. This provision ensures that there is a significant relationship between the financed passive business and the active businesses which ultimately receive the proceeds, and that the passive business is not functioning simply as a re-investor.” The Small Business Investment Act prohibits an SBIC from financing “relenders or re-investors.”

The same final rule also established a second exception, promulgated as § 107.720(b)(3), which allows an SBIC organized as a partnership to form, with SBA’s prior approval, a passive wholly-owned corporation, the sole purpose of which is to serve as a conduit for financing provided to one or more eligible unincorporated small businesses. An SBIC may form such a corporation only if a direct financing of the small business would cause any of the SBIC’s investors to incur unrelated business taxable income (UBTI) under section 511 of the Internal Revenue Code of 1986, as amended (26 U.S.C. 511). A corporation formed for this purpose is one example of what is commonly referred to as a “blocker corporation” to denote an entity that is subject to Federal corporate income tax and is intended to shield an investor from certain types of tax liability (most typically UBTI for a tax-exempt investor or “effectively connected income” for a foreign investor).

In promulgating § 107.720(b)(3), SBA recognized that financing proceeds flowing from an SBIC to its wholly-owned subsidiary (an “Associate” under

§ 107.50) would technically represent a prohibited conflict of interest under § 107.730(a); the 1998 final rule addressed this issue by specifically providing that funds invested by an SBIC in a blocker corporation created under § 107.720(b)(3) would not constitute a violation of § 107.730(a). Similarly, the 1998 final rule provided that an SBIC’s 100 percent ownership of a blocker corporation would not constitute a violation of § 107.865(a), which limits SBIC control over a Small Business, but the need for this provision was essentially eliminated by the relaxation of the regulatory restrictions on control in 2002.

On December 23, 2013, SBA published a proposed rule (78 FR 77377) to expand the holding company exception set out in § 107.720(b)(2), by modifying the definition of a subsidiary company to allow financing proceeds to pass through a second passive business before reaching a non-passive subsidiary. The proposed definition did not change the requirement that a passive direct recipient of SBIC financing own at least 50% of the active business that ultimately receives the proceeds (or that the proceeds are used to acquire); rather it allowed for indirect ownership through a second passive Small Business. The preamble to the proposed rule discussed how this change would allow SBICs to have greater flexibility in structuring transactions typically employed by other private equity and venture firms. The proposed rule also included several technical corrections.

SBA received one set of comments on the proposed rule. These are discussed in the following section-by-section analysis.

##### **II. Section-by-Section Analysis**

###### **A. Passive Business Rules**

The proposed rule expanded the definition of subsidiary company in § 107.720(b)(2) to allow financing proceeds to pass through a second passive business before reaching a non-passive subsidiary.

The commenter supported the expansion of the passive investment exceptions and described transaction structures that the commenter believed would be permitted under the proposed rule. SBA agrees with the commenter that the proposed rule would allow SBICs to “finance a passive business to take advantage of the favorable tax treatment under Internal Revenue Code § 338(h)(10)” and “invest in an operating company through two passive business holding companies, subject to certain requirements.” The preamble in

the proposed rule specifically discussed these two instances.

The commenter believed that the proposed rule would also allow an SBIC to create a blocker corporation as one of the two permitted levels of passive businesses under proposed § 107.720(b)(2), for the following purposes: (1) To shield tax exempt investors from receiving unrelated business taxable income (UBTI) from an investment in a flow-through entity; (2) to protect an SBIC's foreign investors from the taxation imposed on income that is considered to be "effectively connected" to a U.S. trade or business; and (3) in the case of an SBIC that either is a BDC licensed under the Investment Company Act of 1940 or is owned by a parent BDC, to avoid jeopardizing the BDC's qualification as a regulated investment company under the Internal Revenue Code.

The commenter's interpretation of the proposed revision of § 107.720(b)(2) is correct, provided the financing proceeds are passed through only to one or more non-passive "subsidiary companies" as defined in that section. Proposed § 107.720(b)(2) did not specify any purpose for which a passive entity may or may not be utilized. Thus, SBA's view is that an investment that is otherwise eligible under § 107.720(b)(2) could include a passive entity that serves one of the tax-avoidance purposes cited by the commenter. SBA reminds SBICs, however, that § 107.720(b)(2) does not permit any investment in which the first-level passive entity does not own, either directly or indirectly, at least 50 percent of the outstanding voting interests of the active small business that ultimately receives the financing proceeds.

