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(Original Signature of Member)

114TH CONGRESS
1ST SESSION

H. R. ______

To amend the Investment Company Act of 1940 to remove certain restrictions on the ability of business development companies to own securities of investment advisers and certain financial companies, to change certain requirements relating to the capital structure of business development companies, to direct the Securities and Exchange Commission to revise certain rules relating to business development companies, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. MULVANEY introduced the following bill; which was referred to the Committee on ______________________________

A BILL

To amend the Investment Company Act of 1940 to remove certain restrictions on the ability of business development companies to own securities of investment advisers and certain financial companies, to change certain requirements relating to the capital structure of business development companies, to direct the Securities and Exchange Commission to revise certain rules relating to business development companies, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Small Business Credit Availability Act".

SEC. 2. BUSINESS DEVELOPMENT COMPANY OWNERSHIP OF SECURITIES OF INVESTMENT ADVISERS AND CERTAIN FINANCIAL COMPANIES.

(a) IN GENERAL.—Section 60 of the Investment Company Act of 1940 (15 U.S.C. 80a–59) is amended—

(1) by striking "Notwithstanding" and inserting "(a) Notwithstanding";

(2) by striking "except that the Commission shall not" and inserting the following: "except that—

"(1) section 12 shall not apply to the purchasing, otherwise acquiring, or holding by a business development company of any security issued by, or any other interest in the business of, any person who is an investment adviser registered under title II of this Act, who is an investment adviser to an investment company, or who is an eligible portfolio company; and

"(2) the Commission shall not";

(3) by adding at the end the following:

"(b) Nothing in this section shall prevent the Commission from issuing rules to address potential conflicts of interest between business development companies and investment advisers.''.

(b) DEFINITION OF ELIGIBLE PORTFOLIO COMPANY.—Section 2(a)(46)(B) of the Investment Company Act of 1940 (15 U.S.C. 80a–2(a)(46)(B)) is amended by inserting before the semicolon the following: ''(unless it is described in paragraph (2), (3), (4), (5), (6), or (9) of such section)''.

(c) INVESTMENT THRESHOLD.—Section 55(a) of the Investment Company Act of 1940 is amended by inserting before the colon the following: '', provided that no more than 50 percent of its total assets are assets described in section 3(c)''

SEC. 3. EXPANDING ACCESS TO CAPITAL FOR BUSINESS DEVELOPMENT COMPANIES.

(a) IN GENERAL.—Section 61(a) of the Investment Company Act of 1940 (15 U.S.C. 80a–60(a)) is amended—

(1) by redesignating paragraphs (2) through (4) as paragraphs (3) through (5), respectively;

(2) by striking paragraph (1) and inserting the following:

''(1) Except as provided in paragraph (2), the asset coverage requirements of subparagraphs (A) and (B) of section 18(a)(1) (and any related rule promulgated under this Act) applicable to business development companies shall be 200 percent.

"(2) The asset coverage requirements of subparagraphs (A) and (B) of section 18(a)(1) and of subparagraphs (A) and (B) of section 18(a)(2) (and any related rule promulgated under this Act) applicable to a business development company shall be 150 percent if—

"(A) within five business days of the approval of the adoption of the asset coverage requirements described in clause (ii), the business development company discloses such approval and the date of its effectiveness in a Form 8-K filed with the Commission and in a notice on its website and discloses in its periodic filings made under section 13 of the Securities and Exchange Act of 1934 (15 U.S.C. 78m)—

"(i) the aggregate value of the senior securities issued by such company and the asset coverage percentage as of the date of such company's most recent financial statements; and

"(ii) that such company has adopted the asset coverage requirements of this subparagraph and the effective date of such requirements;

“(B) with respect to a business development company that issues equity securities that are registered on a national securities exchange, the periodic filings of the company under section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) include disclosures reasonably designed to ensure that shareholders are informed of—

“(i) the amount of indebtedness and asset coverage ratio of the company, determined as of the date of the financial statements of the company dated on or most recently before the date of such filing; and

“(ii) the principal risk factors associated with such indebtedness, to the extent such risk is incurred by the company; and

“(C)(i) the application of this paragraph to the company is approved by the required majority (as defined in section 57(o)) of the directors of or general partners of such company who are not interested persons of the business development company, which application shall become effective on the date that is 1 year after the date of the approval, and, with respect to a business development company that issues equity securities that are not registered on a national securities exchange, the company extends, to each person who is a shareholder as of the date of the approval, an offer to repurchase the equity securities held by such person as of such approval date, with 25 percent of such securities to be repurchased in each of the four quarters following such approval date; or

"(ii) the company obtains, at a special or annual meeting of shareholders or partners at which a quorum is present, the approval of more than 50 percent of the votes cast of the application of this paragraph to the company, which application shall become effective on the date immediately after the date of the approval.";

(3) in paragraph (3) (as redesignated), by inserting "or which is a stock" after "indebtedness";

(4) in subparagraph (A) of paragraph (4) (as redesignated)—

(A) in the matter preceding clause (i), by striking "voting"; and

(B) by amending clause (iii) to read as follows:

"(iii) the exercise or conversion price at the date of issuance of such warrants, options, or rights is not less than—

"(I) the market value of the securities issuable upon the exercise of such warrants, options, or rights at the date of issuance of such warrants, options, or rights; or

"(II) if no such market value exists, the net asset value of the securities issuable upon the exercise of such warrants, options, or rights at the date of issuance of such warrants, options, or rights; and"; and

(5) by adding at the end the following:

"(6)(A) Except as provided in subparagraph (B), the following shall not apply to a business development company:

"(i) Subparagraphs (C) and (D) of section 18(a)(2).