Furthermore, it is important to note that the proposed rule did not include any expansion of § 107.720(b)(3), which governs the formation and use of blocker corporations and which does not include any percentage of ownership requirement comparable to the "subsidiary company" requirement in § 107.720(b)(2). SBA did not intend to permit the formation and use of blocker corporations under § 107.720(b)(3) for any purpose other than the avoidance of UBTI as permitted by the existing regulation.

The commenter also suggested the following changes to further liberalize permitted financings to passive businesses under § 107.720(b):

(1) Revise § 107.720(b)(2) to explicitly state that an SBIC may "form and finance" (rather than merely "finance") a passive business.

(2) Eliminate the requirement for SBA prior approval to form a blocker corporation under § 107.720(b)(3).

(3) Revise § 107.720(b)(3) to permit an SBIC to form a blocker corporation to enable its foreign investors to avoid "effectively connected" income.

(4) Further broaden § 107.720(b)(2) to allow SBICs to structure financings in which proceeds may pass through an unlimited number of passive entities before reaching an eligible, non-passive small business.

The final rule does not adopt these changes. For the reasons discussed below, SBA may consider the first three suggestions for future rulemaking, but is opposed to allowing investments to be structured with more than two passive levels.

Regarding the suggestion to allow an SBIC to "form" a passive holding company under § 107.720(b)(2), SBA acknowledges that some SBICs may already be providing financing to holding companies in which they own a controlling equity interest, in compliance with the provisions of existing §§ 107.865 and 107.720. Thus, the addition of "form" to § 107.720(b)(2) may not represent a significant change. However, SBA wishes to further evaluate this change before proposing it in any future rulemaking.

SBA may consider the two suggested changes to § 107.720(b)(3) in future rulemaking provided that additional safeguards are included to address SBA concerns regarding credit risk, specifically SBA's ability to collect from SBICs that default on their debt to SBA. Even under § 107.720(b) as it existed prior to this final rule, SBA has encountered three issues that affect its recoveries from defaulting SBICs with assets that are held indirectly through a passive company: (1) SBA's lack of access to the books and records of the passive company; (2) fees and expenses charged at each level, diverting money from the actual investment and returns; and (3) greater opportunity for disproportionate distributions to entities other than the SBIC, thereby reducing the funds available to repay SBA. SBA expects that any future rulemaking to expand the permitted financing of passive businesses (under either § 107.720(b)(2) or (b)(3)) would include provisions to address these concerns.

The commenter's suggestion to allow more than two levels of passive holding companies under § 107.720(b)(2) stated that "the crucial concept should be that the operating company receives substantially all the proceeds that the SBIC is investing." While this concept is perhaps valid with respect to the SBIC program's public policy objectives,

SBA believes that it would be problematic to implement in practice, precisely because of the credit and oversight concerns cited in the preceding paragraph. Even with potential new regulatory protections that would address these concerns, SBA believes that effective monitoring of transactions with multiple levels of passive companies would require resources well beyond those available to the Agency.

Despite its concerns about the potential risks associated with investments structured with passive entities, SBA is finalizing this rule at the request of SBICs so that they may participate in a broader range of financing transactions from which small businesses will benefit. SBA expects that SBICs will exercise due diligence and appropriate monitoring to ensure that passive companies do not charge excessive fees or expenses so that maximum funding is provided to the active small business investment and returns to the SBIC are not adversely affected. As previously noted in this preamble, SBA intends to take into account its experience with such structures in future rulemaking.

The commenter also noted a potential source of confusion in proposed § 107.720(b)(2)(ii). This section was intended to allow an SBIC to route financing proceeds to an active small business through two levels of passive holding companies, as long as the first holding company owns at least 50 percent of the outstanding voting securities of the active company. The commenter suggested that the stated requirements for a minimum of 50 percent ownership at each level (i.e., the first passive holding company must own at least 50 percent of the second, which must own at least 50 percent of the active company) could be misinterpreted as requiring only 50% ownership at each level. This incorrect reading could result in as little as 25 percent ownership of the active company by the first passive holding company. The commenter's suggestion was to delete the intermediate ownership percentage requirements and retain only the requirement for at least 50 percent ownership of the active company by the first passive company. SBA agrees with this clarification and has adopted it in the final rule.

The commenter also noted that § 107.720(b)(2)(i) and (ii) define the 50 percent ownership requirement in terms of "outstanding voting securities". The commenter suggested that SBA confirm that the regulation encompasses both the "securities" of a corporation and the "interests" of a limited liability

company or limited partnership. SBA confirms that the regulation is intended to refer to both “securities” and “interests” as described by the commenter. SBA has retained the ownership requirement based on “outstanding voting securities” in the final rule to remain consistent with other regulations (e.g., § 107.865(a)) that similarly refer to “voting securities” and are understood to include interests of limited liability companies and limited partnerships.

#### B. Technical Changes to Regulations

SBA received one comment on the technical changes in the proposed rule. The commenter noted that the proposed change to § 107.720(c) mistakenly reverses the descriptions of NAICS codes 531110 and 531120. SBA has corrected this in the final rule. Otherwise, all of the technical changes have been finalized as proposed, and additional cross-references have been corrected in the final rule. SBA’s

section-by-section explanation of the changes is repeated here as a convenience to the reader.

#### Section 107.600—General Requirement of Licensee To Maintain and Preserve Records

The record-keeping requirements applicable to SBICs are found primarily in § 107.600. This section enumerates various types of records and the periods for which they must be preserved. The final paragraph of the section, § 107.600(c)(4), allows an SBIC to substitute “a microfilm or computer-scanned or generated copy” for any original paper record. The final rule modernizes this provision by deleting the reference to “microfilm” as a preservation medium.

#### Section 107.720—Small Businesses That May Be Ineligible for Financing

*Real Estate Businesses.* Under the prior § 107.720(c), an SBIC was not permitted to finance “any business classified under Major Group 65 (Real

Estate) or Industry No. 1531 (Operative Builders) of the SIC Manual” with exceptions provided for certain businesses that provide services within the real estate industry (such as title abstract companies). The “SIC Manual” refers to the Standard Industrial Classification system formerly used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. In 1997, the Federal government replaced the SIC codes with the North American Industrial Classification System (NAICS).

The final rule updates 13 CFR 107.720(c) by replacing SIC codes with their 2012 NAICS equivalents, which duplicate the previous general prohibitions and permitted exceptions as closely as possible. The following tables show each of the SIC codes referenced in the current regulation and the NAICS code that SBA has replaced it with.

### CROSSWALK FROM SIC CODES TO NAICS CODES

Prohibited investments	
SIC Code	NAICS Code
6512 Operators of nonresidential buildings .....	531120 Lessors of nonresidential buildings (except miniwarehouses).
6513 Operators of apartment buildings .....	531110 Lessors of residential buildings and dwellings.
6514 Operators of dwellings other than apartment buildings.	
6515 Operators of residential mobile home sites .....	531190 Lessors of other real estate property.
6517 Lessors of railroad property.	
6519 Lessors of real property, not elsewhere classified.	
6552 Land subdividers and developers, except cemeteries .....	237210 Land subdivision.
1531 Operative builders .....	236117 New housing for-sale builders.
	236118 Residential remodelers. <sup>1</sup>
	236210 Industrial building construction. <sup>1</sup>
	236220 Commercial and institutional building construction. <sup>1</sup>

<sup>1</sup> An SBIC may not finance a Small Business classified under this code if such business is primarily engaged in construction or renovation of properties on its own account rather than as a hired contractor.

### RESTRICTED INVESTMENTS

SIC Code	NAICS Code
6531 Real estate agents and managers (establishments primarily engaged in renting, buying, selling, managing, and appraising real estate for others).	531210 Offices of real estate agents and brokers.
	531311 Residential property managers.
	531312 Nonresidential property managers.
	531320 Offices of real estate appraisers.
	531390 Other activities related to real estate.
Permitted only if business derives at least 80% of its revenue from non-Affiliate sources.	Permitted only if business derives at least 80% of its revenue from non-Affiliate sources.