"(ii) Subparagraph (E) of section 18(a)(2), to the extent such subparagraph requires any priority over any other class of stock as to distribution of assets upon liquidation.

"(iii) With respect to a senior security which is a stock, subsections (c) and (i) of section 18.

"(B) Subparagraph (A) shall not apply with respect to preferred stock issued to a person who is not known by the company to be a qualified institutional buyer (as defined in section 3(a) of the Securities Exchange Act of 1934).".

(b) CONFORMING AMENDMENTS.—The Investment Company Act of 1940 (15 U.S.C. 80a–1 et seq.) is amended—

(1) in section 57—

(A) in subsection (j)(1), by striking "section 61(a)(3)(B)" and inserting "section 61(a)(4)(B)"; and

(B) in subsection (n)(2), by striking "section 61(a)(3)(B)" and inserting "section 61(a)(4)(B)"; and

(2) in section 63(3), by striking "section 61(a)(3)" and inserting "section 61(a)(4)".

SEC. 4. PARITY FOR BUSINESS DEVELOPMENT COMPANIES REGARDING OFFERING AND PROXY RULES.

(a) REVISION TO RULES.—Not later than 1 year after the date of enactment of this Act, the Securities and Exchange Commission shall revise any rules to the extent necessary to allow a business development company that has filed an election pursuant to section 54 of the Investment Company Act of 1940 (15 U.S.C. 80a–53) to use the securities offering and proxy rules that are available to other issuers that are required to file reports under section 13 or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m; 78o(d)). Any action that the Commission takes pursuant to this subsection shall include the following:

(1) The Commission shall revise rule 405 under the Securities Act of 1933 (17 C.F.R. 230.405)—

(A) to remove the exclusion of a business development company from the definition of a well-known seasoned issuer provided by that rule; and

(B) to add registration statements filed on Form N–2 to the definition of automatic shelf registration statement provided by that rule.

(2) The Commission shall revise rules 168 and 169 under the Securities Act of 1933 (17 C.F.R. 230.168 and 230.169) to remove the exclusion of a

business development company from an issuer that can use the exemptions provided by those rules.

(3) The Commission shall revise rules 163 and 163A under the Securities Act of 1933 (17 C.F.R. 230.163 and 230.163A) to remove a business development company from the list of issuers that are ineligible to use the exemptions provided by those rules.

(4) The Commission shall revise rule 134 under the Securities Act of 1933 (17 C.F.R. 230.134) to remove the exclusion of a business development company from that rule.

(5) The Commission shall revise rules 138 and 139 under the Securities Act of 1933 (17 C.F.R. 230.138 and 230.139) to specifically include a business development company as an issuer to which those rules apply.

(6) The Commission shall revise rule 164 under the Securities Act of 1933 (17 C.F.R. 230.164) to remove a business development company from the list of issuers that are excluded from that rule.

(7) The Commission shall revise rule 433 under the Securities Act of 1933 (17 C.F.R. 230.433) to specifically include a business development company

that is a well-known seasoned issuer as an issuer to which that rule applies.

(8) The Commission shall revise rule 415 under the Securities Act of 1933 (17 C.F.R. 230.415)—

(A) to state that the registration for securities provided by that rule includes securities registered by a business development company on Form N–2; and

(B) to provide an exception for a business development company from the requirement that a Form N–2 registrant must furnish the undertakings required by item 34.4 of Form N–2.

(9) The Commission shall revise rule 497 under the Securities Act of 1933 (17 C.F.R. 230.497) to include a process for a business development company to file a form of prospectus that is parallel to the process for filing a form of prospectus under rule 424(b).

(10) The Commission shall revise rules 172 and 173 under the Securities Act of 1933 (17 C.F.R. 230.172 and 230.173) to remove the exclusion of an offering of a business development company from those rules.

(11) The Commission shall revise rule 418 under the Securities Act of 1933 (17 C.F.R. 230.418) to provide that a business development company that would otherwise meet the eligibility requirements of General Instruction I.A of Form S–3 shall be exempt from paragraph (a)(3) of that rule.

(12) The Commission shall revise rule 14a–101 under the Securities Exchange Act of 1934 (17 C.F.R. 240.14a–101) to provide that a business development company that would otherwise meet the requirements of General Instruction I.A of Form S–3 shall be deemed to meet the requirements of Form S–3 for purposes of Schedule 14A.

(13) The Commission shall revise rule 103 under Regulation FD (17 C.F.R. 243.103) to provide that paragraph (a) of that rule applies for purposes of Form N–2.

(b) REVISION TO FORM N–2.—Not later than 1 year after the date of enactment of this Act, the Commission shall revise Form N–2—

(1) to include an item or instruction that is similar to item 12 on Form S–3 to provide that a business development company that would otherwise meet the requirements of Form S–3 shall incorporate by reference its reports and documents filed

under the Securities Exchange Act of 1934 into its registration statement filed on Form N–2; and

(2) to include an item or instruction that is similar to the instruction regarding automatic shelf offerings by well-known seasoned issuers on Form S–3 to provide that a business development company that is a well-known seasoned issuer may file automatic shelf offerings on Form N–2.

(c) TREATMENT IF REVISIONS NOT COMPLETED IN TIMELY MANNER.—If the Commission fails to complete the revisions required by subsections (a) and (b) by the time required by such subsections, a business development company shall be entitled to treat such revisions as having been completed in accordance with the actions required to be taken by the Commission by such subsections until such time as such revisions are completed by the Commission.

(d) RULE OF CONSTRUCTION.—Any reference in this section to a rule or form means such rule or form or any successor rule or form.