### PERMITTED INVESTMENTS

SIC Code	NAICS Code
6541 Title abstract offices .....	541191 Title abstract and settlement offices.

The only SIC code in the previous regulation that did not correspond

directly to one or more NAICS codes is 1531, “Operative builders.” The SIC

Manual described this industry as consisting of establishments primarily

engaged in the construction (including renovation) of single-family houses and other buildings for sale on their own account rather than as contractors. The industry included speculative builders and condominium developers. The 2012 NAICS codes primarily use the term “for-sale builder” to describe businesses engaged in construction or renovation of buildings on their own account. However, except for those engaged in new housing construction (NAICS code 236117), for-sale builders are combined with contractors in three different NAICS codes, depending on whether they are engaged in residential remodeling (NAICS code 236118), manufacturing/industrial building construction (NAICS code 236210), or commercial/institutional building construction (NAICS code 236220). The final rule prohibits an SBIC from providing financing to a Small Business classified under any of these three NAICS codes only if the company is primarily engaged in construction or renovation of buildings as a for-sale builder. Guidance provided by the United States Census Bureau indicates that the key element of a for-sale builder is whether a firm is engaged in construction on its own account, as opposed to having been hired as a contractor. For example, the final rule permits an SBIC to provide financing to a firm that primarily renovates or builds additions to homes if the homeowners have contracted for the firm’s services. However, a firm that primarily acquires homes to renovate and re-sell at its own risk is a “for-sale remodeler” that would not be eligible for financing by an SBIC.

#### Section 107.1120—General Eligibility Requirements for Leverage, and Section 107.1150—Maximum Amount of Leverage for a Section 301(c) Licensee

The final rule corrects erroneous paragraph references in §§ 107.1120 and 107.1150, which set forth leverage eligibility provisions for SBICs. Some of these erroneous references were not identified in the proposed rule, but are nevertheless finalized in this rule because they are merely corrections that do not substantively change the subject regulations.

Compliance With Executive Orders 12866, 12988 and 13132, the Paperwork Reduction Act (44 U.S.C. Ch. 35) and the Regulatory Flexibility Act (5 U.S.C. 601–612)

#### Executive Order 12866

The Office of Management and Budget has determined that this final rule is not a “significant” regulatory action under Executive Order 12866. This is also not

a “major” rule under the Congressional Review Act, 5 U.S.C. 801, *et seq.*

#### Executive Order 12988

This action meets applicable standards set forth in section 3(a) and 3(b)(2) of Executive Order 12988, Civil Justice Reform, to minimize litigation, eliminate ambiguity, and reduce burden. The action does not have retroactive or presumptive effect.

#### Executive Order 13132

The rule does not have substantial direct effects on the States, or the distribution of power and responsibilities among the various levels of government. Therefore, for the purposes of Executive Order 13132, Federalism, SBA determines that this final rule has no federalism implications warranting the preparation of a federalism assessment.

Paperwork Reduction Act, 44 U.S.C. Ch. 35

For purposes of the Paperwork Reduction Act, 44 U.S.C. Ch. 35, SBA has determined that this final rule does not impose any new reporting or recordkeeping requirements.

Regulatory Flexibility Act, 5 U.S.C. 601–612

The Regulatory Flexibility Act (RFA), 5 U.S.C. 601, requires administrative agencies to consider the effect of their actions on small entities, small non-profit businesses, and small local governments. Pursuant to the RFA, when an agency issues a rule, the agency must prepare an Initial Regulatory Flexibility Act (IRFA) analysis which describes whether the impact of the rule will have a significant economic impact on a substantial number of small entities. However, section 605 of the RFA allows an agency to certify a rule, in lieu of preparing an IRFA, if the rulemaking is not expected to have a significant economic impact on a substantial number of small entities. This final rule would affect all SBICs, of which there are currently close to 300. SBA estimates that approximately 75% of these SBICs are small entities. Therefore, SBA has determined that this final rule does have an impact on a substantial number of small entities. However, SBA has determined that the impact on entities affected by the rule is not significant. The passive business provision provides SBICs with additional flexibility to employ a transaction structure commonly used by private equity or venture capital funds that are not SBICs. SBA asserts that the economic impact of the rule, if any, is minimal and

entirely beneficial to small SBICs. Accordingly, the Administrator of the SBA certifies that this final rule will not have a significant impact on a substantial number of small entities.

#### List of Subjects in 13 CFR Part 107

Investment companies, Loan programs-business, Reporting and recordkeeping requirements, Small businesses.

For the reasons stated in the preamble, the Small Business Administration amends part 107 of title 13 of the Code of Federal Regulations as follows:

#### PART 107—SMALL BUSINESS INVESTMENT COMPANIES

■ 1. The authority citation for part 107 continues to read as follows:

**Authority:** 15 U.S.C. 681 *et seq.*, 683, 687(c), 687b, 687d, 687g, 687m, and Pub. L. 106–554, 114 Stat. 2763; and Pub. L. 111–5, 123 Stat. 115.

#### § 107.50 [Amended]

■ 2. Amend § 107.50 by removing the definition of “SIC Manual”.

■ 3. Revise § 107.600(c)(4) to read as follows:

#### § 107.600 General requirement for Licensee to maintain and preserve records.

\* \* \* \* \*

(c) \* \* \*

(4) You may substitute a computer-scanned or generated copy for the original of any record covered by this paragraph (c).

■ 4. Amend § 107.720 by revising paragraphs (b)(2) and (c)(1) and the introductory text of paragraph (c)(2) to read as follows:

#### § 107.720 Small Businesses that may be ineligible for financing.

\* \* \* \* \*

(b) \* \* \*

(2) *Exception for pass-through of proceeds to subsidiary.* You may finance a passive business if it is a Small Business and it passes substantially all the proceeds through to one or more subsidiary companies, each of which is an eligible Small Business that is not passive. For the purpose of this paragraph (b)(2), “subsidiary company” means a company in which the Financed passive business either:

(i) Directly owns at least 50 percent of the outstanding voting securities; or

(ii) Indirectly owns at least 50 percent of the outstanding voting securities (by directly owning the outstanding voting securities of another passive Small Business that is the direct owner of the

outstanding voting securities of the subsidiary company).

\* \* \* \* \*

(c) *Real Estate Businesses.* (1) You are not permitted to finance any business classified under North American Industry Classification System (NAICS) codes 531110 (lessors of residential buildings and dwellings), 531120 (lessors of nonresidential buildings except miniwarehouses), 531190 (lessors of other real estate property), 237210 (land subdivision), or 236117 (new housing for-sale builders). You are not permitted to finance any business classified under NAICS codes 236118 (residential remodelers), 236210 (industrial building construction), or 236220 (commercial and institutional building construction), if such business is primarily engaged in construction or renovation of properties on its own account rather than as a hired contractor. You are permitted to finance a business classified under NAICS codes 531210 (offices of real estate agents and brokers), 531311 (residential property managers), 531312 (nonresidential property managers), 531320 (offices of real estate appraisers), or 531390 (other activities related to real estate), only if such business derives at least 80 percent of its revenue from non-Affiliate sources.

(2) You are not permitted to finance a Small Business, regardless of NAICS classification, if the Financing is to be used to acquire or refinance real property, unless the Small Business:

\* \* \* \* \*

■ 5. Amend § 107.1120 by revising paragraphs (e) and (f) to read as follows:

**§ 107.1120 General eligibility requirements for Leverage.**

\* \* \* \* \*

(e) For any Leverage request pursuant to § 107.1150(d)(2)(i), certify that at least 50 percent (in dollars) of your Financings made on or after the date of such request will be invested in Small Businesses located in low-income geographic areas.

(f) For any Leverage request pursuant to § 107.1150(d)(2)(ii), certify that at least 50 percent (in dollars) of the Financings made by each Licensee under Common Control on or after the date of such request will be invested in Small Businesses located in low-income geographic areas.

\* \* \* \* \*

■ 6. Amend § 107.1150 by revising the first and second sentences of the introductory text and paragraphs (d) introductory text, (d)(1)(iii) and (iv), the first sentence of (d)(2), (e)(1), and (e)(2)(iii) and (iv) to read as follows:

**§ 107.1150 Maximum amount of Leverage for a Section 301(c) Licensee.**

A Section 301(c) Licensee, other than an Early Stage SBIC, may have maximum outstanding Leverage as set forth in paragraphs (a), (b), (d), and (e) of this section. An Early Stage SBIC may have maximum outstanding Leverage as set forth in paragraph (c) of this section. \* \* \*

\* \* \* \* \*

(d) *Additional Leverage based on investment in low-income geographic areas.* Subject to SBA's credit policies, you may have outstanding Leverage in excess of the amounts permitted by paragraphs (a) and (b) of this section in accordance with this paragraph (d). If you were licensed before October 1, 2009, you may seek additional Leverage under paragraph (d)(1) only. If you were licensed on or after October 1, 2009, you may seek additional Leverage under paragraph (d)(1) or (2), but not both. In this paragraph (d), "low income geographic areas" are as defined in § 108.50 of this chapter. Any investment that you use as a basis to seek additional leverage under this paragraph (d) cannot also be used to seek additional leverage under paragraph (e) of this section.

(1) \* \* \*

(iii) Subtract from your outstanding Leverage the lesser of paragraph (d)(1)(i) or (ii).

(iv) If the amount calculated in paragraph (d)(1)(iii) is less than the maximum leverage determined under paragraph (a) of this section, the difference between the two amounts equals your additional Leverage availability.

(2) *Investment in Small Businesses located in low-income geographic areas.* This paragraph (d)(2) applies only to Licensees licensed on or after October 1, 2009. \* \* \*

\* \* \* \* \*

(e) *Additional Leverage based on Energy Saving Qualified Investments in Smaller Enterprises.* (1) Subject to SBA's credit policies, if you were licensed on or after October 1, 2008, you may have outstanding Leverage in excess of the amounts permitted by paragraphs (a) and (b) of this section in accordance with this paragraph (e). Any investment that you use as a basis to seek additional Leverage under this paragraph (e) cannot also be used to seek additional Leverage under paragraph (d) of this section.

\* \* \* \* \*

(2) \* \* \*

(iii) Subtract from your outstanding Leverage the lesser of paragraph (e)(2)(i) or (ii).

(iv) If the amount calculated in paragraph (e)(2)(iii) is less than the

maximum Leverage determined under paragraph (a) of this section, the difference between the two amounts equals your additional Leverage availability.

Maria Contreras-Sweet,  
Administrator.

[FR Doc. 2014-24803 Filed 10-20-14; 8:45 am]

BILLING CODE 8025-01-P

## DEPARTMENT OF HOMELAND SECURITY

### Coast Guard

#### 33 CFR Part 117

[Docket No. USCG-2014-0908]

#### Drawbridge Operation Regulations; Long Island, New York Inland Waterway From East Rockaway Inlet to Shinnecock Canal, Nassau, NY

AGENCY: Coast Guard, DHS.

ACTION: Notice of deviation from drawbridge regulation.

**SUMMARY:** The Coast Guard has issued a temporary deviation from the operating schedule that governs the operation of the Long Beach Bridge, across Reynolds Channel, mile 4.7, at Nassau, New York. This deviation is necessary to allow the bridge to remain in the closed position for thirty days to facilitate scheduled bridge maintenance, the replacement of the concrete bridge deck.

**DATES:** This deviation is effective without actual notice from October 21, 2014 through 8 p.m. on November 19, 2014. For the purposes of enforcement, actual notice will be used from 9 a.m. on October 20, 2014, until October 21, 2014.

**ADDRESSES:** The docket for this deviation [USCG-2014-0908] is available at <http://www.regulations.gov>. Type the docket number in the "SEARCH" box and click "SEARCH." Click on Open Docket Folder on the line associated with this deviation. You may also visit the Docket Management Facility in Room W12-140, on the ground floor of the Department of Transportation West Building, 1200 New Jersey Avenue SE., Washington, DC 20590, between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

**FOR FURTHER INFORMATION CONTACT:** If you have questions on this temporary deviation, call or email Ms. Judy Leung-Yee, Project Officer, First Coast Guard District, [judy.k.leung-yee@uscg.mil](mailto:judy.k.leung-yee@uscg.mil), or (212) 668-7165. If you have questions on viewing the docket, call Cheryl